

Speech for Mrs HÜBNER's intervention in the

National Forum

"Why the cohesion policy works and the future of the cohesion policy in a globalised context"

Stockholm, 19 October 2007

It is a pleasure for me to be here today in this conference as I know that it is the first in its kind. Well it is the second meeting, but the "national forum" framework for dialogue between the regional and the central levels is indeed the first in its kind in Sweden.

It is also a pleasure for me to be here since the Swedish programmes have all been adopted by the Commission. I have been informed that the projects are already starting to come forward. Indeed, these projects represent already around 25% of the total resources in the programmes. This means that you have communicated well and that people know what the programmes are and how they work.

Now let me turn to the subject of my speech here today: to present the Fourth Cohesion Report recently adopted by the Commission and to talk on the future of Cohesion Policy.

I will structure my intervention around **four main issues**: first, I will try to explain the particular relevance of this document for our policy; second, I will summarize the main analytical findings of the report and the added value of Cohesion Policy in the convergence process; third, I will outline some of the main challenges that are already facing the European regions; finally, I will launch some questions on the future of Cohesion Policy beyond 2013.

- *The relevance of the Fourth Cohesion Report*

The cohesion report is our most important policy tool. The Cohesion Report, foreseen in Article 159 of the Treaty and in Article 31 of the new general regulation governing the Structural and Cohesion Funds, is published by the Commission every three years. **It is our most important analytical and policy document in this field**, and has always generated considerable interest in the institutions and bodies of

the Union, as well of course, as in the regions inside Europe, and indeed outside as well.

In a certain sense, the significance of the Fourth Cohesion Report has increased with the decision of the European Council in December 2005 to ask the Commission to hold a comprehensive budgetary review in 2008/2009. For me, as Commissioner responsible for Regional Policy - and for my colleagues in the Commission who are its "co-owners" - the report presents an opportunity to provide the basis for the part of the review that is concerned with Cohesion Policy.

The cohesion policy will become the largest EU policy. As you know, during the current financial perspectives 2007-2013, **Cohesion Policy will become, for the first time, the main EU policy** in budgetary terms accounting for more than 35% of the EU resources.

But Cohesion Policy is not only important for its budgetary weight. Its legitimacy comes from its effectiveness in delivering the expected results – i.e. from its added value in terms of its contribution to the reduction of the important socio-economic and territorial disparities and through the mobilisation of the endogenous potential of the regions in an enlarged Union. It also draws its legitimacy from the fact that it is an **essential lever** to implement the Lisbon and Gothenburg agenda on the ground and make regional and local actors involved in this process.

Let me now talk about the report itself and its structure. The Fourth Cohesion Report provides, firstly, an update on the situation and outlook with regard to economic, social and territorial cohesion and, secondly, an analysis of the impact of how the policy at different levels influence on cohesion in the Union. It provides a first assessment of the preparation for the new period 2007-2013 and it identifies a number of challenges brought by the globalisation process that are likely to have an impact in all or most of the European regions. Finally, it launches a series of questions on the future of Cohesion Policy and on how it can be best adapted in order to face these challenges.

- *Main findings of the report and added value of Cohesion Policy*

The report carries out a thorough analysis of cohesion in the EU-27. On the basis of this analysis, the report concludes that **a long-term convergence process is taking place in Europe** between the less developed countries and regions and the most advanced ones.

This is true, in general, for most indicators like GDP per capita, unemployment, productivity, etc. although there are of course some exceptions. Given that overall the new Member States and the former

cohesion countries of the EU-15 (Spain, Ireland, Greece and Portugal) are progressing faster than the core of the Union, we can state that the Union is evolving towards a more territorially balanced development model.

The contribution of Cohesion Policy is not only generated by its investments but also by the leverage effect it gives e.g. in helping to attract outside investments through the EU label, raising the standards in governance or administration as well as in infrastructure and business support, shifting investment patterns to growth inducing investments.

For certain, we need a sound macroeconomic framework and the implementation of the corresponding structural reforms in order to ensure the maximum positive impact of the policy. But we can certainly state that Cohesion Policy has played – and is playing – a crucial role in this convergence process.

The cohesion policy works. In fact, as regards the impact and effectiveness of Cohesion Policy and according to independent evaluations, we can say that:

- it has supported much-needed **investment** in infrastructure, human resources, and the modernisation and diversification of regional economies. Between 2000 and 2005 in the four cohesion countries, public investment has been around 25% higher than without Cohesion Policy;
- in so doing, it has helped **shifting the policy mix** of public investment in Member States **toward growth-enhancing investments**.
- it has also contributed **to reduce social exclusion and poverty**: Cohesion Policy co-finances the training of 9 million people annually, more of half of them women, leading to better employment conditions and higher income;
- it has contributed to **improving administration and public governance**, particularly at sub-national level; Indeed, I would like to say that the policy has contributed in taking the decision for support programmes to the best level – to the people who are most apt to see what the needs and the appropriate solutions are at the regional and the local levels.
- it has contributed to the **growth of GDP** : in the 1980-90s this represented additional growth of 3% in Ireland and Spain and 8-

10% in Portugal and Greece. In the 2007-2013 period, it will represent up to 6-8% for the new Member States.

- *The challenges ahead*

The Fourth Cohesion Report provides also some indications on the main challenges that are confronting and will surely confront the European regions. Let me try to outline some of them:

1. **Globalization represents challenges and opportunities** and the cohesion policy will assist the regions in dealing with both sides. These challenges are the result of the globalisation process and will affect all EU regions, albeit in a different way and at a different pace – the impact is asymmetric.
2. Europe's **population is projected to start declining** by around 2020. Already today, 85 regions of the Union (mainly in the new Member States) are experiencing absolute population decline, and another 76 maintain population growth only thanks to migration. These trends will obviously have an impact on labour markets, by limiting the scope for future employment growth.
3. Many regions throughout the Union have an economic structure largely concentrated on sectors where **competition from emerging economies** is higher, particularly those regions with a high share of economic activity in textiles, clothing, and leather and lower-tech industries.
4. These are regions which need to engage into significant restructuring processes aimed at diversifying their economic structure into new, growing sectors, and modernising existing activities to move up the value chain.
5. Leading edge economic activities and talent are geographically concentrated in a few **urban centres** that are global players. This is creating opportunities, but also problems such as pollution, urban sprawl, congestion, and social segregation.
6. There is also clear evidence that many regions throughout Europe will be increasingly confronted with the asymmetric impact of **climate change**. This will pose serious problems to agriculture and the tourism industry in certain areas, and will require significant investment to face drought, fires, and flooding and put the economy on a low-carbon pattern (renewable, efficiency, change of modal split). In addition, these changes may have disproportionate effects on disadvantaged or low income groups.

7. Regions will also have to cope with the **skills needed** to remain competitive in a global, knowledge-based economy. Variations in education levels are more pronounced between regions than between countries.
8. Last, but not least, **regional disparities** still remain important. Despite impressive growth rates in the new Member States, and convergence of many regions of the EU15, there are still 70 regions home to 123 million Europeans with a GDP per head below 75% of the Community average.

The cohesion policy and the leverage effect it has on various factors of growth, as I mentioned, is doing a lot to take up these challenges but it is of course a long race, **much longer than just to the end of 2013**.

This is why Cohesion Policy **must be flexible and diverse, but not unfocused**. It is not only an instrument designed for the poorest regions and Member States but a key lever to assist the whole EU territory in investing in the main drivers of growth and jobs. It will assist the regions in grasping the opportunities of globalisation. Indeed, Cohesion Policy is the only EU instrument that can provide **tailor-made interventions** with a concrete, specifically adapted territorial impact in each case.

Some questions on the future of Cohesion Policy beyond 2013

This brings me to some of the questions for the main issues at stake for Cohesion Policy beyond 2013?

The Cohesion Report focuses on three groups of questions:

- The **first** group of questions takes stock of new, global developments which will have increasing impact on the EU economy in the years to come. To what extent will new policy challenges affect regional economies? How should they best respond to these challenges?
- The **second** group of questions looks at the possible responses that Cohesion Policy can develop to foster growth and development. Which new, competitive advantages and skills will our regions and citizens need to be competitive in the future? How important is the territorial/regional dimension in this respect?
- Finally, the **last group** of questions focuses in more detail on the way Cohesion Policy should operate in the future. How can we move towards a policy which is even more performance based and

which can better adapt to a changing political environment? What allocation of responsibilities within the multi-level governance system? How to assure better horizontal coherence between different sectoral policies?

These questions put in the Fourth Cohesion Report are now the object of a public consultation on the future of our policy until the end of January 2008. Your contribution to this consultation will be highly welcome.

To conclude, let me reflect on a number of issues that I consider essential in the framework of this debate on the future of our policy:

- **First, a new policy paradigm** is emerging in the globalised economy where public policies are **increasingly geared towards resource allocation rather than redistribution**. It is a paradigm in which the “catching-up” on the part of the less developed with the advanced regions is dependent on **jointly** moving forward. It is a paradigm that stresses *opportunities* for the future, by mobilising underexploited potential, rather than compensating for the *problems* of the past. In short, it is not a zero-sum game among European regions and countries but a dynamic process to encourage investment to promote overall European economic growth.

European Cohesion Policy is today first and foremost an economic policy intended to give the tools for profiting from globalization, to raise the overall growth of the Union, to modernise and diversify its economic structure, to improve the competitiveness of its regions and to strengthen the job creation potential of their economies. With the new programmes for 2007-2013, European Cohesion Policy is already engaged in making this paradigm shift.

- **Second**, European Cohesion Policy should continue to be used as a lever to increase the efficiency of national and regional development policies by **ensuring better governance structures**. This includes the promotion of an integrated policy approach and stronger public-private partnerships in the design and delivery of actions.

In this sense, the policy has already a good track record. It has been acknowledged to have **pioneered** regional innovation and information society strategies in Europe and the promotion of new policy approaches, from cluster development to the use of financial engineering techniques (JEREMIE and JESSICA). It also has assisted in developing new methods for territorial cooperation and urban integrated projects.

- **Third**, Cohesion Policy has an increasing role to play in making public goods (education, infrastructure...) more widely available with a little less emphasis on the provision of direct aid through subsidies, especially automatic subsidies.

The policy has become a catalyst for change. In this way, Cohesion Policy can become an even more powerful instrument of economic development which addresses market failures and in which the public sector can act as a **broker and a catalyst** for change without interfering or substituting for the market. Microeconomic competitiveness, on which depends the health and jobs of our companies, cannot be enhanced by macroeconomic regulation alone but with the help of policies which address structural competitiveness.

The above coincides with the features of a **modern policy which needs to continue innovating and renewing itself** in the course of the years. I think we will succeed in this. Indeed, the policy attracts very much interest from outside the Union, and the cooperation agreements we sign and the delegations we receive from China, Russia, India or Brazil are a good testimony of this. These countries and economic zones turn to us for inspiration and this is very encouraging.

I think the policy has shown that it works for real when an area is confronted with disparities and perhaps social tensions. The policy worked when the Member States were confronted with the need to introduce institutional reforms, and with the imperative of promoting integration. The policy worked when there was a need to, at the same time, ensure economic stability and sustainable development. As our friends from China, Brazil, India and elsewhere tell us, and I agree, the cohesion policy is a good model to address the challenges and opportunities of cohesion, convergence, cooperation and competitiveness.

Thank you very much.