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EU regional policy post-2013: more of the same, or a new beginning?
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Ladies and gentlemen,

I would like to thank Hans Martens for inviting me today. Discussions launched by the European Policy Centre always bring together a stimulating range of viewpoints and I hope it will be also the case today.

And today I was asked to discuss with you the future of one of the most fascinating aspects of European integration – cohesion policy. Indeed, the time is ripe for doing so as we have already completed negotiations with Member States and regions on the investment priorities for the new, 2007-2013 period. We have also started our first reflections on the challenges facing European regions in the coming decades and on how we should respond to them. Therefore I would like to take this opportunity to share with you my views on the possible future directions of cohesion policy and inform you about the key milestones in the upcoming debate.

Let me start by highlighting some of the conclusions of the recently published '5th Progress Report on economic and social cohesion'. The report reveals that convergence among European regions has remained strong in recent years. Growth of GDP per head was 50% faster over the last five years in convergence regions compared to the rest of the Union.

In the same period, unemployment decreased by 3 percentage points, cutting in half the difference between those two groups of regions. This convergence has been achieved through a process of profound economic restructuring, with strong growth in the sectors of the future – knowledge-intensive services, high-tech manufacturing and advanced business services.

Nevertheless, large socio-economic disparities persist between and within European regions. The convergence regions still have considerably lower GDP per head and employment levels. Global benchmarking shows that regional growth in Europe is more uneven than in the United States and mostly lower than in other global competitors, like in China and India. New challenges, such as climate change, are looming on the horizon. So, what is the rationale for cohesion policy in the 21st century against such a background?

The vision of the future shape of cohesion policy depends on our diagnosis of social and economic inequalities in the Union. Current research suggests that economic processes – including European economic integration and globalisation – are increasingly affecting regional growth potential and altering the traditional map of economic disparities, resulting in new patterns of winners and losers.

Some scholars hold that this uneven concentration of economic activity across territories and the resulting regional disparities may be the price to pay for the benefit of higher overall growth. However, unequal

territorial distribution of economic activity - due to different levels of development and specialization – is not simply the expression of an efficient pattern of macro level growth. In addition, the balance between overall growth and inter-regional equity is not a zero-sum trade off.

The other school of thought – much closer to my heart – argues that uneven growth often stems from endogenous factors which result in the underutilisation of regional resources. This may have the effect not only of restricting the output potential of the region, but of dampening overall economic growth. Poor natural resource endowment, inadequate skills, poor accessibility, and low capacity to innovate and to assimilate innovation are some of the factors behind this limited growth potential.

A modern cohesion policy must therefore aim to reduce the underutilisation of resources in regions by providing public goods aimed at improving skills, innovation capacity, entrepreneurship, sustainability, employment or accessibility. In other words, the primary mission of cohesion policy should be to enable all European territories to grow at the pace fully reflecting their endowment, including otherwise idle human resources and under-used social capital and infrastructure.

It was with this perspective in mind that we recently reformed cohesion policy. The recently adopted 'Communication on the results of the negotiations' highlights a substantial increase, compared to the past, in investments in growth and jobs. This is especially the case for research, innovation and human capital. The new programmes allocate almost

€100 billion to research and innovation, three times more compared to the 2000-2006 allocation. Moreover, while in line with the strategic priorities of growth and jobs agenda, investment relies on a place based approach, driven by local knowledge and preferences.

Is this reform showing us the way to address new challenges facing European regions in the coming years and decades?

Let me first look at the nature of these challenges. Clearly, they will differ from those we faced 50 or even ten years ago. Many of them are external in nature, such as rapid globalization, rising energy prices or climate change. Others are more endogenous, like demographic change.

We are currently analysing the dynamics and implications of these challenges for sustainable regional development in Europe.

Let me start with globalisation. The economic and social integration of the world is advancing at an unprecedented rate. European regions will need to adjust to the pressures of competition stemming from emerging economies and the global knowledge-based economy. Asymmetric regional responses to these pressures will depend on a combination of various factors, including physical and human capital endowments.

Secondly, European regions will be increasingly confronted with the effects of climate change. Some regions in Southern and Northern Europe will be especially hardly hit by global warming. This will pose

serious challenges to important climate-dependent economic sectors such as agriculture, fisheries and tourism and require significant investments to face drought, forest fires, coastal erosion and flooding.

Thirdly, increasing energy prices and energy security will affect the entire Union, but their impact will be distributed unevenly among regions, with knock-on effects on lagging and remote areas or on regional economies depending on energy-intensive sectors such as transport and heavy manufacturing. Regions will have to move to a new development path aiming to reduce Greenhouse Gas Emissions through higher energy efficiency and a more pronounced role for renewable energy.

Fourthly, most regions will experience population ageing, however the scale of the demographic developments will differ substantially. Many regions in Central and Eastern Europe will face population decline, due to low fertility and high outward migration. Some regions will experience further depopulation in rural and sparsely populated areas. International and interregional migration flows will continue towards Western regions.

Last, but not least, social polarisation. Trends such as globalisation and the shift towards knowledge based economies will tend to widen the extent of segregation and social exclusion. Many regions already today have a high proportion of economically and socially disadvantaged communities. Their integration is a precondition for ensuring sustainable growth.

To conclude, the diverging patterns of globalization, climate change, energy, demographic change and social polarization, will most likely generate a substantial asymmetric impact on European territories. Such an impact would generate new types of social and economic disparities and draw a new territorial map of Europe.

So what policy do we need after 2013? If we refer to the title of our breakfast – more of the same or a new beginning - we will need both continuity and change. On the continuity side I see two policy assets which are in our disposal today as key to the post 2013 cohesion policy - **partnership and multi-level governance**. In an increasingly globalizing world, regional and local levels will be best placed to exploit the advantages of global processes. Policy implementation should continue to be increasingly entrusted to local governments, because the information gap is smaller while efficiency and pressure on public servants higher. This will take us further towards a place-based approach, moving away from more traditional tools such as business aids and sectoral infrastructures.

We will also need something new, however. An important element in this policy transition can be achieved by a better incorporation of territorial cohesion into the policy making. The impact of globalization rips across borders and administrative boundaries. Therefore, we shall reflect on how to better involve levels other than the regional level in the making of cohesion policy, both below and above region. In other words, the governance of cohesion policy should capture a dynamic reality, taking

the form of territorial partnerships, ranging from communal to macro-regional entities, such as Baltic Sea Co-operation.

This approach should be accompanied by our efforts to better involve citizens in our policy. The Eurobarometer survey published in February revealed that 49% of all respondents were aware that cohesion policy supported their city or region. This clearly makes cohesion policy one of the most visible Community policies, an achievement which cannot be lightheartedly dismissed after the Irish referendum. We could go further along this way in the policy implementation, away from formal and administrative decisions towards more conciliation, partnership and local initiatives.

Finally, it is becoming increasingly evident that we have to move towards a policy which is even more **performance-based and result-oriented**. We need to put in place mechanisms which can better demonstrate the results, impact and value-added of our policy. We need to maximize the quality and impact of structural interventions. At the same time, we need to ensure sound financial management.

What is the timetable of this debate on the future shape of the cohesion policy?

We launched the debate with the publication of the **4th Cohesion Report**. The report put forward a number of questions for consultation on the policy challenges and possible responses.

Let me highlight the main conclusions arising from the consultation published in the 5th Progress report I referred to previously:

- The main message emerging from more than 100 contributions from 18 Member States (representing more than 80% of the EU population), from regional and local authorities and associations, from economic and social partners, civil society and citizens, is the wide support for an ambitious and strong cohesion policy in the future, a policy involving all the Union's territories. This is combined with a firm rejection of any attempts to renationalise cohesion policy.
- In the new global context, supporting competitiveness is the shortest and only way to cohesion. Accordingly, what we hear is that investments should concentrate on innovation, skills and education, sustainable development and Europe-wide infrastructures.
- Those who participated in the discussion recognise that regions face complex and multidimensional problems. Therefore there is a compelling need for integrated approaches. For example, tackling climate change requires well-orchestrated investments in different fields, from technological innovation to sustainable transport modes, from education to protection of natural resources, from support of renewable energies and energy efficiency to public awareness raising. This is precisely what EU cohesion policy

renders possible through its integrated approach to policy design and making.

- Consequently, participants call for stronger coordination with other Community policies. In particular, they demand that the Commission reinforces the link between cohesion policy and rural development policy.
- There is unanimous appreciation for cooperation among European regions, in particular across borders, as the best example of European value added of this dimension of cohesion policy. Accordingly, participants come forward with a clear demand for its strengthening in the future.

Our **work program** over the next years involves the following elements:

Firstly, I have launched a thorough assessment of the content and management of cohesion policy by listening to external experts. This work is led by Dr Fabrizio Barca from the Italian Ministry of Economy. The results of this study will be published at the beginning of 2009.

Secondly, as I mentioned, we are analyzing the dynamics and implications of the challenges facing regions with a 2020 horizon. Our analysis will be published by end 2008. This paper will constitute the analytical basis for the strategic debate on future priorities.

Thirdly, we are preparing a Green Paper on territorial cohesion to be adopted early October 2008. The Green Paper will provide an analysis of

interregional and intraregional disparities. It will discuss the concept of territorial cohesion and put forward conceptual and operational questions for debate.

Finally, to synthesize the results of the debate, I intend to publish an orientation paper in Spring 2009, which will contain the first concrete proposals on the future of cohesion policy.

I think I spoke long enough so now I look forward to your questions and an inspiring debate.

Thank you for your attention.