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" Regional Policy: Bridging the Gaps "

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

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Ladies and Gentlemen,

I am very pleased to participate in this conference organised by the Delegation of the European Commission to discuss our experience of implementing policies that promote growth and development which is sustainable and balanced in geographical and social terms. I will start by briefly outlining the nuts and bolts of the European integration to set up the context for the European regional policy, as a means to promote economic and social cohesion. Then I will introduce some of the principals which underlie the policy. I will go on to speak about main investment areas in the years to come and will mention key economic and social challenges which lie ahead for the European regions, common, in one way or another, to Japan. Finally, I will share with you some thoughts on how this policy fits in to the European response to the global financial and economic crisis.

Nuts and bolts of the European integration

You will be aware that the **European Union is far from being a federal state**: many of its citizens (though by no means all) would not want this. When it comes to the levers of economic power, e.g. taxation policy, foreign policy or investment incentives, its 27 sovereign Member States are in charge of most of them and the powers of the Union are strictly circumscribed. The system of governance in the EU is based on the **principle of subsidiarity**. Policy functions are allocated to the lowest level capable of dealing adequately with imminent problems, because the quality of information and therefore of decisions is likely to be superior when decisions are taken close to those affected by them. Policy issues are dealt with at the EU level only if their rationale has an essential cross-border dimension, like the environment or sustainable development, otherwise they are left for Member States.

Based on these mechanisms, over the past 50 years, and particularly in the past 15, the **EU has achieved remarkable success** in leveraging opportunities arising from globalisation and in achieving economic prosperity and stability on a continental scale. The EU has become the world's biggest economic engine, accounting for about 30% of global GDP and 20% of global trade flows, while the Euro has emerged as a key international currency.

Starting 50 years ago as a free trade area of six members, the EU has expanded to become a **union of 27 sovereign states**, with at least 6 more queuing up to join. Five waves of enlargement hedged with tough conditions for new entrants have kept the EU relevant and made it ever more influential. The process of integration has brought more variety to the Union and has required a set of policies to support it. The Union of 27 Member States needs **close policy coordination** to answer some of

the key challenges of the 21st century, such as globalisation, climate change, energy security and sustainable development.

What is also characteristic is that, in these last 50 years, the European project has been always evolving responding to European new realities but also to these changing global challenges.

In Europe, we have achieved closer integration through three major mechanisms: the single market, the economic and monetary union and the cohesion policy.

The economic core of the Union is constituted by a common internal market and its support policies in the areas of competition, trade and cohesion. Within the **European single market**, our most important achievement, people, goods, services and money move around today as freely as within one country. We started the process in 1985 with the fragmented economies of 12 Member States and we now have the internal market which is **home to 500 million citizens and over 20 million businesses**. With trade barriers removed and national markets opened, more firms can compete against each other. Trade enhances growth to consumers' advantage. They have a wider range of products to choose from. Competition between imports and local products lowers prices and raises quality. Since its beginning in 1992, **the Single Market has created nearly three million extra jobs**. The estimated **macroeconomic gains** from the internal market are sizable, amounting to approximately 1.8% of EU GDP and 1.4% of total employment¹.

More recently, the Economic and Monetary Union (16 Member States at present) brought and brings us very important benefits in terms of

¹ EMU@10 estimate

macroeconomic stability and the advantages of such a mechanism seem now more relevant than ever at the current economic crisis context.

We can be proud of these, **but we cannot be complacent**. Although we have seen a high level of growth throughout the Union, we also see a **rising level of disparity** in personal incomes, between the richest and poorest members of society (from 1 to 3 before the war to 1 to 30 now) and we continue to have disparities between the regions, which increase as we enlarge. The top 10% regions in the European Union of 27 Member States had a GDP per head almost five times as high as the bottom 10% regions. In the United States and Japan that figure is closer to two. Our recent Report on Cohesion, the fourth in the series, showed that the range of **disparities in Europe, which makes us different from Japan, is as extreme as anywhere in the world** and can be directly compared to China or India.

Therefore, in line with the implementation of the modern Single Market policy, the European cohesion policy came into prominence as it was realised that two key building blocks of the European project, the single European market and the single European currency, depended on it very much. The Union considered it vital that regional **disparities are not allowed to increase in an uncontrolled way** which would introduce grave distortions in the working of the market. However, with time the original rationale of the EU cohesion policy – mere redistribution of financial resources from the richer to the poorer – turned to be insufficient to promote growth and evolved in the light of worldwide changes. Blind redistributive policy often generated dependence on subsidies and did not guarantee that the resources were used to implement projects which would foster long-term growth. Nowadays, the European cohesion policy is geographically sensitive and aims at full

mobilisation of the potential of our regions and at fostering of their endogenous development. It is about promoting strategic investment programmes in order to improve the infrastructure, innovation, business formation and development as well as the quality of human capital in the regions.

In this context, let me also say that the new Treaty (if finally ratified by all Member States) will add a third and very important dimension to our policy together with the economic and social ones: the territorial cohesion. We are currently carrying out in Europe a deep reflection on this concept (we launched recently the so called Green Paper on territorial cohesion and we have been engaged in extensive consultations with most relevant actors).

How the policy is organised: some fundamental principles

In implementing this policy we have developed a number of fundamental principles, which are followed by all and which are largely responsible for the successful results we have seen:

- First, cohesion policy **covers all European regions**. It avoids one-size-fits-all approach, but aims at looking for tailored solutions for specific regions which would unlock their growth potential. This stems from the fact that the regional impact of key challenges is very diverse. Regions need to build up their **individual capacities** to address their concerns, minimize their negative impact and if possible to turn them into opportunities. This is obviously linked with the principle of subsidiarity I mentioned before, the principle that will be reinforced with the new Treaty (as the regional and local level, and not only the national level, will

be taken into consideration to assess if the intended action is more efficient at EU or national, regional or local level).

- Second, the policy is based on shared management; cohesion policy is designed and implemented jointly by the European Commission and Member States and regions through **multi-annual programmes**, i.e. 7-year **programming and financial perspective with a clear set of strategic priorities** (agreed by the Union). This enables us to encourage a strategic, long term approach by which National Plans (so called Strategic Reference Frameworks) based on the EU strategic guidance give rise to specific regional and national Operational Programmes.

- It is run through **decentralised multi-level governance and partnership**, by which we encourage the involvement of all levels of administration, and allow academy, enterprise and civil society to take part in the processes of programming, project selection and project implementation (the so called vertical and horizontal partnership, made compulsory by EU Structural Funds Regulations). The organisation of this system, that effectively connects the centre to the regional and local level, is a particular challenge, and is perhaps the area where we have tried to make the most progress in 20 years of the existence of cohesion policy in its modern form. The success of this unique system of multi-level governance involving Community, national, regional and local authorities and stakeholders helps to ensure that projects are adapted to circumstances on the ground, that the expertise and knowledge of each level of governance is elicited to the maximum and that there is a genuine commitment to their success. In short, that there is 'ownership' in the regions and that we are no longer running a Brussels-imposed policy.

One of the previous sessions of this conference was devoted to **decentralisation** which is the key factor for efficient multi-level governance. I would like to stress that our experience shows that the decentralisation of competences is not enough. It must be complemented by the adequate decentralisation of funding. Strong regions which are fully-fledged stakeholders of the policy, which have the powers and financial means to plan and manage its development programmes are more likely to develop quicker than the weaker ones. What is most interesting for our partners is that based on accountability the European cohesion policy has **improved the quality of public administration in the Union**, by introducing an evaluation culture, stimulating strategic thinking, supporting partnership and co-operation, improving accountability and transparency. In other words, "cohesion policy" has become a **brand** for good European governance – this is why countries like China, Russia and Brazil have taken formal steps to learn from it.

- Another principle is the principle of **additionality**, in simple words, we don't replace national funding but EU funds are added to these investments.

- Another essential principal of the cohesion policy is **co-financing** which means that the beneficiaries of the support have to contribute financially to the projects which are supported. Not only this increases their responsibility for the investments, but also multiplies the financial resources employed in their implementation. As a result €350 billion allocated to the cohesion policy in the EU financial perspective 2007-2013 will in fact unlock €1000 billion of public and private expenditure. In this context, I would like to highlight the **financial engineering** which started to play more significant role in the policy traditionally based on

grants. In conjunction with international financial institutions such as e.g. the European Investment Bank we have brought forward methods of encouraging credit which are more flexible and appropriate for the needs of really small or starting companies than those which are commonly available through private banks. The greater use of revolving instruments aimed at enterprises gives even greater economic muscle to the policy and will bring the green shoots of additional growth to the European economy.

Policy priorities

As its delivery system, the priorities of cohesion policy have been also evolving these last years, in particular in response to the globalisation challenge.

Cohesion policy is looking now not only to inter-territorial disparities and catching up but also to the position of regions and cities in the global competition. Cohesion policy is a fully fledged development policy with a financial instrument.

Today, regions and cities must think about how to mobilise local development potential to become competitive players on the global market and how to plug into the external world.

Cohesion policy is now, compared with the policy 20 years ago, less compensating but focusing more in developing territorial advantages with a view to address global challenges.

And to be successful you need to approach global challenges in an integrated way, this is why the integrated approach of cohesion policy to development is so important (e.g. urban initiatives).

Cohesion policy has three major priority investment areas in the years to come:

- Improvement of accessibility (transport infrastructure but also telecommunication, there are still today in Europe many remote and isolated areas which can not attract the investments they need because of lack of appropriate infrastructure).
- Innovation in a large sense (from RTD to sophisticated forms of clusters) is also a major priority in financial terms to allow EU regions and cities to contribute to the Lisbon strategy.
- Human capital, with a shift in the focus from maintaining jobs to give people the capacity to find a new job.

Looking into the **future**, the goal of sustainable regional development makes us focus on four major challenges common to many other developed countries, including Japan: **the ageing of society, climate change and energy security and increasing of competitiveness** vis-à-vis our global competitors.

To remain competitive, many regions in Europe need to engage in significant restructuring aimed at diversifying the economic structure into new, growing sectors, and modernising existing activities to move up the value chain. They will also have to cope with the skills needed to remain competitive in a global economy.

We have recently conducted a foresight exercise called **Regions 2020** which conclude that the main challenges facing European regions as mentioned before (competitiveness in the globalised world and the need for restructuring, ageing population, environmental issues, energy security and efficiency) will have an important and diversified regional impact.

Evolution is not new to European cohesion policy. The territorial impacts of future challenges convince me that the ever-adapting **policy will**

continue to be at the heart of the European Union. It will facilitate the regional responses in order to address market failure, provide European synergies and create European value added for our regions.

European response to economic and financial crisis

Let me end up by addressing the role of cohesion policy in the context of a more immediate challenge - the global crisis we face.

In Europe the economic situation is serious.

The central challenge now is to contain the immediate crisis and implement policies for recovery.

The European Commission proposed last November a massive, **coordinated fiscal stimulus** for the European economy that was endorsed by all Heads of State and Government. It provides an unprecedented budget stimulus to facilitate economic recovery

EU cohesion policy plays an important role in the European Economy Recovery Programme. **Our policy is a factor of stability** as it provides secure source of financing and it ensures medium to long-term investment in the real economy upon which the regional and local partners can rely to promote structural change. We will use indeed cohesion policy in such a way to strengthen European economy and promote competitiveness of European enterprises and industries. Over 70% (€250 billion) of cohesion policy funding is earmarked for investment in the four priority areas of the EU growth and jobs strategy – people (jobs), business, infrastructure and energy, and research and innovation.

Cohesion policy can play therefore an important role in **restoring confidence in the real economy**, by supporting investments in these priority areas that can boost short-term internal demand while preserving the sustainable focus on agreed priorities in the medium term. Cohesion policy allows EU Member States and regions to invest in the future and not only compensate for current recession. I am convinced that the end of the crisis for Europe will come from the strengthening of competitiveness through forward-looking strategies.

In addition, we have adopted a number of **regulatory changes** to improve cash flow and liquidity in the regions and the Member States, facilitate the use of financial engineering instruments to fund projects, in particular for SMEs and expand support for energy efficiency investment in housing.

European Union will not solve the crisis alone. Wide **international cooperation** is an essential part of the solution of the crisis. In this context, close cooperation between the EU and Japan is necessary bilaterally and in the relevant fora – G-20 or the OECD. Even though usually we see each other more as competitors than collaborators, today we must join our forces and concert our actions to revive the global economy.

Thank you very much for your attention.