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Presentation of 4th Cohesion Report
EP, REGI committee
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Mr Chairman, Honourable Members,

- It is a pleasure for me to come again before the REGI committee of the EP to present the 4th Cohesion Report recently adopted by the Commission.
- 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 policy document in this policy field, and has always generated considerable interest in the Parliament and the other institutions and bodies of the Union, as well of course, as in the regions and cities across Europe.
- The Fourth Cohesion Report, provides, firstly, an update on the economic, social and territorial cohesion and, secondly, an analysis of the impact of policy at national and Community level on cohesion in the Union. It also provides a first assessment of the preparation for the new period 2007-2013, based on the national strategies and draft operational programmes submitted to the Commission by Member States up to the end of April 2007.
- I had the opportunity to anticipate some of its more analytical elements during our discussion on May 2nd. Today, I would like to

concentrate on the **issues for the debate** which we intend to launch in relation to the future of this policy.

- First of all, we need to establish and share a common understanding of the main challenges which will confront European regions after 2013. The 4th Cohesion Report provides already some first indications:

- Europe's **population is projected to start declining** by around 2020. In 2005, national population growth rate was less than 0.1% and 86% of population growth was due to migration. 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 limit the scope for future employment growth. Although total employment is expected to continue growing up to around 2017, due to rising labour force participation, it will start declining afterwards. We may also expect further tendency towards greater regional variation of demographic constraints, which may result in contracting growth in some regions well ahead of this date.

- Many regions throughout the Union have the economic structure largely concentrated on sectors where **competition from emerging economies** is higher. These are regions which need diversify their economic structure into new, growing sectors, and modernise existing activities to move up the value chain. There are 39 regions which have more than 3% of their total employment concentrated in textile industry (13% in the

Norte region in Portugal), 15 regions with the same level of employment in electric, audiovisual and ICT equipment (7% in Nyugat-Dunántúl in Hungary) and 7 regions in steel making (8% in Moravskoslezsko in the Czech Republic).

- 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 exclusion.

Within the cities, suburbanisation is a clear trend in the Union: in 90% of the urban agglomerations with more than 100,000 inhabitants, population in the suburbs grew more than in the core city. Economic activities are starting to follow the same decentralisation pattern. This is putting increasing pressure on the environment and causing decline of downtown areas.

There is also clear evidence that many regions throughout Europe will be increasingly confronted with the asymmetric impact of **climate change** as well as with new challenges in terms of **energy** provision and efficiency. 7% of people in the Union live in areas at high risk of flood; on the other hand around 9% of the EU population live in an area where there are over 120 days a year, on average, without rain. The combined impact of climate change will pose serious problems to tourism and agriculture in some of EU regions. In

addition, these changes may have disproportionate effects on disadvantaged or low income groups.

- 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: in the less developed regions of the EU27 only 14% of population in working age had tertiary qualification in 2005 against 25% in the more developed regions.
- Last, but not least, regional disparities remain very 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.

In addition, there are a number of regions (the majority of them among the most developed ones) which are losing ground: in 27 regions GDP per head declined in real terms between 2000 and 2004, and in another 24, growth was under 0.5% a year.

- Second, we need to examine **how policies at national and Community level** have operated in the past, and to what extent they are adjusting to respond to these challenges. Again, the report provides some interesting insights:
 - At national level, policies are facing some difficulties in keeping up with change. **Public investment over the past years has been on a declining path** as budgets are

confronted with the consequences of an ageing population (reform of pensions, more costly education and health systems) and economic reform leading to consolidation of public finances. In 1993, public investment amounted to around 2.9% of GDP. Twelve years later, it had declined to 2.4% of GDP.

At the same time, we witness a process whereby the decision and management on public investment is slowly, but steadily being decentralised **to regional and local levels**. Between 2000 and 2005 public expenditure at those levels has been increasing annually by 3.6%, faster than GDP (1.7%) and total public expenditure (2.4%). As a result, the share of local and regional authorities in public investment increased from 25.4% to 26.8%. In some countries, such as Spain, Finland, Portugal or Denmark, in the last decade this proportion increased by 10 percentage points.

- On the basis of independent evaluation results, the report argues that **Cohesion Policy has played an important role in the convergence process** because:
 - 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.
 - it has contributed to the **growth of GDP**. Increase in GDP levels attributable to regional policy:

- 1989-1999:
 - 10.0% in Greece and 8.5% in Portugal
 - 3.7% in Ireland and 3.1% in Spain
 - 2000-2006:
 - 6.0% for Greece and Portugal
 - 4.0% in German Länder and 2.4% in Spain
 - 2007-2013: preliminary estimates suggest:
 - 8.0% for Lithuania, Czech Republic and Slovakia
 - 5,5 - 6.0% for Bulgaria, Poland and Romania
 - 3.0% in Greece and 1.5% in Spain, German Länder and Mezzogiorno.
- 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; over 450 000 gross jobs were generated in six countries between 2000 and 2005, accounting for 2/3 of Objective 2 funding;
- and it has helped **shifting the policy mix** of public investment in Member States **toward growth-enhancing investments**. According to most recent

data, the amount of cohesion investment earmarked on R&D, innovation and ICTs for 2007-2013 has more than doubled in comparison with 2000-2006. Clearly, it remains to be seen how these plans will be implemented; but we see both among MS and regions an increasing awareness that their development strategies for 2007-2013 must be "innovation" driven.

- Finally, the Report asks some questions on how cohesion policy should adapt to the new, global challenges and how its delivery can be improved in order to maximise its impact in the future:
 - The first group of questions, on the basis of the analysis provided by the report, takes stock of new, global developments which in the coming years will have increasing impact on the EU economy. To what extent new policy challenges will affect regional economies? How they should best respond to these trends?
 - The second group of questions looks at the possible responses that cohesion policy can develop to foster growth and development in the context of these new, global challenges. 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 the cohesion policy should operate in the future. How we can move towards a policy which is even more performance based and which can better adapt to changing

circumstance. Under what allocation of responsibilities within multi-level governance system? How to assure better **horizontal coherence** between different sectoral policies?

- The reports you have recently adopted (Pieper, Pleguezuelos) also point to a number of issues worth exploring in more depth: levels of co-financing, role of loan financing, increasing participation of private funding, stronger link with structural reforms – to mention but a few.
- I hope that the questions proposed by the Cohesion report will constitute a solid basis for a broad and rich debate. We are at the initial stage of reflection on the policy future. I hope that your views will help the Commission to take this reflection further and to nurture the discussion on the budgetary review.
- I also expect your participation in the Cohesion Forum, which will take place in Brussels, on 27 and 28 September. A consultation process with all stakeholders will follow under the Portuguese and Slovenian Presidencies. Among other initiatives, I intend to open a dedicated internet site to collect all contributions. I will be glad to report personally to this Committee on the results of this debate early in 2008. In addition, the fifth progress report on economic and social cohesion will draw a first *bilan* of this debate in Spring 2008.