

EUROPEAN AND EXTERNAL AFFAIRS COMMITTEE

Date: 6 March 2003
Time: 14.00
Venue: Committee Rooms 3 & 4, National Assembly Building
Title: EU Structural Funds post-2006: European Commission Second Progress Report on Economic and Social Cohesion

Purpose

1. This paper reports to Members on the Commission's latest report on the state of the debate on the future of the structural funds, which provides the latest statistics for the current Objective 1 regions, including West Wales and the Valleys (WWV).

Summary

2. The report, published on 30 January, is part of an undertaking by the Commission to report regularly on the emerging position on the future of the structural funds, post-2006. It is the second interim report. Using 2000 data, the report shows GDP in WWV at 78% of the EU average in an EU of 25 member states, thus not eligible for Objective 1, under the current criterion of 75% of the average. However, eligibility will not be decided until 2006, based on the average GDP per head for the years 2001-03. The report provides a summary of the Commission's and others' contributions to the overall debate on the post-2006 structural funds agenda. A copy of the executive summary of the report is at Annex A, with a copy of the statistical tables at Annex B.

Introduction

3. The first progress report was published exactly 12 months before the second, both documents forming a "bridge" between the Second and Third Cohesion Reports. The Second Cohesion Report effectively kicked off the debate on the future of the funds, while the Third, which will be published this autumn, will contain the Commission's own proposals for the future. It is the Third Report which will form the basis for the beginning of more formal negotiations on post-2006.
4. This report, meanwhile, attempts to sum up the current state of the debate, including reportage on work undertaken for and by the Commission and on submissions from member states and others.
5. The written communications from the Commission have been accompanied by a series of events in Brussels and by member states' and regions' own seminars and other

events (such as the Assembly Government seminar of last October). The Commission has held three main events, in May and September 2002 and on 3-4 March this year. These dealt with, respectively, the future direction of regional policy; human resources issues; and simplification of the funds. Subsidiary events have been held on themes such as mountainous areas, urban areas, etc.

Objective One

6. The Progress Report records the broad consensus around the need to continue to direct the lion's share of resources to the less-developed regions, including those in the new member states, but not excluding those in the EU-15. The use of 75% of the EU average GDP as the eligibility criterion for Objective One seems to be widely accepted.
7. Figures used in the report, using 2000 data, show that of the UK Objective One regions, only Cornwall would – if the decision were taken now based on an EU of 25 member states – be eligible, with GDP per head at 71.6% of the EU average. Wales, along with 17 other regions, would have a GDP per head higher than the 75% threshold.
8. Objective One eligibility will not be decided until 2006, on the basis of average GDP per head for the years 2001-03.
9. During public engagements recently, Commissioner Barnier has gone as far as to suggest that transitional funding should not only be available for the regions losing out by the statistical effect of enlargement, but that it could be at a higher per head level and last longer than support for regions which would have been above 75% even in an EU of 15. Thus, WWV might benefit from transitional support even beyond 2013.

Objectives Two and Three

10. While the picture outside Objective One is emerging more slowly and with less focus, it seems accepted that there will nonetheless be support outside Objective One, with a Commission aspiration of this being as widely spread as possible. The idea of a new policy, streamlining funds into a single programme has gained currency. Funds might be allocated on the basis not of geographical zoning but targeted on thematic priorities.

Transnational Programmes

11. The Commission are heavily promoting continued use of programmes such as INTERREG III B and C, which they believe achieves a key Commission objective in structural funds of reaching the parts national policies cannot reach: in other words, Community Added Value.

Management

12. The debate about management of the funds continued this week with a Commission

seminar on 3-4 March. There appears to be general agreement that management systems put in place for programmes should be in proportion to the amount of money involved – a feeling that "one-size-fits-all" is inappropriately bureaucratic.

Financial Resources

13. Commissioner Barnier has said he thinks funding for the regions should be split thus: 2/3 for Objective One and transitional regions; 1/3 for whatever replaces Objectives Two, Three and the Community Initiatives.
14. The Commissioner has also, like others, said he views 0.45% of EU GDP as the minimum credible amount that should be made available for funding post-2006 (which will be higher than the 0.41% earmarked for 2006).

UK Position

15. The Second Progress Report has been drafted in the absence of positions being stated by most of the current Member States. This includes the UK Government, whose consultation on the future of the funds has been timed to take place only shortly ahead of the Third Cohesion Report's preparation. At the time of drafting this paper, the content and timing of the UK consultation are not known.

Timetable

16. The Third Cohesion Report will be published this Autumn. The Commission wishes to see the new EU legislation adopted by the end of 2005 in order that 2006 can be given over to the negotiation of new programmes to start on time in 2007.

Compliance

17. The UK Government has the lead, as Member State, on the development and coordination of structural and cohesion policy. DTI are the lead UK Government Department on coordination matters; while the Concordat on the Coordination of European Union Policy Issues sets out the following:

"Participation in formulation of UK Policy (including Resolution of Differences)

B3.4 It is the Government's intention that Ministers and officials of the devolved administrations should be fully involved in discussions within the UK Government about

the formulation of the UK's policy position on all issues which touch on matters which fall within the responsibility of the devolved administrations."

18. ODPM, the Scottish and Northern Ireland executives and the Welsh Assembly Government are responsible for management of structural funds programmes. The Welsh Assembly Government has delegated the management of the main current Wales SF programmes to the Wales European Funding Office. The Cabinet is advised on structural and cohesion policy matters by European and External Affairs Division.

Financial Implications

19. There are no additional financial implications for the Assembly arising from the issues covered in this report.

Divisional Contact: European and External Affairs Branch 2, Head of Branch: Jackie Brown (ext 3157)

COMMUNICATION FROM THE COMMISSION

Second progress report on economic and social cohesion

Annex A: Synthesis and conclusions

I. Introduction

The debate launched by the Commission following the adoption of the Second Report on Economic and Social Cohesion, on the options for future cohesion policy, has continued to engage the principal parties involved in the regions, in the present and future Member States and in the EU Institutions. This second progress report presents an update of the analysis of the situation and trends emerging in the regions, along with the main topics of the debate during 2002 on the future of cohesion policy.

II. Analysis of the situation and trends: the challenge of enlargement

The enlargement of Europe to include 25 Member States will present an unprecedented

challenge for the competitiveness and internal cohesion of the Union. Several factors that will have an undoubted impact on future cohesion policy need to be considered, including:

- **An unprecedented widening of economic disparities within the Union:** the gap in per capita GDP between the 10% of the population living in the most prosperous regions and the same percentage living in the least prosperous ones will more than double compared with the situation in EU15.
- **The geographical shift in the pattern of disparities:** in EU25, 116 million people - representing some 25% of the total population - will live in regions with a per capita GDP below 75% of the EU average as against 68 million people, or 18% of the total, in EU15. Of these, four out of ten citizens will be living in regions belonging to the existing Member States while the other six will be nationals of the candidate countries.
- **A less advantageous employment situation:** three million jobs will have to be created if the average level of employment in the new Member States is to be aligned with that of the rest of the EU on account of the trend of decline in the rate of employment and a higher long-term youth unemployment rate. Within the enlarged EU, appreciable employment gaps will persist according to age, gender and the level of qualifications and skills.

On the other hand, other factors demonstrate the economic potential of an enlarged EU: the candidate countries in general have had a higher rate of economic growth than the present Member States and overall will help raise the average level of education in the Union, whereas the people with a poor level of education will continue to be concentrated among other areas in certain regions in southern Europe (Portugal, Spain, Italy and Greece).

III. The main topics of the debate on future cohesion policy

The different contributions examined in this report reveal that the debate on the future of cohesion policy has remained intense throughout the period since the publication of the first progress report a year ago. These contributions, together with the results of the various analyses and studies by the Commission, have made it possible to confirm four major contributions of this policy:

- a redistribution function in favour of the less well-off Member States and regions (with a significant macroeconomic impact, promoting genuine convergence);
- the strengthening of economic and political integration (development of the infrastructure networks, improved access for remote regions, cooperation projects);
- a contribution to achieving the Community priorities set by the Lisbon strategy, as amplified by the Göteborg European Council, including the economic and social restructuring resulting from globalisation;
- a contribution to better governance (partnership, an evaluation culture, etc.).

The debate has also made it possible to draw up a list of key questions to which answers should be given in the third report on economic and social cohesion. These can be grouped under two headings: the priorities for future cohesion policy and the method of implementation.

(i) Priorities for the future policy

Action in the less developed regions

This progress report confirms both the unprecedented increase in the disparities within the enlarged Union and the long-term nature of the efforts that will be needed to reduce them. There is a broad consensus around the need to continue to concentrate resources on the less developed regions, and especially on those in the new Member States.

On how to define the less developed regions, the contributions to the debate have not seriously put into question continued use of the present eligibility criteria based on the NUTS II geographical level and per capita GDP – which has the merit of being simple and transparent - even if some contributions have called for other criteria to be added.

Special cases

There has been a wide-ranging discussion on the place to be reserved for certain specific categories of region under future policy.

First, there was broad agreement on the need to put in place fair arrangements for the regions of the existing Member States, now eligible under Objective 1 and which, while not having completed the process of economic convergence, could become ineligible simply as a result of the decline in average per capita GDP in the enlarged Union (the statistical impact). According to the data for 2000, 18 regions with a population of 21 million could find themselves in this situation.

Secondly, there was the question of the regions that would no longer have met the eligibility criteria to be considered less developed even in the absence of enlargement, because they have achieved an income per head above 75% of the average for the EUR15. Several contributions have expressed support for assistance in the form of a gradual phasing out of Community aid for such regions.

Lastly, there was the matter of the treatment that should be reserved for certain categories of regions. This concerns in particular the outermost regions whose social and economic difficulties are acknowledged in Article 299 of the Treaty.

Other regions that have been mentioned in this context are the least favoured islands mentioned in Article 158 and regions with an extremely low population density, notably those parts of the Nordic countries currently assimilated to Objective 1 pursuant to Protocol 6 of the Act of Accession of Austria, Finland and Sweden.

The third cohesion report will have to address the needs of these special cases on the basis of their individual merits, but also taking into account the possibilities offered under arrangements for the regions outside the less developed areas.

Action outside the less developed regions

In the period 2000-06, approximately one third of the Structural Funds allocation will go to regions which are not eligible under Objective 1.

Although, by definition, the problems of economic and social cohesion outside regions lagging behind are of a lesser scale, there are several important challenges facing the Union as a whole.

In particular, the issues of competitiveness, sustainable development, and economic and social restructuring are relevant in all Member States. These challenges reflect a great diversity of potential needs and situations, in contrast with the more intense but clear-cut needs of regions lagging behind, especially in new Member States. This wide range of challenges also highlights the need to concentrate assistance, and to focus on qualitative, systemic elements in order to increase Community added value.

Initial positions in certain Member States within the debate that actions of this nature outside the Objective 1 regions should be abandoned entirely by the Union and responsibilities returned to the Member States ("renationalised") do not appear to have gained ground, and the need to have the means to achieve major European priorities has been recognised. In this respect, the Union, particularly at the European Councils in Lisbon, has set itself a strategic goal for the decade: to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion. This strategy is designed to enable the Union both to regain the conditions for full employment, growth and social cohesion, and to strengthen regional cohesion. A sustainable development strategy for the European Union was decided by the European Council in Göteborg.

A large number of contributions stress that the Member States and regions do not possess the same strengths for achieving these goals. In addition, a policy intended to meet the various challenges facing the Union, that recognises and involves the regional level, is consistent with the spirit of the Commission White Paper on Governance, and especially with the obligations arising under the Treaty on cohesion, which are to "promote its

overall harmonious development" and "reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas".

These major European priorities have, to a certain extent, been tackled already during the present programming period under Objective 2 (regions undergoing restructuring), Objective 3 (human resources), Community Initiatives and Innovative Actions and actions outside Objective 1 on rural policy and fisheries.

While this is the case, current policies and instruments have not been immune to criticism on the basis of arguments that they lack sufficient added value, sometimes require an excessive administrative input in relation to the outputs achieved and fail to devolve sufficient responsibility to the Member States consistent with the principle of subsidiarity. Many say that while the region remains the appropriate level for the conception and management of assistance for the above reasons, designating eligible areas at the sub-regional level can artificially restrict the field of intervention of Community assistance, and is difficult to reconcile with an approach emphasising the new factors of competitiveness.

Other contributions have emphasised the territorial dimension, citing variously urban areas, industrial and rural areas in difficulties, areas depending on fishing or areas with natural handicaps. It needs to be pointed out that the territorial dimension can be entirely compatible with an approach based on the pursuit of thematic Union priorities.

In sum, policy priorities and instruments outside regions lagging behind would need to be reformulated, in order both to address the present shortcomings and to construct a new policy capable of making a greater contribution to economic and social cohesion.

Cooperation

There is also a broad acknowledgement concerning the need to continue actions to promote cooperation across frontiers and within regions. This is in recognition that the successful implementation of such actions, which are particularly important for European territorial integration, requires organisation at supranational level. The current period has demonstrated the difficulties inherent in organising coherent programmes involving authorities from different national administrative and legal traditions. The Commission has been asked to look into the possibility of drawing up a legal instrument for cooperation across frontiers which could facilitate the design and implementation of the European programmes.

(ii) Implementation: simplifying management

Discussions on how to simplify management during the current period and within the current regulatory framework applicable until the end of 2006 have underlined the main difficulties that have to be resolved with a view to the next programming period.

The work regarding the current period culminated in a meeting of Ministers on 7 October 2002. The majority of the delegations attending the meeting said that the lessons to be learned from the 2000-06 period show that changes to the method of management will have to be considered for future cohesion policy.

In essence, Member States will wish to see simplification and a much greater decentralisation of responsibilities as regards all aspects of financial management and control of European programmes once the broad strategic aspects have been agreed with the Commission. In this context, there is a general agreement that management systems subject to very detailed rules and based on "one-size-fits-all" are inappropriate, given the vast differences in needs, types of assistance and resources made available, and that the principle of proportionality should apply. The Commission is conscious of the criticism and of the difficulties presented by the multifund approach.

Based on past experience, it is widely recognised that a successful strategic framework for setting the policy priorities depends on the efficiency of the systems to deliver it. As a result of the current implementing procedures, the efforts of Member States and of the Commission have in some cases had more of an impact on the administrative management of programmes and less on their content and strategic priorities. With enlargement, changes to the current delivery system are needed, taking into consideration the need to reinforce the administrative capacity of the new Member States.

There is also wide recognition that enlargement will aggravate the tension between the need for a more decentralised delivery system, on the one hand, and the need for effective control by the Commission over funding on the other.

Commission representatives have on a number of occasions emphasised that modifications to the management system proposed by the Member States need to be assessed in the light of Article 274 of the Treaty which places responsibility for implementation of the budget on the Commission. Thus, further decentralisation would need to be accompanied by a clearer definition of responsibilities giving the necessary assurances on the use of European resources.

An avenue to be explored in the third cohesion report is the kind of contractual approach required between the Commission and the national authorities (and the regional authorities in the framework of any tripartite arrangements) identifying the results to be achieved through the use of Community resources, while respecting the constitutional situation of the Member States.

(iii) Other aspects

Financial resources

The Commission recommended in the second cohesion report that the debate on the future of European cohesion policy should focus on content rather than on financial resources. In this way, contributors to the debate were encouraged to reflect on what the Member States of the Union should seek to achieve together in this field with the support of Community policy. To a large extent this has been the case, although proposals such as those regarding the renationalisation of the policy tend to be motivated by budgetary considerations.

When establishing the future budgetary allocations for economic and social cohesion, the Union will need to take into account the unprecedented scale of economic and social disparities in an enlarged Union highlighted in this progress report, and the intensive, long-term nature of the effort required to reduce them. The Commission will put forward its proposals on the new financial perspective in due course. As indicated in the first progress report, many contributions to the debate, especially at regional level, regard a figure equivalent to 0.45% of EU GDP as a minimum level for the resources to be allocated to cohesion policy for the period after 2006, a position which was endorsed notably by the European Parliament in November 2002 in its opinion on that report.

The contribution of other policies

On the matter of the consistency between Community policies, in the course of the governance exercise now underway questions for further consideration have already been raised which the Commission has undertaken to explore in preparing future policies. The content of these policies should also take greater account of the broad diversity and greater territorial imbalances of the enlarged Union. It should also include, in a more explicit way, a contribution to economic and social cohesion.

A particular point has frequently been raised in the course of the debate: the status under competition policy of regions that will suffer from "the statistical impact" as a result of enlargement; it is being asked that they continue to qualify for an equivalent level of aid to that for regions covered by Article 87(3)(a) of the Treaty.

IV. Future deadlines

As the Commission announced in the first progress report, the third report on economic and social cohesion will have to be adopted in the last quarter of 2003 in order to create the conditions for 'the effective implementation of the new generation of programmes to commence at the beginning of the new programming period'. This report will present 'concrete proposals for the future of cohesion policy'.

Wide-ranging consultations will take place in 2003, including a major event (in March 2003) in the form of a seminar on "The future management of the Structural Funds: how are responsibilities to be shared? ". There are also plans to arrange consultations on the proposals for the third report at the start of 2004 as part of a Forum on cohesion.

The Commission will present, in good time, its overall proposals for all policies, and a draft financial perspective, for the period after 2006.

The Commission would like the legislative instruments to be adopted before the end of 2005. This would mean that 2006 could be devoted to the negotiations with the Member States and the regions on the programming for 2007-13.