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EU Commissioner for Regional Policy
Exchange of views with the Committee on Regional Affairs
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Mr President, Honourable Deputies and members of the REGI Committee,

It is a great pleasure to meet you at the start of 2008, following my last visit in September last year. Let me wish you first of all a good year. I would like to use this opportunity to thank Mr Zagar (*Slovene Minister for regional development*) and Mr Podobnik (*Minister for territorial cohesion*) who spoke before me. We met many times ahead of the Slovenian Presidency and I am fully convinced that we are all strongly committed to the Cohesion policy.

I am particularly pleased with the priority given by the Slovene Presidency to the European Grouping for Territorial Cooperation. The Commission, under the Slovene Presidency, is organising a seminar on this topic on 19 June 2008 in Brussels, jointly with you and the Committee of the Regions. On 16 January the first group of experts on EGTC met in Brdo. In this context it is of great interest to me to discuss

the state of play of implementation of this instrument on 30 January in plenary session.

During the meeting between the Slovene Presidency and the Commission in Ljubljana in January this year, I have also discussed the need to move forward on the Commission's proposal for a revised EU Solidarity Fund Regulation. While the European Parliament supports all major elements of the proposal, there has not been any real progress up to now in the Council for over one year now. The Commission is prepared to consider amending its proposal to facilitate a compromise that would improve the operation of this unique and important instrument and that we will discuss with the Council with an open mind.

President Galeote invited me to share with you our key political priorities and main initiatives that the Commission intends to adopt in 2008. I would like to start however by referring to the state of play on the Member States' preparations for the implementation of the new European Cohesion policy; and to the execution of the budget in 2007; and then to present key features of our Work Programme for 2008; as well as comments on 2006 budget discharge process.

On the preparation to launching the new generations of programmes, let me also say that I am proud of the way we finished 2007. After a year of intensive negotiations with Member States and regions all National Strategic Reference Frameworks and 93% of all 2007-2013 operational programmes (311 out of 332 ERDF and Cohesion Fund

submitted programmes and all 118 ESF submitted programmes) were adopted.

Major reforms for the period 2007-2013: strategic approach operated through Community Strategic Guidelines, earmarking of expenditure for Lisbon related investment, reporting mechanisms to monitor the delivery of Lisbon targets, greater decentralisation of responsibilities to improve delivery and ensure greater ownership of the Lisbon process on the ground mean that the new programmes will lead to a concentration of resources on the Lisbon and Gothenburg-related priorities. These include: the knowledge economy, RTD and innovation, human capital and sustainable development. For the sole Convergence objective regions of EU 27, 65% of the funds are to be invested in these areas, fundamental for catching up and faster cohesion, while it will be 82% for regions under the Regional Competitiveness and Employment objective.

Of course, the real implementation is just beginning: the programming documents set out the intentions of Member States, these intentions must become a reality. I will closely monitor the implementation of the new programmes, with your support. Through the negotiations, we have managed to strike the right balance between cohesion and competitiveness, equity and growth, between regional policy and the Lisbon agenda.

Through the new programmes the cohesion policy can also help regions to turn into competitive players on the global market.

During the negotiations the Commission encouraged Member States and regions to take advantage of JASPERS and to implement the new financial engineering instruments JESSICA and JEREMIE, created in the context of the new Structural Funds regulation. These instruments are being given growing acceptance from many Member States and regions.

With regard to the JEREMIE initiative, let me inform you that 20 Member States envisage implementing it. JEREMIE has been included also in more than 80 operational programmes, national and regional. European Investment Fund will be the key player present as holding fund in 15 Member States. Greece was the first to sign a contract with European Investment Fund, Romania will be the next. Next to come are agreements for Bulgaria, Slovakia, Denmark, Sweden, Czech Republic, Cyprus, Malta and several regions in Poland, France, Germany, UK, Spain and Italy.

The new JASPERS initiative progressed in 2007 into a fully operational initiative. Newly recruited experts began to arrive and now we have 55 professional staff in 3 opened regional offices in Warsaw, Bucharest and Vienna. By end 2007 JASPERS had an active portfolio of 261 projects and horizontal tasks.

More than 80 operational programmes of the ERDF include provisions on JESSICA type actions and investments. In April the EIB created a new JESSICA task force to help interested countries in the implementation of JESSICA. Gap assessment is ongoing.

We have started to work with the European Investment Bank on the implementation of the initiative on micro credit within JEREMIE by putting together our respective expertise and financial resources. We intend to start a pilot project before the end of this year with selected non-bank micro-finance institutions, to establish good practices within the sector.

On the budgetary execution of European Cohesion Policy in 2007

2007 was an exceptional year for the budgetary execution of DG Regional Policy and all Structural Funds: for the first time in the history, the 4 Structural Funds have reached €41 billion execution in payment credits. Of these payments, a record of € 26 billion was paid from ERDF, Cohesion Fund, ISPA and Solidarity Fund.

In terms of payments, the execution has reached 100 % for nearly all DG REGIO budget lines.

In terms of commitments, the rapid progress on the adoption of operational programmes 2007-13 at the end of 2007 allowed to execute more than 98 % commitment credits for ERDF and 99.9% for the Cohesion Fund.

Again the N+2 rule has proven to be an efficient tool to stimulate the implementation of the programmes by the Member States. I can say that 99.99% of the 2005 annual commitment was certified to the Commission at the end of 2007.

2008 will be a demanding year for DG Regional Policy with nearly €36 billion in commitment and over €30 billion in payment credits to execute.

I know that all this looks very technical. What I want to highlight is that our policy works on the ground. This should be kept in mind in our present debate on the budget discharge.

On the Work Programme for 2008

The Commission's Legislative and Work programme for 2008 was presented in the plenary session of the European Parliament last November.

I would like to draw your attention to the Green Paper on European territorial cohesion as one of the Commission's priority initiatives which will be adopted in September 2008, and which answers one of this Committee's requests. In Leipzig, Member States asked the Commission to present a Report on territorial cohesion and there were also requests from the European Parliament as well as from the Committee of Regions to make a step further in this area.

The Commission opted for a Green Paper as the most appropriate form for addressing the issues at stake and this important document, being part of its Legislative Work Programme, should be adopted in September 2008 and a large public consultation is envisaged. It will provide an updated analysis on the disparities of the European territory, discuss the definition and implementation of the concept at the European and Member States level and will propose a few key questions (conceptual but also operational in terms of possible tools)

for debate, in the context of the new Lisbon Treaty. These questions will be of course determined by the analysis and guided by the new framework of the Lisbon Treaty and its implications for territorial cohesion.

I would like to thank Mr Guellec and Ms Kallenbach. Your own initiative reports on the fourth cohesion report and the follow up given to the Ministerial meeting in Leipzig help us to give visibility to the need for a territorial cohesion. I am looking forward to discuss these reports in the plenary session on 21 February.

In April 2008 we plan to issue a Communication on the results of the negotiations of the programmes 2007-2013. Its main aim is to examine how the main priorities of the Cohesion policy have been reflected in the individual programmes of Member States and regions as well as identify the value added of the negotiation and the main challenges of the implementation of programmes on the ground. At this stage I can already say that the new generation of operational programmes represents a key instrument helping Member States and regions to cope with major challenges facing Europe today, such as global market competition, economic and social disparities within Europe, lack of energy sources, demographic change.

In June I will present the Fifth Progress report on economic and social Cohesion. This will report on the debate and reflections with all stakeholders on the future of our policy notably through the public consultation launched at the Cohesion Forum in September 2007. The

conclusions to be drawn from this consultation process will help us to pursue our reflection on the future of the Cohesion policy, in the context of the coming budgetary review. Your support in this frame will be very welcome. It should take into account the priorities of the next Slovene and French Presidencies. I expect in particular that the Slovene Presidency will give in April a follow up to the useful debate on the future of our policy, which was launched at the end of last year in an Informal Ministerial meeting in Açores. I would like to thank Mr Beaupuy and Ms Kallenbach for their participation.

2008 will also be a critical year for managing the final year of implementation of 2000-2006 programmes and projects. The Commission and the Member States will prepare intensively for the financial closure process to start in 2009.

Let me also mention a few new key political initiatives. The conclusions of the European Council last December gave a mandate to the Commission for intensifying preparatory work towards a Baltic sea strategy. The Commission entrusted me with a leading role in this important field. This also applies to the Task Force on Northern Ireland which was put in place following President Barroso's visit to the region in May 2007, coinciding with the restoration of the regional government.

Ms Sudre, you can count on my support in your own initiative report on outermost regions which you will be discussing tomorrow, in this committee. I was happy to come last September to present our communication on the strategy for the outermost regions. Back from

Canarias, I am more convinced than ever of the need to give to the outermost regions the priority which they deserve. The consultation ends in March this year and we will follow this up with an inter-institutional and partnership conference in May. The themes identified as challenges for the future of the Outermost Regions are: climate change, demography, agriculture and maritime policy. Indeed 2008 will be the year of the outermost regions as the Council has requested the Commission to follow up the strategy with proposals for the future. This report will be produced for October 2008 to coincide with the outermost regions conference of presidents that will be held in Guyana.

I also decided to launch a work on a possible adjustment on our regulations in view of extending the eligibility of our co-financing, as regards energy efficiency, within the housing, throughout the Community. I will be happy to come back to this when we meet again. The report which Mr Andria prepared on housing will be for me a useful source of inspiration.

Finally, some key events will contribute to wider promotion and better communication of our policy and will help get our messages through. I know that I can count on your active involvement in these events as Ambassadors of the Cohesion policy:

- A conference in our Regions For Economic Change cycle "Sharing Excellence" on 25-26 February;
- A conference on the European Grouping of Territorial Cooperation on 19 June 2008, where all Institutions (Council, Parliament, Commission and Committee of the Regions) will be able to express their interest in a concrete translation of this new piece of legislation into practice;

- And our regular edition of the Open Days, the European Week of Regions and Cities from 6 to 9 October 2008 under the title "Regions and cities in a challenging world". I am happy about the Parliament's active contribution to this event.

The 2006 budget discharge process

The questions raised focused on the conclusion by the Court of Auditors in its 2006 annual report that it estimates that 12% of the expenditure reimbursed from the structural actions budget in 2006 – about €4 billion – should not have been reimbursed because it is likely to have been affected by errors.

In the discharge procedure the Commission is explaining how it is tackling the problem. As you are about to issue your opinion on the discharge to the Budgetary Control Committee, I would like to provide you with some additional explanations.

In fact this 12% error rate should be considered as indicating a risk, not a specific amount of money that has definitively been misspent or "lost". From its extensive audit work the Commission knows well the "risky" Member States and it is getting these Member States with weak control systems to correct and "clean up" expenditure they have already certified.

At the present time my services are monitoring the implementation of ten action plans with the risky Member States. This process eventually provides the assurance that irregular expenditure so far certified has been cleaned up – that is, that errors like those found by the Court because of weak first level controls in the Member States have been

detected by the later controls undertaken as part of the action plan between Member States with the Court and the irregular expenditure has been withdrawn. But this is a long process. It can take two years or more.

One example is Portugal, where serious deficiencies in the control of public procurement compliance found in 2005 led to an agreed action plan. This was closely monitored by the Commission and the results audited. The national authorities have already applied €45 million of financial corrections to remove ineligible past expenditure and further corrections are being finalised. The Commission has now obtained sufficient evidence to satisfy itself that past irregular expenditure has been removed and that the system now works reasonably effectively to prevent errors. This morning the Minister of Finance of Portugal and I have been able to sign a contract of confidence covering most programmes for ERDF and the Cohesion Fund. This means that the Commission considers it can rely mainly on the audit work carried out by the national audit authority for its assurance.

Another example is the UK, where because of initial failure to carry out satisfactorily the agreed measures under an action plan, a suspension of payments to 12 programmes in England was decided by the Commission in April 2007. Following a programme of controls and financial corrections applied by the national authorities and audited by our auditors, the Commission has now been able to lift the suspension for most programmes. A financial correction procedure is underway in the cases where actions were still not considered satisfactory.

Thus, there are no quick fixes, but the Commission is doing the right things to carry out its supervisory role and ensure the eventual correction of the errors in expenditure reimbursed, for which the Court has identified a high risk. We acknowledge, however, that we need to reinforce and speed up this activity – for example, by acting to suspend payments sooner – and that we need to report better on the resulting financial corrections.

There is already however substantial evidence of the way in which the corrective mechanisms year on year address the risks identified by the Court. Financial corrections of EUR 500 million and EUR 360 million have been made in 2006 and 2007 respectively as a result of the Commission's audit work on all funds. For ERDF and Cohesion Fund there are 11 formal procedures for suspension of payments and corrections which have been launched with an estimated amount of corrections of over EUR 2 billion. This illustrates the extent and intensity of the actions by the Commission.

I would like to avoid that the preoccupations on the discharge prejudice the debate on the future of our policy, which is so close to the concerns of European citizens. In this context, your support is most welcome in trying to get across a fair picture. Please do not hesitate to liaise with your peers in the budget control committee and through your political groups.

Thank you very much.