

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

Up-date on the Policy Debate

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Introduction

This document is intended to provide an up-date on the current state of play of the debate on the future of EU Regional Policy post 2006. Since the conference: *'The Future of European Regional Policy – A Place for Ireland and its Regions'* organised by the Irish Regions Office and the NASC Brussels Office on April 9th, 2003, there have been a number of key events and contributions in the run-up to the publication of the 3rd Cohesion Report in December. These include:

- A Conference on *'Cohesion and Constitution: the Role and Responsibilities of the Regions'* organised by DG REGIO, held in Brussels on July 8, 2003 at which there were presentations from Commissioners Barnier, Fischler and Diamantopoulou.
- An address by Commissioner Barnier on the future of EU Regional Policy at the Plenary Session of the Committee of the Regions held on July 2-3, 2003.
- The Informal Council Meeting for Regional Policy and Cohesion, held in Halkidiki, Greece on May 16, 2003 under the Greek Presidency of the European Union.
- The Committee of the Regions' conference in Leipzig, Germany on *'The Future of European Cohesion Policy'* on May 5-6, 2003. This conference concluded with the adoption of the Leipzig Declaration.

In Ireland there was:

- The 4th Annual Conference of the Southern and Eastern Regional Assembly on *'The Future of Regional and Cohesion Policy in an Enlarged Europe: The Implications for Ireland'* held in Kilkenny on May 23-24, 2003.

This document will focus on a number of issues, especially those with direct interest for Ireland and its sub-national entities. This up-date draws on papers from the above and other sources.

Reports from the EU Institutions

Greek Presidency – Informal Council Conclusions

The Informal Council meeting on Regional Policy and Cohesion on May 16th produced a set of relatively open conclusions. There was high recognition of the contribution of European Cohesion Policies to the economic and social development of the Union. The Council felt that there should be some re-adjustment of the objectives and priorities of the policy so that increased economic and social disparities after enlargement can be confronted. In this regard it was also felt that delivery needs to be improved towards simplification of programming, implementation and management procedures and greater effectiveness in the use of resources.

At the same time the Council felt that there needs to be a better clarification of the respective responsibilities between the European Commission, Member States and their regions. There was also a call for better co-ordination with, and a strengthening of the contribution of, other EU policies, especially CAP, employment and competition policies. The Council concluded that Economic and Social Cohesion should retain its status in the Treaties/Constitution as one of the

pillars of the Union and that the objectives of Cohesion Policies do not need to be re-defined (*possibly bad news for those seeking a particular urban dimension!*).

In looking at the priorities and implementation procedures the Ministers concluded that:

- Resources need to be concentrated in regions lagging behind in development in order to respond to the increased needs arising from widening disparities in an enlarged Union;
- The threshold of 75%, at regional level, average per capita Union GDP should remain as the eligibility criterion for Objective 1;
- Regions suffering the 'statistical effect' should benefit from *'an equitable and significant solution'* to support their effort to converge;
- Regions emerging from Objective 1 through natural growth should have *'appropriate arrangements ...to sustain their development momentum'*;
- A majority of Member States are in favour of EU action outside Objective 1 regions, focused on a number of themes such as innovation, knowledge society, employment, social cohesion, sustainable development and improvement of competitiveness;
- Cross-border and trans-national co-operation should continue, but with a need to simplify implementation procedures (*possibly a reference to Stands B and C of INTERREG*);
- A recognition of Single-Fund programming (*although this now looks in doubt following the July 8th intervention of Commissioner Fischler!*);
- There is a need to clarify the roles played in programming, implementation and management by the Union, Member States and regions;
- The overall budget for Cohesion Policy should take account of the increased need in an enlarged EU but there was no agreement on what the level of funding should be and how it should be set – as a % of EU-GDP or as an absolute amount.

Italian Presidency – Taking the Debate Forward

The Italian Presidency has published its priorities for the next six months and in particular place emphasis on the development of infrastructure, especially with a trans-national nature and the completion of the Trans-European Networks (TENs) (also see section on TENs below). The Italians also refer to 'immaterial infrastructure' such as human capital and research. The Presidency makes mention of the need to create an innovative instrument to finance the implementation of major projects, such as the TENs, in co-operation with the European Investment Bank. At the Informal Council of Ministers of Transport on July 4-5th, Ministers welcomed a communication on the 'Development of the TEN-T: new financing' and invited the Commission to further develop details. These issues are now gaining profile within the discussions on Cohesion Policy.

The Italian Presidency also proposes that the next Informal Council on Cohesion Policy will take place in Rome on October 3rd, 2003. The Italian Presidency Programme considers that this will be *"an opportunity to make an assessment at political level of the prospects for reforming Cohesion Policies, on the eve of the publication of the Commission's Third Report on Economic and Social Cohesion"*. It is likely that this Informal Council will have the central theme of 'Cohesion and Regional Competitiveness'.

Committee of the Regions – Leipzig Declaration

The Committee of the Regions conference in May produced the Leipzig Declaration on the Future of European Cohesion Policy. This declaration was prepared in conjunction with the major European associations of local and regional government, such as AER, AEBR, CPMR and EUROCITIES.

This declaration was addressed to the European Commission, the governments of the Member States and the European Parliament and stressed the need for reform of national and European policies to meet the challenges of enlargement. As a first step the declaration proposes that: *“those who today propose a re-nationalisation of regional and cohesion policy do not share our idea of Europe”*. However, at the same time it emphasises that the European Union must ensure that financial assistance is used effectively, the principle of Subsidiarity is respected and that management is simplified.

Six guiding principles for the forthcoming reform are set out in the declaration, they are:

- (1) to pursue a genuine Community regional development and Cohesion Policy;
- (2) to maintain a genuine Community approach;
- (3) to ensure a greater involvement of local and regional authorities;
- (4) to include a territorial dimension to the economic and social cohesion pillar;
- (5) to give priority to the principles of sustainable development and balanced competitiveness;
- (6) to ensure an adequate budget for Regional Policy post 2006 (0.45% Union GDP).

The declaration sets out views on the future structure of Regional Policy based on three guiding principles: (1) to continue to concentrate resources on the less developed regions and countries; (2) to define a new Objective 2 for regional competitiveness and territorial cohesion outside the less-developed regions and (3) to continue to retain co-operation programmes as a Community Initiative. As regards the implementation of these policies the declaration calls for regions and cities to be more directly involved in defining objectives, managing and monitoring of the Community Funds. It also considers that the roles that the various levels play, including the local and regional, should be clarified and guaranteed. The declaration calls for an improved internal coherence of the Cohesion Policy and that implementation should be simplified by avoiding excessive controls and developing more harmonised and flexible payment procedures.

The European Convention

The text agreed by the European Convention and submitted to the European Council on June 20th, has made a change in the area of cohesion. It is now proposed that as part of the Union's Objectives (Art 1-3) that Art 3 paragraph 3 will read as follows: *‘It (The Union) shall promote economic, social and territorial cohesion, and solidarity among Member States’*. It is the inclusion of the word 'territorial' that adds a new element to this Union objective.

The Irish Government – A Perspective

Some Indications

It seems likely that an official Irish position on Cohesion Policy post 2006 will only be articulated after the European Commission has published its 3rd Cohesion Report in December and when

more specific proposals are made on the future Structural and Cohesion Funds. Ireland has not taken any definitive positions on the substantive issues but there has been some indication of the orientation of thinking on these issues at senior levels of the civil service¹.

While there is recognition of the important role that the Structural and Cohesion Funds played in supporting the growth and transformation of the Irish economy, there has equally been a transition in the way Ireland's regional policy is being funded, with increasing emphasis on our own resources. However, *"compared to the mature economies of the Union with comparable or even lower per capita GDP, our stock of economic and social infrastructure in terms of road, rail, water and waste management, health facilities, etc. is considerably lower. We have therefore an infrastructural deficit to make-up and this must be borne in mind in any future discussions on Cohesion Policy"*.

There is also an awareness of the impact that other policies can have on regional development, in particular the CAP, state aids and research funding (for example in 2002 Ireland received over €1.7 billion from FEOGA Guarantee and some €775 million from the Structural and Cohesion Funds).

Ireland's contribution to the EU Budget is increasing and it will soon be a net contributor and it is in a unique and challenging position facing the next round of the Cohesion Policy. There is a concern that *"Ireland, in the absence of a reasonable settlement, would find itself transferring resources to help support regional development in countries whose income and whose wealth in terms of economic infrastructure exceeds our own. That would not be fair or reasonable."* While the use of GNP as opposed to GDP would be preferable, this would not assist greatly. There are no obvious solutions to this and the negotiations will prove difficult.

There are some emerging positions:

- Strongly in favour of concentrating resources on the poorer regions;
- The view on the overall size of the *'Funds envelope will be linked to other issues and our position will be made clear when the real discussions begin'*;
- Share the view that a 4% of GDP ceiling should be the upper limit of cumulative returns from the Structural and Cohesion Funds in the new Member States.
- Reservations about the use of GDP as opposed to GNP for measuring a Member State's or region's economic capacity (*consider GNP more appropriate but accept that it is not compiled at regional level*);
- Support, therefore, the use of 75% GDP criterion for designating Objective 1;
- Continue to support the concept/principle of a region in transition and expects reasonable transition arrangements for the BMW Region (*considers that the BMW suffers a unique statistical effect – its income as measured by GNP is less than its output as measured by GDP and is probably below 75% of the EU average*);
- While not having taken a definitive position, would support Cohesion Policy applying outside Objective 1 regions;

¹ Based on a paper by Mr. Stephen O'Sullivan (Assistant Secretary – Department of Finance) delivered at the S&E Assembly conference on May 23rd, 2003.

- Consider that for regions outside Objective 1, policy should be thematic and linked to EU wide priorities but allowing for the specific needs of regions. There should also be one single objective for these regions but a variety of themes from which Member States and regions could choose.
- Consider that aid rates for public investment in these regions should not be below 50%;
- Support retaining INTERREG, particularly Strand A and also the LEADER Community Initiative. The others – URBAN, EQUAL, could be mainstreamed.
- Highlight the value of EU Cohesion Policy in consolidating the Peace process in Ireland and the need to ensure that continued support for this;
- Support the continuation of the Cohesion Fund – merit in having a greater share of the overall budget for Structural and Cohesion Funds devoted to Cohesion funded projects;
- Support proposals from the Commission to simplify procedures for programme implementation;

The overall approach may be influenced by an acceptance that other EU policies, which contribute to economic and social cohesion, will be of greater interest in the long-term, particularly the CAP. However, Ireland still has regions lagging behind and will expect fair and reasonable transition funding for these. Also, there are many areas of economic activity which can be more effectively planned and delivered on an all-Ireland basis, EU funding can act as a catalyst for this kind of cross-border activity and this will be a priority post 2006.

Sectoral Policy Issues

Rural Development

There would seem to be some on-going discussions between DG REGIO and DG AGRICULTURE regarding the measures to provide for (off-farm) rural development. The publication of the 3rd Cohesion Report and the draft Regulation (some two weeks later) will clarify how the Structural Funds will provide for rural development. It is the view of Commissioner Fischler that the recently agreed reforms on CAP, by reducing emphasis on the first pillar and strengthening the second (rural development) pillar, will contribute to 'more cohesion'.

Of the 22 measures under the rural development pillar, three of these are devoted to 'off-farm' policies: (1) Rural tourism; (2) Basic Services; (3) Village Renewal. The recent agreed CAP reform will provide more resources for such measures and local and regional authorities could benefit, even in the current programming period, if national authorities give greater priority to these three measures.

However, it would seem that any proposal to have a Single Fund type mechanism for all funds might not succeed. Commissioner Fischler, at the conference on July 8th, recognised the need to address the complexity of having two delivery systems for rural development – both the Guarantee and Guidance sections of CAP. However, he did go on to say that: *"rural development requires more detailed rules on eligibility and the definition of measures than is usual for the Structural Funds. This is necessary in order to ensure coherence between first and second pillars. However, this makes it more difficult to have a common implementation structure for all the Structural Funds and is a source of confusion for the Member States"*.

He went further by arguing that these factors would favour *"a separate financial and management structure for rural development. This would imply that rural development should be subject to separate programming, financial management and control provisions to apply throughout the Union. This would improve the efficiency of delivering our policy on the ground and would represent a major simplification for Member States' national and regional administrations"*.

The Commissioner has also made a number of strong statements on the future of the LEADER Community Initiative. LEADER has seen three programming periods and the recent reforms of the rural development regulation, as part of the CAP reform package, was a further occasion for the stakeholders to 'express strong support for the LEADER philosophy'. However, it seems that the Commissioner is not convinced of the need for a fourth generation Community Initiative on rural development, as there are *"strong arguments for integrating the LEADER approach into post-2006 rural development programmes"*.

A new Cork Declaration?

On July 9th Commissioner Fischler announced that the Commission will be holding a European conference in Salzburg, Austria on November 13-14, 2003 on the subject of the Future Development of Rural Areas in an EU25. This conference is intended to follow-on from the Cork conference in 1996, which led to the integration of the second pillar of CAP into the Agenda 2000 reform package.

The Salzburg conference will take place in the run-up to the publication of the 3rd Cohesion Report and is seen as an opportunity to take stock and to discuss the principles for the next generation of rural development programmes. There are no other details on this conference at present.

Trans-European Networks – A new Objective 3?

As mentioned above the Trans-European Networks (TENs) have re-emerged in the discussions as a priority for action under the future Regional Policy. It now appears that both DG REGIO and DG TREN have been working on identifying the 'missing links' in the TENs. While there have been some discussions on including these as a new Objective 3 for the Structural Funds post 2006, it may be more likely that they will be a priority of a new INTERREG, which will place more emphasis on 'Cross-border, Inter-regional and Trans-European Co-operation', with the possibility of a new financing instrument.

To further strengthen this possibility a high level working group, under the chair of former Commissioner Karel Van Miert, has reported to Commissioner Loyola de Palacio on the Trans-European Transport Networks (TEN-T). This working group has identified 18 new priority transport projects throughout the European Union. It is intended that these projects would receive some €250 billion by 2020 and would also have privileged access to European Investment Bank loans. The Van Miert report takes the form of a recommendation on which the Commission will base its revisions of the TENs policies and the list of priority projects.

During the work on this report some 100 projects were presented to the working group. These projects were reviewed in light of: (1) their cross-border relevance; (2) their ability to solve connection issues and remove bottlenecks. The working group also assessed progress with the

priority projects identified in 1994 and 1996. Of these 14 projects, only three have been completed to date, including the Cork-Dublin railway line.

The Van Miert group sets out three lists. List one is a list of 18 new priority projects that will emerge under the next budgetary period. It is envisaged that work on these will commence before 2010. One of the 18 priorities is: *'multi-modal links (road/rail) between Ireland, Great Britain and the European continent including notably the Cork-Dublin motorway project and the Cork-Dublin-Belfast rail link'*.

The second list is a list of longer-term projects that have yet to mature. It appears that there are no Irish projects on this list. List three is a list of projects with a more regional aspect but which need to be further clarified. It is unknown if any Irish projects are included on this list.

An Urban Dimension

Apart from the preparation of a Reflection Paper on Urban Policy for the CoR's Leipzig Conference² there has been very little mention of the urban dimension in recent months. This is one of the policy areas that has yet to be fully articulated and a suitable arrangement found. At present it seems that DG REGIO is considering three options for how an urban dimension can be better integrated into the future Cohesion Policy:

- To maintain the status quo, where there is an element of urban issues under Objective 2 accompanied by a separate URBAN Community Initiative, or;
- There will be a separate 'beefed-up' URBAN Community Initiative, or;
- The urban dimension will be one of the themes under the new Objective 2 and that it could be administered by means of a global grant, with the Member States still central in this process.

The urban lobby had been pressing for an Informal Council on Urban Issues under the Italian Presidency, but it looks like this will now not happen. However, the Italian Presidency has planned a meeting of Ministers for Urban Policies for September 25-26th in Milan and this meeting is likely to consider the urban dimension in a future Cohesion Policy post 2006.

Objective 1 and Objective 2

Regions Emerging from Objective 1

Given that we still have to wait for the reference period and its data and also because of the state of the EU economy generally and the deterioration of the German economy in particular, many regions at present in the EU are uncertain if they will be statistical or mechanical growth effect regions when it comes to the negotiations. If current trends continue they will have the effect of lowering average EU GDP. Therefore, more regions will experience 'mechanical' as opposed to 'statistical' convergence. This is important, as there appears to be wide acceptance of the idea of transition support for regions in the 'statistical effect' category, but not for those in the 'mechanical effect' group.

² The Reflection Paper can be found at: <http://www.cor.eu.int/pdf/activites/ws2reflectionpaperen.pdf>

Therefore, the number of regions in each category will obviously have an impact on negotiations, as politically it may be more difficult to ignore the case for special arrangements for an increasing number of regions that 'suffer' the 'mechanical effect' across the European Union, including the BMW Region in Ireland. However, at the same time, if economic growth remains low and budgets come under pressure, Member States such as Germany may be reluctant to contribute the extra resources needed to fund transition for a larger number of 'mechanical effect' regions.

On the data currently available, and including the sparsely populated and outlying regions, the following situation exists:

	Regions*	Population	Regions per M.S.
1. Mechanical Effect	13	18.21m	3Gr, 3Es, 1IRL, 1It 2Fin, 3Sw
2. Close to Mechanical Effect (between 73.4 - 74.8 GDP)	5	3.119m	1It, 1Au, 1P, 1Fin, 1UK
3. Statistical Effect (Including the 5 regions above)	16	26.887m	1B, 5Ger, 3Es, 1It, 1Au 1P, 1Fin, 3UK
4. Close to Statistical Effect (between 66.8 - 67.8 GDP)	4	4.211m	2Gr, 1Es, 1F

**(To date the European Commission has tended not to include the remote outlying regions in such analysis)*

A couple of interesting points that may have a bearing on the negotiations: a number of the larger Member States currently have regions in the statistical effect category, five large (population wise) German regions, three UK regions, three Spanish regions which may signal that they will receive some special support. However, a number of these regions are also concerned that because of the poor economic performance of the EU, they may well end up as mechanical effect regions when it comes to negotiation time. Such developments would obviously help the BMW region in arguing its case for appropriate 'phasing out' arrangements post 2006, as it may receive the support of some of the larger Member States.

There has been a common position paper by the regions affected by the 'statistical effect', which has been submitted to the European Commission. Efforts to have a similar submission by the regions experiencing the 'mechanical effect', has not yet proved possible, as many of the regions currently just below the 75% threshold are adopting a wait and see approach.

Is it Phasing Out or Phasing In?

Commissioner Barnier has confirmed his commitment to making Objective 2 the centre of Cohesion Policy - *'it is the policy to which all regions should be aspiring to'*.

This has direct implications for regions emerging from Objective 1. No longer, under the Commission's plans, would we have regions experiencing 'Phasing Out' of Objective 1 but instead they would be 'Phasing In' to Objective 2. The implication of this is that funding for transition, which at present comes from the two-thirds share of the budget likely to be reserved for Objective 1, would in future come from the share left for Objective 2.

Under such proposals it is envisaged that the 'Phasing In' regions, such as the BMW in Ireland, would be placed within Objective 2 at the outset of the programming period but would be given preferential treatment whereby they would commence Objective 2 with the same aid intensity as in Objective 1 and over time would apply a linear digression of aid intensity, *(for example, a rate of €200 per person in 2007 down to €50 per person at the end of the programme period. It is claimed that this would be as good if not better, in financial terms, than 'phasing out' for a shorter period of time).*

This is a key aspect to the Commission's proposals - to make the Objective 2 programme more attractive to, and broaden its support amongst, the Member States and regions and thus consolidate its viability within the new Regional Policy, post 2006.

Current State of Play

Resources for Regional Policy

On the issue of the overall Budget for Regional Policy, three figures have been mentioned:

- 0.45% of GDP which would be about €350billion;
- 0.42% of GDP, which would result in €320billion;
- a German proposal for the budget to be set at €260billion.

The Commission still favours the first option.

However, related to the budget is the question of the length of the next programme period. There are two schools of thought on this: either five (5) or seven (7) years. DG REGIO sees Seven years as the most suitable in terms of programming and the practical implementation of the policy and its regulations. Five years is favoured by others including, the Commissioner responsible for Budgets.

A Further Decline in Average EU GDP?

It seems that the on-going negotiations between the European Union and two other Applicant States, namely Romania and Bulgaria, are at an advanced stage. It is understood that these two countries have almost concluded their negotiations on all chapters of the *acquis* and it may yet be possible that these two countries will accede to the European Union in 2007.

This development may yet have implications on the negotiations on the future Cohesion Policy post 2006, as their involvement will further lower the average EU GDP, will increase the number of regions outside 'Objective 1' and will result in some of the current Accession States losing some or all of their Objective 1 regions.

The Future of the Debate - A Roadmap

Looking forward, some key milestones in the period to mid-term 2004 may be identified:

- Informal Council of Regional Policy Ministers, Rome, 3rd October 2003 (under the Italian Presidency of the EU)
- Meeting of Urban Policy Ministers, Milan, 25-26th September 2003 (under the Italian Presidency of the EU)
- Commencement of Inter-Governmental Council (IGC) to negotiate a new Constitutional Treaty for the Union, October 4th 2003
- Completion/publication of Mid-Term Evaluations of 2000-2006 Structural Funds programmes, late 2003/early 2004
- 3rd Cohesion Report (with the European Commission's proposals for Regional Policy post 2006), December 2003
- Commission's proposals for the multi-annual budget covering all policy areas for the period commencing 2007 (expected around the same time, perhaps shortly after, publication of Cohesion Report)
- Irish Presidency of the Council, from 1st January 2004 (both the Regional Policy proposals and the multi-annual budget proposals will land in the lap of the Irish Presidency)
- Commencement of 2004-2006 Structural Funds programmes in new Member States, from 1st January 2004
- Cohesion Forum, Brussels, early 2004 (March or April being considered)
- Finalisation of IGC and agreement of a new Constitutional Treaty by the European Council, first half of 2004 (However, the Italian Presidency want the IGC concluded by December 10th during its six-month term)
- Accession of 10 new Member States, 1st May 2004 (for the most part these will be major beneficiaries of the Structural Funds, and they will be full partners in the negotiations on the policy regime and budget for the post 2006 period)
- European Parliament elections, June 2004