

The Future of European Regional Policy
- A Place for Ireland and its Regions -

Up-date on the Policy Debate (No. 5)

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Introduction

Since the last Regional Policy Up-date (June 2004), the European Commission has published the draft Regulations for the Structural Funds during the 2007-2013 programme period. A total of five Regulations are proposed: a Regulation on the general provisions applicable to the Structural Funds, such as programming, monitoring and other process issues for implementing these funds. There are also Regulations for the individual funds, including the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund. The European Commission has also published a regulation on establishing a European Grouping for Cross-border Co-operation (EGCC), intended to help overcome some of the practical difficulties in implementing cross-border co-operation.

In July the European Commission also published its proposed Regulation for rural development by the European Agricultural Fund for Rural Development (EAFRD). However, rural development will no longer be included within the ambit of Cohesion Policy.

Consideration of the detail of these regulations is on-going within the various EU Institutions and in the Member States. The European Parliament and the Committee of the Regions are due to adopt their reports on these in the first half of 2005. Meanwhile, however, the other major issue under consideration is the Financial Perspectives for 2007-2013. In the last Regional Policy Up-date (No.4 – June 2004) we outlined the European Commission's proposals for the EU budget. In this Up-date we provide an overview of some of the discussions to date and the various positions being adopted. An agreement on the Financial Perspectives is envisaged for June 2005, under the Luxembourg Presidency. Also, in the first half of 2005, the mid-term review of the Lisbon Agenda will provide an opportunity to consider the conclusions of the KOK Report and to re-prioritise the implementation of the Lisbon Agenda, which provides a framework for the reform of the Structural Funds.

This Up-date provides an outline of the discussion process to-date, highlighting the key issues emerging, the various positions being adopted and the key events and developments that may be expected over the coming period.

Some Key Events

June:

June 16th Committee of the Regions adopts its opinion on the 3rd Cohesion Report

July:

July 14th European Commission publishes the draft Regulations on the Structural Funds

July 14th European Commission publishes draft Regulation on a European Fund for Rural Development

August:

Aug 31st Dutch Presidency sets out its Cohesion Policy priorities

September:

Sept 9th European Parliament establishes special committee to consider the Financial Perspectives

Sept 22nd-24th General Assembly of the CMPR calls for coherence between Cohesion Policy and EU budget

Sept 28th Commissioner Designate for Regional Policy Danuta HUBNER's hearing with the European Parliament

Sept 29th BMW Regional Assembly formally signs the Declaration of the Regions affected by Natural Effect

Sept 27th-30th Irish Regions Office participates in Open Days 2004 on *'The Practice and Reform of Cohesion Policy'*

October:

Oct 13th European Commission proposes an extension of the PEACE Programme to the end of 2006

Oct 15th Association of Irish Regions' conference in Ballina on "EU Cohesion Policy – Implications for our Regions"

Oct 15th AER adopts a resolution on the Future of Regional Policy

Oct 18th-19th European City Summit considers urban policy in Structural Fund proposals, Noordwijk, The Netherlands

Oct 28th-29th S&E Regional Assembly holds its conference in Navan on The Future of Regional Policy post 2006.

November:

Nov 4th Mr. Wim KOK presents his report to the European Council on *'EU Progress Towards the Lisbon Agenda'*

Nov 15th European Policies Research Centre publishes a working paper on *'Searching for Consensus: The Debate on Reforming EU Cohesion Policy'*

Nov 18th Committee of the Regions adopts its opinion on a European Cross-Border Grouping

Nov 18th BMW Regional Assembly meets with An Taoiseach, Mr. Bertie AHERN TD in Dublin on *'Developing More Effective Regional Policy'*

Nov 29th-30th Informal Council discusses 'Territorial Cohesion' and urban policy

December:

Dec 3rd EUROSTAT publishes revised GDP statistics for 2003 for all Member States

This Policy Up-date outlines a number of the more important developments and events on the future of EU Regional Policy under the following headings:

- European Commission Proposals
- Council Discussions and Member State Positions
- Responses and Lobbying Positions
- Events and Conferences
- Other Developments

EUROPEAN COMMISSION PROPOSALS

European Commission publishes the draft Regulations – (July 14th)

The European Commission adopted its proposals for the Structural Funds Regulations for the next seven-year programming period January 1, 2007 - December 31, 2013. They include a General Regulation, a Regulation for each fund, namely ERDF (European Regional Development Fund), ESF (European Social Fund) and the Cohesion Fund), and a Regulation establishing the legal framework for European Grouping for Cross-border Co-operation (EGCCs).

The Commission also adopted a draft regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), and a proposal for a European Fisheries Fund (EFF), both covering the period 2007-2013.

The draft Structural Funds regulations are broadly in line with the Commission's proposals as outlined in the Third Cohesion Report of February 18. Support from the Structural Funds is to be focused on the Lisbon and Gothenburg priorities within three key objectives: Convergence (new Objective 1), Regional competitiveness and employment (new Objective 2) and Territorial co-operation. €336 billion in Structural/Cohesion Funds will be available. The following table summarises the main aspects of the legislative proposals:

Cohesion Policy 2007-2013 (€336.1 billion)

<i>Programmes and instruments</i>	<i>Eligibility</i>	<i>Priorities</i>	<i>Allocations</i>
Convergence objective (including outermost regions)			78.5% €264.0 billion
National and regional programmes (ERDF, ESF)	Regions (NUTS II) with per capita GDP < 75% of EU-25 average	<ul style="list-style-type: none">• Innovation• Environment/risk	67.34% €177.8 billion

	'Statistical-effect' regions with per capita GDP < 75% EU-15 and > 75% EU-25	<ul style="list-style-type: none"> prevention • Accessibility • Infrastructures • Human resources • Administrative capacity 	8.38% €22.14 billion
Cohesion Fund	Member States with per capita GNI < 90% Community average	<ul style="list-style-type: none"> • Transport networks (TEN-T) • Sustainable transport • Environment • Renewable energy 	23.86% €62.99 billion
Regional competitiveness and employment objective			17.20% €57.9 billion
Regional programmes (ERDF) and national programmes (ESF)	Member States propose list of regions (NUTS I or NUTS II)	<ul style="list-style-type: none"> • Innovation • Environment/risk prevention 	83.44% €48.31 billion
	'Phasing-in' regions (i.e. Objective 1 regions 2000-2006 not eligible for the Convergence objective)	<ul style="list-style-type: none"> • Accessibility • European employment strategy 	16.56% €9.58 billion
European territorial co-operation objective			3.94% €13.2 billion
Cross-border and trans-national programmes and networks (ERDF)	Border regions and trans-national cooperation regions	<ul style="list-style-type: none"> • Innovation • Environment/risk prevention • Accessibility • Culture, education 	<ul style="list-style-type: none"> • 36.61% cross-border cooperation • 12.12% European neighbourhood and partnership instrument • 47.73% trans-national cooperation • 4.54% networks

Some points to note include:

'Statistical effect' regions: they will get higher amounts of Structural Funds assistance than was agreed in Berlin in 1999 for regions granted transitional support for the current programming period, 2000-2006.

ESF-supported programmes under the Regional Competitiveness and Employment objective: these will focus on four priorities:

1. Improving the adaptability of workers and enterprises;
2. Improving access to employment and increasing participation in the labour market;
3. Enhancing social inclusion and combating discrimination;
4. Facilitating reforms in the areas of employment and inclusion.

'Phasing-in' support under the 'Competitiveness' objective: this will be for a transition period according to a comparable system to that applying during the current programming period (2000-2006) to regions no longer eligible for Objective 1.

Cross-border co-operation. all regions (NUTS III) along external and internal land borders and along certain neighbouring sea borders will be eligible for cross-border co-operation programmes.

Trans-national co-operation: the Commission and the Member States will define a number of coherent zones with common interests. For this purpose, Member States and regions are being invited to assess the relevance of the thirteen existing trans-national co-operation zones (defined in the context of strand III B of INTERREG).

Inter-regional co-operation: regional programmes under the Convergence and Regional competitiveness objectives will incorporate inter-regional co-operation measures, with resources being allocated to these measures from within the programmes' budgets.

Regions with geographic handicaps: the allocation of resources under the Regional competitiveness and employment objective will take account of the relative disadvantage of regions affected by geographic handicaps (islands, mountainous and sparsely-populated regions). In order to ensure that actions benefit neglected areas, and that the cost of public investment per inhabitant is taken into account, it is proposed that territories with a permanent geographic handicap should benefit from an increase in the maximum EU contribution. For urban areas, the Commission proposes to enhance consideration of urban issues by integrating action in this area in regional programmes.

Simplification: Management and administrative procedures for programming will be changed as follows:

- Before the new programming period begins, the Council, on the basis of a Commission proposal and with an Opinion from the European Parliament, will adopt a general strategy document for cohesion policy, setting out guidelines and priorities for the Member States and regions. In the area of employment and human resources, the priorities will be those of the European Strategy for Employment.
- On the basis of this strategy document, each Member State will prepare a policy document on its development strategy, to be negotiated with the Commission, which will serve as a framework for the preparation of sectoral and regional programmes. Unlike the current Community Support Framework, this new framework will not be a management instrument.
- On the basis of the policy document, the Commission will approve national and regional programmes proposed by Member States. Programmes will be defined in broad outline or through priority objectives, indicating the most important measures. The programme complement (PC), which currently contains additional information, will be discontinued, as will management by measure. Future programmes will operate with just one fund (either ERDF or ESF), which is also a change from current multi-fund programmes,
- Monitoring. The draft general Regulation defines minimum conditions with which management and control systems must comply. The responsibilities of the Member States and the Commission in ensuring respect for the principles of good financial management are defined. The Commission will ensure the good functioning of management and control systems in the Member States.

Financial management. The Commission's own controls will be limited to exceptional circumstances. The degree of Community intervention in management, evaluation and control will depend on the scale of the EU's financial contribution to an intervention. According to this principle of proportionality, the Commission will only verify application of the principle of additionality (according to which Community resources must be added to, and not substitute for, national resources) in respect of the Convergence objective. It will be up to the Member States to ensure that the additionality principle is applied in respect of the other two Objectives.

Payments. Payments will be made at the level of priorities, and not at the level of measures as is currently the case. The Community contribution will be calculated solely on the basis of public spending. The system for payments (pre-financing and reimbursement) as well as the principle of automatic release will be maintained.

Performance Reserve. In order to enhance the quality of management, a performance reserve (3% of resources) will be reserved in order to reward Member States and regions that make significant progress in achieving objectives. It is also proposed that Member States create a small reserve within their national allocations destined to permit them to respond rapidly to unexpected sectoral or local crises (for example following industrial restructuring).

'N+2' Rule. The N+2 rule will be retained. Funds must be contractually committed within a period of two years, calculated from the end of the financial year for which they are programmed. If funds are not committed within this period, they are lost to the programme.

Copies of the draft Regulations are available at:

http://europa.eu.int/comm/regional_policy/sources/docoffic/official/regulation/newregl0713_en.htm

Commission also issues draft regulation for Rural Development and Fisheries –(July 14th)

The Commission's draft Regulation on rural development aims to bring rural development policy under a single funding and programming instrument. It provides for EU funding of €13 billion per year for the programming period 2007-2013. A key aspect of the new regime is that an EU strategy for rural development would be drawn up to serve as the basis for national strategies and programmes. The aim is to ensure a better focus on EU priorities and to improve complementarity with other policy areas such as cohesion and environment.

The new rural development policy has three major objectives:

1. Increasing the competitiveness of the agricultural sector through support for restructuring;
2. Enhancing the environment and countryside through support for land management;
3. Strengthening the quality of life in rural areas and promoting diversification of economic activities through measures targeting the farm sector and other rural actors.

An additional implementation axis (LEADER) provides for mainstreaming local development strategies developed through a bottom up approach which were previously financed under the LEADER initiative. A minimum of 7% of program funding is reserved for the LEADER axis. Each programme should contain a LEADER axis to finance the implementation of the local development strategies of local action groups built on the three thematic axes.

The draft regulation also proposes changes to the definition of less-favoured areas, with a move away from the socio-economic criteria, which have been used to date. This will have serious implications for how these areas are designated in Ireland.

The European Fisheries Fund (EFF) would provide support for the implementation of measures aimed at securing sustainable fisheries and diversifying economic activities in fishing areas. On average, € 700 million will be made available per year. The EFF will replace the current Financial Instrument for Fisheries Guidance (FIGG).

Proposed Extension of the PEACE Programme to the end of 2006 – (Oct 13th)

The European Commission proposed to extend EU support for the Programme for Peace and Reconciliation in Northern Ireland and the Border Region of Ireland for a further two years to the end of 2006. The proposal follows a request of the European Council on June 18th, 2004, calling on the Commission to examine the possibility of aligning interventions under the PEACE Programme, ending in 2004, with those of other programmes scheduled to end in 2006.

The PEACE Programme was established in 1995, with some 4,000 projects funded since then. The Structural Funds contribution to the Programme for the period 2000-2006 is €531m. The IFI, established by the Irish and UK Government in 1986, currently receives €15m per year from the European Union, which represents about 40% of the IFI budget.

The extension intended to provide an additional €150m from the EU to be delivered through the PEACE Programme and the International Fund for Ireland (IFI). These resources would have to come from within the overall financial envelope for the Structural/Cohesion Funds agreed by the European Council in Berlin in March 1999. The Commission wanted to reallocate to the PEACE programme unused Cohesion Fund resources but the Netherlands Presidency rejected any modification of the Financial Perspective for 2000-2006. However, on November 25th, agreement was reached between the Council and the European Parliament on a budget of €108 million for the programme extension. The budget for 2005 will be €60 million (€50 million from the EU and €10 from the two governments) and the budget for 2006 will be €48 million (€16 million from the EU and €32 from the two governments). The European Commission also gave an undertaking to secure additional funds for 2006.

It is expected that this decision will now be formally approved by the European Parliament in January 2005 and that the extended programme will be up and running by March 2005. Agreement was also reached on the EU contribution of €15 million per year, in 2005 and 2006, to the IFI.

Parliament hearing with Regional Policy Commissioner-designate, Ms. Danuta Hübner – (Sept 28th)

The then Commissioner-designate for Regional Policy, Ms. Danuta HÜBNER of Poland, met the European Parliament's Committee on Regional Development as part of the Parliament's vetting of the nominee Commissioners prior to its vote on the proposed team at the plenary session on 25 October, 2004. She defended the out-going Commission's proposals contained in the draft Regulations adopted in July. The Commissioner-designate justified the Commission's proposal to set the EU Budget for the 2007-2013 period at a level of 1.24% of the EU's gross national income (GNI). She said the lower level of 1% favoured by some Member States would not be sufficient in the context of agreed tasks for the Union. Ms. HÜBNER emphasised her commitment to the N+2 rule (under which any approved funding that does not give rise to a payment claim within two years of the year of allocation is cancelled) and dismissed the idea of moving to an N+3 rule.

A copy of the Commission-designates speech to the European Parliament's Regional Policy committee is available at: http://www.europarl.eu.int/hearings/commission/2004_comm/speeches_en.htm

EUROSTAT publishes revised statistics on GDP per capita for 2003 – (Dec 3rd)

According to the latest data from Eurostat, the Statistical Office of the European Communities, Ireland had the second highest GDP per capita in the EU in 2003. At 133% of the EU25 average Ireland was second only to Luxembourg, at 215%. GDP and GDP per capita are indicators of a country's total production and expenditure, used to measure and compare the degree of economic development of countries. They are also the indicators used to measure a region's eligibility for EU Regional Policy.

The revised data for 2003 shows Denmark, Austria, the Netherlands, the United Kingdom and Belgium all around 20% above the EU25 average. Sweden and Finland recorded figures about 15% above average, and France, Germany and Italy around 10% above average. Spain was just below the EU25 average, and Cyprus, Greece and Slovenia about 20% below. Malta and Portugal were around 25% below average, the Czech Republic about 30% below, and Hungary about 40% below. Slovakia and Estonia were around half the average, while Lithuania, Poland and Latvia recorded figures between 40% and 50% of the EU25 average (*See Appendix 1 for the full table*).

Commission to consult on the review of Regional State Aid Guidelines again

The current Regional Aid Guidelines, which determine the aid levels that Member States may pay in order to promote investment by firms in pursuit of regional development objectives, expire at the end of 2006. DG

Competition of the European Commission sent the Member States a consultation paper outlining its ideas for the regime that should apply for the next programming period, 2006-2013. Member States were asked to submit their observations by July 1, 2004. It appears that DG Competition is not satisfied with the outcome of the consultation and intends to re-open it with a further consultation paper in early 2005. An important issue for some Member States appears to be the lack of differentiation in the guidelines for regions not qualifying for the Convergence objective. This would mean, in principle, that the same levels of aid could be paid in the richest regions of the EU as in one with a GDP per head of, say, 76% of the EU average. The Commission's position appears to be that differentiation within regions should be a matter for Member States but some Member States would like the Commission's guidelines to be prescriptive. The supplement for SME's provided for in the Commission's consultation paper may also be in question.

The frameworks for a range of horizontal aid guidelines (R&D, training, environment, etc) also expire at the end of 2006. These will have to be renewed given that the general thrust of EU state aid policy is to put greater emphasis on horizontal (sectoral) aid regimes, while simultaneously trying to reduce overall levels of aid.

COUNCIL DISCUSSIONS AND MEMBER STATE POSITIONS

Cohesion Policy 'key element' on agreement on Financial Perspectives – (Oct-Dec)

Discussions on the Medium Term Financial Perspectives, 2007-2013, got under way in the Council in October. These discussions have been carried out in an Ad Hoc Group and in COREPER and have been structured according to two questionnaires drawn up by the Dutch Presidency within the framework of its 'building block' approach. Thirteen Member States have given their qualified backing to the European Commission's proposals. Finance Ministers from Spain, Portugal and Greece, with the backing of the ten new Member States and a group of three including Ireland, Finland and Italy as 'observers', presented a statement saying that the Commission's proposal was a "good starting point for negotiations".

The position of the thirteen plus three is a counterbalance to the six net contributor countries who are calling for the budget ceiling to be limited to 1% of GNI over the seven-year period. However, Cyprus is emerging as a member of the 1% club while Denmark has stressed its commitment to "budgetary rigour". Summing up the discussions on the financial framework to date, the Dutch Finance Minister and President-in-Office of the Council commented that the future Cohesion Policy was a "key element" of any agreement.

The Building Block Approach – undermining the role of the European Commission?

This approach seeks to broaden the debate by focusing on the content of the individual policy areas and the amount of resources they will entail, with a view to identifying a range of policy choices and their financial implications.

Endorsement of this approach by the Council was achieved without prejudice to the general positions adopted by Member States on the overall ceiling of the future Financial Perspectives. There has been concern that the 'building block' approach undermines normal institutional practice, whereby the Commission's proposals constitute the basis for work in the Council. Some have justified this on the basis that the Commission's proposals in the budgetary field do not enjoy the same status as those in the legislative field. However, it has been agreed that the Council's deliberations will accord pre-eminent status to the Commission's proposals, which are not to be seen as simply one option among others emerging in the course of the 'building block' process.

Speaking at the end of the December Finance Ministers' meeting, the Dutch Presidency underlined that the 'building block' approach had given a comprehensive picture of the views of the Member States but would just 'facilitate' a final agreement on the Financial Perspectives.

Funding for Cohesion Policy/Structural Funds comes under Heading 1b (Cohesion for Growth and Employment) of the Commission's Medium Term Financial Perspectives. There appears to be broad

support by Member States for the three objectives proposed by the Commission – ‘Convergence’, ‘Competitiveness and Employment’, and ‘Territorial Co-operation’. Most agree on the priority of reducing disparities in development levels, with particular attention to the least developed areas. A majority agrees that efforts should be concentrated on the less prosperous regions, although some Member States are insisting the focus should be on the less prosperous Member States. There has also been some questioning of the extent to which EU-15 Member States should benefit. Some Member States are calling for a substantial decrease in the funds for the Competitiveness and Employment objective, or for the elimination of this objective altogether. By contrast, there is wide acceptance of the Territorial Co-operation objective and a majority of Member States appears to support the level of resources proposed by the Commission for this objective.

As far as the overall level of expenditure on cohesion policy is concerned (the Commission has proposed €338 billion, equivalent to 0.41% of EU GNI), there is a wide divergence among Member States. This issue is largely tied up with that of the overall level of EU expenditure for the period of the next Financial Perspectives. Most of the six Member States seeking to cap the overall level of expenditure at 1% of EU GNI (the Commission has proposed 1.24% of EU GNI) are seeking a ceiling on Cohesion Policy expenditure substantially lower than current levels. A large majority of Member States agrees with the Commission’s proposal to retain the cap on Structural/Cohesion Funds transfers to a Member State at 4% of national GDP.

There appears to be broad support for the Commission’s proposed transitional arrangements for those regions that will no longer be eligible under the new Convergence objective, either because of the statistical decrease of the average EU-25 per capita GDP or as a result of increased prosperity levels.

Ireland’s position in the negotiations on the cohesion aspects of the Financial Perspectives appears to be on the following lines:

1. The ‘Convergence’ objective is appropriate and substantial funding for the development needs of the new Member States is justified.
2. There is a case for continuing to assist the cohesion effort in pre-enlargement Member States. However, the ‘Competitiveness and Employment’ objective needs to be examined to see how the proposals will aid competitiveness.
3. There is a strong case for a co-operation objective centred on cross-border co-operation. Other aspects of the Commission’s proposals for ‘Territorial Co-operation’ require more detailed examination to assess their potential added value.
4. Phasing-out (Convergence objective). It is reasonable that regions that would have had Objective 1 status had enlargement not taken place should receive a meaningful level of assistance.
5. Phasing-in (Competitiveness and Employment objective). The BMW region (currently Objective 1) still has extensive development needs. Its per capita GDP seriously overstates its real level of wealth and income. Its development needs give it a profile more like that of regions to be assisted by the ‘Convergence’ objective and the delivery instruments and policy focus of the ‘Convergence’ objective would better address these. ‘Natural Effect’ regions should, therefore, not come within the Regional competitiveness objective.

Ireland’s stance on the cohesion aspects of the Financial Perspectives cannot be considered in isolation from other aspects of the debate. The expected wind-down of the Structural Funds will mean that transfers from the agriculture budget will become even more important in relative terms from 2007 onwards. It appears that Ireland’s position is that the Brussels European Council in October 2002 has already decided on funding for CAP market measures and direct payments for the period until 2013 and that this aspect should not be re-opened during the current debate, as some Member States would like. Therefore, as far as agriculture and rural development is concerned, Ireland’s position is that the debate should focus on the rural development aspects.

The European Council on 16/17 December discussed the Financial Framework for 2007-2013. The Presidency Conclusions say the Council *"confirmed that the new Financial Framework, to be agreed in comprehensive negotiations, should provide the financial means necessary to address effectively and equitably future challenges, including those resulting from disparities in the levels of development in the enlarged Union."* Reference is made to the need for policies to be consistent with the principles of subsidiarity, proportionality and solidarity and to the need for added value. *"Expenditure for individual policy areas must be seen in the context of the overall expenditure level, and such expenditure must be seen in the context of the overall negotiation including the question of own resources."* The new Financial Framework should also *"attest to determined efforts towards budgetary discipline in all policy areas within a general context of budgetary consolidation in the Member States."* The Council endorsed the Commission's proposal to maintain the ceiling for own resources at the current level of 1.24% of EU GNI, and it took note of a Commission report on the operation of the own resources system and its proposal to introduce a generalised correction mechanism. It confirmed the aim of reaching political agreement on the next Financial Framework by June 2005.

The negotiations are likely to prove very difficult, not least because of the commitment to a global negotiation, encompassing both expenditure and revenue in the context of the own resources system. Also, a decision on the Medium Term Financial Perspectives for 2007-2013 must be by unanimity. The incoming Luxembourg Presidency must now take up the negotiations with a view to their finalisation by June 2005.

KOK Report on the Lisbon Strategy presented to the European Council – (Nov 4th)

The High Level Group chaired by Mr. Wim KOK, former Prime Minister of the Netherlands, reported at the beginning of November and both the European Council and the European Commission have endorsed its report. Mr. KOK was asked by the European Council in March 2004 to chair a group to review progress on implementation of the Lisbon strategy and to make recommendations aimed at giving the process a new momentum, in view of the mid-term review of the strategy due in 2005.

The High Level Group's report says the Lisbon objectives and strategy are still very relevant but that many of the targets set in March 2000 are not being achieved, or are unlikely to be achieved on present trends, which is largely due to failures by the Member States. It says there is an urgent need for action across a range of areas, at both the Member State and Community levels, if the objectives set at Lisbon are to be realised. It puts forward about 30 key recommendations relating to the knowledge society, internal market, business climate, labour market, environmental sustainability and monitoring and communicating implementation of the strategy. The High Level Group's report will now go forward to the European Council in spring 2005, which is expected to make decisions aimed at giving the Lisbon process a new lease of life.

While the High Level Group's report makes no specific reference to cohesion policy or the Structural Funds, it may have implications for the evolving debate on the future of policy in these areas post 2006. The group's endorsement of the continuing relevance of the Lisbon objectives is likely to reinforce the emphasis the Commission, in its draft regulations, puts on employing the Structural Funds in support of the Lisbon process. This may have particular relevance for the 'Regional competitiveness and employment' objective, which is closely linked to Lisbon priorities, and which is the main element of the Commission's proposals that is contested by some of the Member States in the 'net contributors' group.

The High Level Group's report also recommends that budget priorities at Community level be aligned more coherently with the Lisbon objectives. While the report makes no specific reference to funding for cohesion policy, the same point was also strongly made in the SAPIR Report in July 2003 (see Up-date No. 2 for details) in the context of a generally negative attitude towards the idea of European regional policy applying outside the poorest Member States. Taken in the context of the SAPIR Report, the High Level Group's

recommendation may have implications for the outcome of the Council's deliberations on the shape of the Financial Perspective for 2007-2013.

RESPONSES AND LOBBYING POSITIONS

CoR adopts its opinion on a European Grouping for Cross-Border Cooperation – (Nov 18th)

The Committee of the Regions has generally endorsed the European Commission's proposed regulation for a European Grouping of Cross-border Cooperation (EGCC). Before publishing the draft regulation the European Commission had requested the CoR to issue an outlook, advanced report on the practical aspects of an EGCC.

The proposed new legal instrument aims to bring together local authorities involved in cross-border co-operation and to overcome problems with the management of cross-border co-operation that arise from differing national legal frameworks. The primary objective is to facilitate implementation of co-operation programmes financed by the European Structural Funds, although the groupings, which will have legal status under EU law, will also be able to engage in co-operation solely at the initiative of Member States, and regional or local authorities. However, Member States will not be obliged to implement their cross-border programmes in the framework of an EGCC; its use will be optional.

The CoR opinion proposes a number of amendments to the proposal, including a requirement that an EGCC set up a representative assembly and that the Commission's proposal should have gone further, i.e. that its scope should be extended to trans-national and inter-regional co-operation, as well as cross-border. The opinion thus proposes that it be styled as an EGTC – '*European Groupings of Trans-European Co-operation*'. The opinion's rapporteur, Mr. NIESSL (AT/PSE) will address the European Parliament's Regional Policy Committee in January 2005 to discuss the EGCC proposal and the CoR's opinion.

CPMR General Assembly calls for greater coherence – (Sept 22nd-24th)

The Conference of Peripheral and Maritime Regions (CPMR) at its general assembly in Stavanger, Norway, called for greater coherence between the EU's cohesion policy objectives and its medium-term financial proposals for 2007-2013. The CPMR considers that there is an inconsistency between the EU's ambitions and the resources Member States are prepared to put into realising these. The CPMR believes that to maintain solidarity between regions in the new and old Member States, the EU budget could not be limited to 1% of Gross National Income (GNI). Member States should provide the proper financial means for the EU's Cohesion Policy, particularly as the draft Constitutional Treaty recognises the principle of territorial cohesion. The member regions of the CPMR are committed to lobbying their Member States for an EU budget equal to 1.24% of GNI for the next programming period, 2007-2013. The lobby will focus in particular on France, Germany, Sweden, Austria, the Netherlands and UK, whose governments have called for a budget limited to 1% of GNI.

The CPMR is particularly concerned about the future of the Competitiveness and Employment objective, which the Commission has proposed should receive 17% of the Cohesion Policy budget. It believes that, while other areas of regional spending may be secure, funding for this objective may be cut in the effort to keep the budget at 1% GNI.

In October, the CPMR and the Association of European Border Regions (AEBR) held a conference on territorial co-operation, which will have a budget allocation of €13.2 billion for 2007-2013, two and a half times the INTERREG budget for 2000-2006. The conference expressed general satisfaction with the Commission's proposals, as contained in the draft Regulations. However, there was concern about the degree to which regions would be involved in programming and also about the proposal that in future only

public spending would be deemed eligible for Structural Funds support. Until now spending by semi-public and private authorities involved in programmes has also been eligible, provided it meets the criteria outlined in the Structural Fund regulations. However, the proposals for the period 2007-2013 expressly restrict eligibility to public spending. The conference agreed that these restrictions would undermine the capacity to involve all regional development stakeholders, which has been one of the factors in the success of existing territorial co-operation programmes.

AER adopts a resolution on the Future of Regional Policy – (Oct 15th)

The Assembly of European Regions adopted a resolution on the future of Cohesion Policy following a conference Hungary on 15 October 2004. The resolution is signed by some 80 regions and organisations from Bulgaria, Belgium, Czech Republic, Denmark, Spain, France, Italy, Hungary, Romania, Norway, Poland, the Netherlands, Austria, Switzerland, Slovakia, Finland, Sweden, Croatia and the UK. The resolution calls on the Commission to include the 'natural effect' regions in the Convergence priority so that these regions can receive the same treatment as the 'phasing out' regions in the current programming period.

It also asks the Commission to ensure that rural areas are fully included in the new objectives of future cohesion policy by including a specific budget for the development of rural areas in the Convergence objective and strengthening the rural dimension of regional programmes under the Regional competitiveness objective. The AER also requests that the new rural development fund have a regional dimension. Other topics addressed in the resolution include sparsely populated areas, the urban dimension, border regions, the role of regions in the partnership arrangements, inter-regional co-operation, regional state aid guidelines, simplification, and the EGCCs. *(Copies of the resolution are available from the NASC and IRO offices).*

European Cities adopt a Declaration for a Genuine Urban Policy – (Oct 18th-19th)

Eurocities and the 'Cities for Cohesion' and 'Capital City-Regions' networks have called on the European Commission to draw up a general framework for regional allocation envelopes, based on EU-wide economic, social and environmental indicators, in order to provide for a specific share of EU financial support (up to 20%) for urban areas and make the urban dimension in all programmes mandatory. The cities are concerned that the proposals in the draft regulations do not require the involvement of cities or any urban dimension in regional programmes. It will be up to the Member State to decide whether or not to involve local authorities in programming and what urban content, if any, to include in programmes. Member States will also be free to decide whether to delegate responsibility for urban actions to the local level. The cities are also concerned that the Commission proposals no longer provide for a specific programme like URBAN, but instead provide for the urban dimension to be included in all 'Convergence' and 'Competitiveness and Employment' programmes. However, there is no guarantee that the needs of cities will be taken into account in programmes.

In particular, under the 'Competitiveness and Employment' programmes the choice of which areas are eligible for funding will be the responsibility of national authorities alone and many European cities fear that they will lose out. The cities are concerned that these proposals spell the end of a genuine EU urban policy and they are also concerned that the discontinuation of a dedicated programme for urban areas will mean the end of the exchanges of best and good practices between cities, which is a key aspect of the URBAN programme. The urban networks adopted a "Declaration of Mayors and Leaders of Urban Areas" at the European City Summit in Noordwijk, which will be presented at the Ministerial meeting on Cohesion Policy and Urban Affairs in Rotterdam, November 29th-30th, *(see details of this meeting in the 'Events and Conferences' section below).*

BMW Regional Assembly delegation meets with An Taoiseach, Bertie AHERN TD – (Nov 18th)

A delegation from the Border Midlands and West Regional Regional Assembly met with An Taoiseach, Mr. Bertie Ahern TD to raise a number of issues of concern in relation to regional policy and to suggest ways in which a more effective regional policy could be developed in Ireland. The BMW Assembly outlined a number of the key infrastructural deficits facing the region, which continue to be a major barrier to inward investment, enterprise development and the overall quality of life in the region.

In terms of the expenditure under the NDP, the BMW is concerned by the regional disparities than continue, under a number of headings such as national roads, public transport and RTDI. Spending under some of the measures of the BMW Regional Programme is also relatively slow and there has been a complete lack of expenditure under the Recreational Angling, Marine Tourism and Regional Sports Centres measures, which have a particular relevance for the region. The BMW Assembly would like to see implementation of some of these measures prioritised and advanced.

The Assembly believes that the current NDP provides one potential regional policy instrument, but that there are many other ways in which regional imbalances can be addressed and that there is a need for a more coherent regional policy across a range of Government departments. The BMW has commissioned an Audit of Innovation in the region and is also completing a Regional Foresight process, to provide a more long-term approach to the planning and development of the BMW region. In its submission to An Taoiseach, the Assembly considers that: (1) the National Spatial Strategy could be a cornerstone for regional policy; (2) there should be regional differentiation in Government policy with regional targets to avoid the 'one size fits all' approach; (3) there should be regional ring-fencing of multi-annual capital envelopes, to help ensure essential infrastructure projects for the region; and (4) regional impact monitoring should be built-in to national strategies and programmes.

In summary, the BMW Assembly recommends the following in its submission:

- Implement the commitment made to balanced regional development in the current National Development Plan by reaching the targeted expenditure, particularly in areas where spending to date has not been regionally dispersed and in areas of particular importance to the BMW region.
- Identify the strategic priorities and areas for investment in conjunction with the regional assemblies for the next funding period, building on the Audit of Innovation and the Regional Foresight in the BMW region.
- Fully implement the NSS, with the introduction of key indicators to monitor its progress and the commitment of resources to targets identified in it and in the RPGs.
- Develop coherent regionally differentiated policies across a range of Government strategies and programmes and build in regional impact monitoring to ensure their effectiveness.
- Support the Natural Effect Regions Declaration in negotiations with the European Commission on the future of EU Regional Policy.
- Examine other sources of Exchequer funding, which can be used to make up the imminent shortfall in Structural Funds in addressing regional imbalances in the next programming period.

EVENTS AND CONFERENCES

Open Days 2004 on *'The Practice and Reform of Cohesion Policy'* – (Sept 27th-30th)

The European Commission (DG Regio) and the Committee of the Regions jointly organised the regional policy OPEN DAYS which were held in Brussels. Over 2,000 delegates attended the events that were organised over the four days and these included presentations and debates on the management of the Structural Funds and the future of Cohesion Policy post 2006.

The Irish Regions Office participated in the Open Days and organised a number of events in co-operation with the Brussels office of the Northern Ireland Executive. Over 150 people attended its seminar on 'Cross-border Co-operation – Building on Achievements'. Speakers included Mr. Stephen O'Sullivan, Department of Finance, Ms. Nuala Kerr, Special EU Programmes Body (SEUPB), Mr. Stephen Blair, S&E Regional Assembly, Ms. Katherine Himsworth, Ireland/Wales INTERREG programme, Ms. Caroline Brady, Border Regional Authority, Ms. Kate Burns, Irish Central Borders Area Network (ICBAN) and Mr. Tim O'Sullivan, North/South Ministerial Conference.

Mr O'Sullivan spoke about the PEACE programme, the Ireland/Wales INTERREG programme, the future of cross-border cooperation in the context of the new Territorial cooperation objective, the resource needs of EU Cohesion Policy in the context of enlargement to EU-25, the N+2 rule, and the situation of the BMW region. As regards the Territorial Cooperation objective of the next round of Structural Funds, he expressed a view that the cross-border strand should have a high priority and that there should be flexibility in the allocation of resources between the strands, with only a minimum allocation to each strand. In relation to the BMW region, he expressed the view that its development needs were best served by tackling them within the Convergence element of the Commission's proposals. In his view, the BMW region lost out because the yardstick for eligibility was GDP and not GNI. The average income in the BMW region was around 15% less than its GDP indicated, which effectively put it in the 'statistical effect' category.

AIR conference on "EU Cohesion Policy – Implications for our Regions" – (Oct 15th)

The 7th annual conference of the Association of Irish Regions (AIR) took place in Ballina on the 15th of October 2004. The conference focused on the theme of, "EU Cohesion Policy – Implications for our Regions" and explored some of the implications for Ireland's regions and local authorities of the Commission's regional policy (Structural Funds) proposals for the period 2007-2013. The conference was addressed by officials from the Regional Policy Directorate of the European Commission, the Department of Finance and the Irish Regions Office. There were also speakers from the IFA, UCC, IBEC and the BMW Regional Assembly, who highlighted some of the emerging sectoral issues and considerations as regards the implementation of future programmes.

The conference highlighted the fact that there would be a significant reduction in EU Structural Fund transfers to Ireland in the period post 2006 and that this funding would be targeted at new priorities aimed at specifically at promoting regional innovation and competitiveness. This changing context will present new challenges for the regions and local authorities and will require the new regional development practices and partnerships. Some perspectives on this were also presented. However, the conference also heard of the on-going need for investment in basic infrastructure in the regions and, in the context of a reduction in EU Structural Fund transfers, drew attention to the growing importance of national funding for regional development.

S&E Regional Assembly conference on '*The Future of Regional Policy post 2006*' – (Oct 28th-29th)

This two-day conference, organised by the Southern and Eastern Regional Assembly, provided an analysis of the impact of Structural Funds on the Irish economy, as well as, the European Commission's and the Irish Government's perspective on the emerging proposals for the future Funds, post 2006. There were a number of speakers from the ESRI, DG REGIO, the Special EU Programmes Body and the Department of Finance.

A key aspect of the conference was a paper by Mr. Brendan KEARNEY looking at the scope and context of EU-funded assistance for agriculture and rural development in the future. The paper outlined that this will change significantly, with rural development measures re-grouped under a single funding, programming, financial management and control system. The paper notes that the draft Regulations are heavily weighted towards the environment and the wider rural economy, which is consistent with the wider reform of the CAP

and the decision on decoupling. The paper concludes that the structural diversity of the Irish agriculture will probably increase, with a growth in full-time commercial farms and a decline in part-time, elderly or small farmers. This it is felt will have a negative impact on output and thus the new programme should reflect the changing circumstances arising from the reforms and address the needs of the broader community in rural areas. Copies of all presentations made at the conference are available at: www.seregassembly.ie

Informal Council discusses 'Territorial Cohesion' and Urban Policy - (Nov 29th-30th)

One of the key messages to emerge from this informal Council of Ministers in Rotterdam, was that European cities are eager for recognition in the implementation of EU Cohesion Policy. The Dutch Presidency repeatedly pushed the importance and potential of cities and to be better acknowledged by the Member States and the European institutions, whilst urban issues should feature on the EU's policy-making agenda. This has been a traditional priority of Dutch Presidencies in the past.

Despite the lack of meaningful commitments, the message was echoed by the new European Commissioner for Regional Policy, Ms. HÜBNER, who also participated in the two days of debates. She said she believed in the contribution cities (and regional policy in general) made to the Lisbon and Gothenburg targets, and recognised the need for a continued debate on urban issues. In response to a request from the Ministers, she undertook to strengthen the urban dimension in the European Structural Funds' committees. She also stressed the cities' involvement in implementing programmes for the next medium-term programming period (2007-2013). She said she hoped she could count on the Member States' co-operation in ensuring the programmes placed enough emphasis on urban issues.

The two days also provided an opportunity to call for more exchanges on the urban policies applied in the Member States. The Ministers gave their backing to the launch of a pilot project (for the 2005-2006 period) to set up a European knowledge network to be funded under the EU URBACT programme. This scheme should ensure the interconnectivity of data bases available on urban policies. The Netherlands will be running the project and a network should be in place by 2007. The Dutch Presidency is hoping this Council meeting will have placed urban and spatial planning issues firmly back on the policy agenda. The Luxembourg Presidency may be expected to return to these questions when it is at the helm of EU Council of Ministers in the first half of 2005, by hosting another informal Council on this theme.

The Meeting also received the "Declaration of Mayors and leaders of urban areas" adopted by Eurocities and the 'Capital City-Regions' in October, calling for greater involvement of cities in EU structural policy and for the establishment of an inter-parliamentary group on urban development and a task force within the Commission bringing together senior officials from the various Directorates-General dealing with urban issues.

OTHER DEVELOPMENTS

BMW Regional Assembly formally signs Natural Effect Declaration – (Sept 29th)

The last Up-date (June 2004) brought news of the Declaration agreed by the Natural Effect – regions currently eligible under Objective 1 but whose economic development will bring them above the 75% threshold regardless of enlargement. The Third Cohesion Report proposes that post-2006 these regions would be part of a 'Phasing-In' regime into the new Competitiveness and Employment strand (Objective 2), with initially higher funding intensity on a transitional basis (the reduction of support would follow the path comparable to that for regions no longer eligible for Objective 1 in the current period).

The Declaration's basic demands are:

- That the natural effect regions be included in the Convergence strand (Objective 1);

- That the natural effect regions should receive the same treatment as that received by the 'phasing-out' regions from Objective 1 in current programming period;
- That the natural effect regions receive a gradual transition under the state aid regime from Article 87.3(a) to Article 87.3(c) during the next programming period;
- That these demands are taken into account by the Commission, European Parliament and the Member States in the negotiations on the new Structural Fund negotiations.

The Border, Midlands and West (BMW) Region in Ireland is one of these 'natural effect' regions and the Cathaoirleach of the BMW Regional Assembly, Cllr. Constance HANNIFFY formally signed the Declaration at the OPEN DAYS event in Brussels in September. The Declaration has now been signed by nine other regions from Spain, Austria, Greece, Hungary and the UK. The Declaration was also presented to the new Commissioner for Regional Policy, Ms. Danuta HUBNER and the President of the Regional Policy Committee of the European Parliament, Mr. Gerardo GALEOTE. These regions are planning further meetings and initiatives to influence the decision-making process and to attract a broader base of support from other regions in the EU. Copies of the Declaration are available from Mr. Gerry Finn, Director BMW Assembly gfinn@BMWASSEMBLY.ie or Mr. Robert Collins, Irish Regions Office: robert.collins@iro.ie

European Policies Research Centre publishes '*Searching for Consensus: The Debate on Reforming EU Cohesion Policy*' – (Nov 15th)

This paper, published by the European Policies Research Centre, University of Strathclyde, examines the key questions associated with the reform of EU Cohesion Policy. The paper reviews the main events of recent times that have a bearing on the reform debate and it outlines the European Commission's proposals for the future of Cohesion Policy as a basis for discussing their implications. The first set of implications relate to eligibility issues. The paper considers how the Member States will benefit under the different priorities on the basis of current information about eligibility criteria. It also examines the potential allocation of funding to Member States under the different categories of support, applying different methodologies (both top-down and bottom-up) in order to replicate the Commission's approach. The paper estimates, based on the current proposals, that for the 2007-2013 period the Border Midlands and West Regional Assembly area would be allocated a total of €602.4m (based on the Berlin formula) and that the Southern and Eastern Regional Assembly area would be allocated €415.6m (based on data from Eurostat).

The paper goes on to discuss the debate among the Member States, first with respect to the overall financial framework for 2007-2013 and then regarding the proposals for Cohesion Policy. The paper also highlights questions about the scope for making savings on the budget, the approach to the negotiations, the focus for future spending, the objectives of territorial cohesion and the new planning framework.

The paper is available at: http://www.eprc.strath.ac.uk/eprc/publications_downloads.htm

Future Developments in the EU Institutions

This section provides an overview of the likely developments within the EU Institutions, which may have an impact on the final decisions taken on the future of EU Regional Policy:

European Parliament: The European Parliament has established a temporary committee to report on the Financial Perspectives. This committee on *'Policy Challenges and Budgetary Means of an Enlarged Union 2007-2013'* will meet on a number of occasions in 2005 and it is expected to produce its report by May 2005. The Regional Policy Committee is the lead committee considering the draft regulations on the ERDF, on the General Regulations, and on the European Grouping for Cross-Border Co-operation. It is not expected to conclude its discussions on these regulations until after the temporary committee has concluded its work on the Financial Perspectives. Therefore, the European Parliament is not expected to issue its report on the draft regulations until June 2005.

The Regional Policy Committee is also issuing a report on the European Agricultural Fund for Rural Development. Irish MEP, Ms. Marion HARKIN is the committee's rapporteur on this issue. However, the Agricultural Committee is the lead committee on EAFRD.

Council of Ministers: The Netherlands will hand over the Presidency of the EU to Luxembourg on January 1st. While Luxembourg is a net contributor to the EU budget, it has not yet publicly supported the call of the six other contributory Member States calling for an EU budget ceiling of 1% of GNI. The Luxembourg Presidency will be anxious to secure an agreement on the Financial Perspective 2007-2013, during its term and has set itself a deadline of June 2005 to reach agreement.

European Commission: The European Commission will adopt its Work Programme for 2005 on January 26th. It will also initiate a number of other developments in the first half of 2005 (see below).

Committee of the Regions: The Committee of the Regions (CoR) has already produced, in November, its opinion on the European Grouping for Cross-Border Co-operation. The CoR has commenced its work on the various draft regulations. Adoption of its opinions on these regulations was foreseen for the February 2005 Plenary session, but due to the high volume of amendments tabled to the draft opinions on the Structural Fund regulations at the committee stage, it was decided to re-draft these documents and to push back the adoption date to April. The Committee's opinion on the EAFRD is expected to be adopted at the February Plenary session.

Future Issues:

In addition to the above, the coming period (first half of 2005) is likely to see developments in the following areas:

Regional aid guidelines. The Commission will circulate a further consultation paper, with an invitation to Member States and other interested parties to submit comments.

Trans-national cooperation zones. The draft Structural Funds regulations envisage a review of the 13 existing trans-national co-operation zones under INTERREG III B, to be carried out in consultation with the Member States. This will include the two zones in which Ireland is located, namely North West Europe and the Atlantic Area. This review process is likely to include a consultation process and should be completed by April/May 2005. The Atlantic Arc Commission of the CPMR is organising a technical meeting in Brussels on 26 January 2005 to discuss the future of trans-national cooperation in the Atlantic Area.

Community strategic guidelines and the programming process. The planning and programming timetable is specified in the draft General Regulation. It stipulates that the Community's strategic guidelines on economic, social and territorial cohesion must be adopted at the latest three months after the adoption of the Regulation. Each Member State must send the Commission its proposal for a national strategic framework as soon as possible after the adoption of the Community strategic guidelines. Member States may decide to present their operational programmes at the same time. The key date, therefore, is that of the adoption of the regulation and if that happens during the first half of 2005 we are likely to see the planning and programming processes moving ahead later in the year.

APPENDIX 1

GDP per capita in PPS, EU25 = 100

	1995	1996	1997	1998	1999	2000	2001	2002	2003
EU25	100	100	100	100	100	100	100	100	100
EU15	111	110	110	110	110	110	110	109	109
Belgium	120	118	117	116	116	117	117	117	118
Czech Republic	70	72	70	67	66	65	66	68	69
Denmark	125	126	126	125	127	127	126	122	123
Germany	119	118	116	114	113	112	110	109	108
Estonia	34	35	39	40	39	42	43	46	49
Greece	72	71	72	72	72	72	74	78	81
Spain	87	88	88	89	92	92	92	95	98
France	115	114	115	115	114	114	115	113	111
Ireland	99	103	113	117	122	126	129	134	133
Italy	115	115	113	114	112	111	110	109	107
Cyprus	86	85	84	84	85	86	89	83	83
Latvia	30	31	33	34	34	35	37	39	41
Lithuania	34	35	37	39	38	39	41	42	46
Luxembourg	179	178	185	193	208	219	213	213	215
Hungary	50	49	51	52	53	53	56	59	61
Malta	:	:	:	:	78	79	75	74	75
Netherlands	120	120	121	121	121	122	124	122	121
Austria	129	130	127	125	127	128	124	123	122
Poland	41	42	44	45	46	46	46	46	46
Portugal	73	73	74	75	77	77	77	77	74
Slovenia	68	70	71	72	74	73	75	75	77
Slovakia	45	46	47	48	47	48	49	51	52
Finland	106	106	111	114	112	114	114	113	113
Sweden	118	118	116	115	118	120	116	115	115
United Kingdom	110	112	114	114	113	114	115	118	118
Iceland	125	128	127	129	128	126	125	120	119
Norway	133	140	142	134	142	162	158	150	148
Switzerland	146	140	142	141	136	135	131	132	131
Bulgaria	31	28	26	26	26	27	29	29	30
Croatia*	37	40	42	42	40	42	42	44	46
Romania	:	:	:	:	:	25	27	29	30
Turkey	30	31	33	32	30	30	26	27	28

* Estimated by Eurostat