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"Future challenges of cohesion policy"

Presentation of Fourth Cohesion Report
EESC Plenary, Brussels, 11 July 2007

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Mr President, Ladies and Gentlemen,

- It is a pleasure for me to present to you today the Fourth Cohesion Report adopted on 30 May by the Commission.
- But first I would like to thank Mr. Zuffi for his excellent report on euroregions which you will adopt later today. I fully agree with you that territorial cooperation is one of the major pillars to promote European integration, to reduce economic, social and cultural fragmentation generated by national borders.
- Euroregions play an important role in this process as demonstrated for example in the border area between Germany, Belgium and the Netherlands. In the past the "Euregio Meuse-Rhine" has taken on the responsibility to manage the cross-border programme on behalf of the regional authorities. But it is of course up to the partners on the ground to decide which role Euroregions shall play in our cooperation programmes.
- I would also like to say a couple of words on the Territorial Agenda which has been subject to an exploratory opinion of your Committee of 25 April prepared by Mr. Pariza. As you may know, the ministerial meeting in Leipzig last May adopted the "Territorial Agenda of the

EU". We now have to make sure that it is implemented so that it will bring positive and tangible results for our citizens.

- My services have started to work with the Portuguese Presidency to prepare an action plan for the implementation of the Territorial Agenda to be adopted by ministerial Council in Azores in November. We have also sent a questionnaire to the Member State where we have asked them to define the concept of territorial cohesion in their respective national context, to explain how it is put into practice and to assess the territorial impact of sectoral policies. Our objective is to translate the concept of territorial cohesion into concrete operational measures. On the basis of this work, we will prepare a report on territorial cohesion in 2008 which will look at the territorial impact of major new challenges and possible replies.
- Let me now move on the Cohesion Report which is our most important policy document published every three years in line with Article 159 of the Treaty. As it was the case in the past, combines the assessment of the past with the launching of a new debate on long term policy future.
- The report contains a thorough analysis on the disparities in the enlarged EU on the basis of a large set of indicators which draw a picture of the level and trends of economic, social and territorial cohesion. It analyses the contribution of Cohesion and other EU and national policies to cohesion, including some preliminary assessment of the content of programming documents submitted by the Member States for 2007-2013.
- For the first time Cohesion Report features global comparisons between regions and major EU competitors on a range of indicators. This reflects the view which I expressed many times, namely, that

sustainable convergence can only be achieved if we take into account the international context in which EU economy operates.

- Let me summarise the main challenges emerging from the analysis.

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- Europe's **population is projected to start declining** by around 2020. Between 2000 and 2005, total population growth rate was 0.4% and 86% of that 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.

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- Many regions throughout the Union have strong concentration of economic activity **in sectors where competition from emerging economies is high**. 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, 15 regions with the same level of employment in electric, audiovisual and ICT equipment and 7 regions in steel making.

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- 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 puts increasing pressure on the environment and can cause the decline of downtown areas.

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- 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 lives 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 quality of life, tourism and agriculture in some EU regions.

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- 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.

To reach the Lisbon employment targets (an employment rate of 70%) another 20 million jobs are needed by 2010 with a quarter of those going to women and another quarter to people aged 55-

64. These jobs should ideally be created in most of the new Member States, as well as in a number of Southern regions of the EU-15.

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O 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.

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II. Second, we have examined **how policies at national and Community** level operated in the past, and to what extent they are adjusting to respond to these challenges. Again, the report provides some interesting insights:

o 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.

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- o 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.

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- 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
 - 2000-2006: o 6.0% for Greece and Portugal
 - o 4.0% in German Länder and 2.4% in Spain
 - 2007-2013: preliminary estimates suggest for example 8.0% for Lithuania, Czech Republic and Slovakia

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- Cohesion policy 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;

At the EU level employment rates converged between 2000 and 2005, although the rate in lagging regions is still 11 percentage points below the rate in other regions. Between 2000 and 2005 disparities in unemployment both at national and at regional level also decreased. Indeed, the difference in the average rate between the top and the bottom 10% regions (in terms of population) fell from 19% to 16%.

At present ESF helps annually some 11% of Europe's unemployed into employment, and each year an estimated 200.000 socially excluded or disadvantaged people move into employment after benefiting from an ESF project.

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- Cohesion policy has also 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 they development strategies for 2007-2013 must be "innovation" driven.

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III. 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:

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- o The first group of questions takes stock of new, global developments which in the coming years will have increasing impact on the EU economy. To what extent will new policy challenges affect regional economies? How far is cohesion policy adapted to these challenges?

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- o 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. How important is the territorial/regional dimension in this respect? Which new, competitive advantages and skills will our regions and citizens need to be competitive in the future?

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- o Finally, the last group of questions focuses in more detail on the way the cohesion policy should operate in the future in order to be even more performance based and effective.

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 future shape of the policy. Your views will help us to take this reflection further and to nurture the discussion on the budgetary review.

I am happy that Mr. DERRUINE has been appointed to draft an opinion on the Fourth cohesion report. My services will give you any necessary

support and information.

I also expect your participation in the Cohesion Forum, which will take place in Brussels, on 27 and 28 September. I would be delighted to welcome you, Mr. President, as speaker in our Opening session. A consultation process with all stakeholders will follow till 2008. Among other initiatives, I intend to open a dedicated internet site to collect all contributions. We will summarize the public debate and update the analysis and conclusions of the Fourth Cohesion Report in the Fifth Progress Report on Economic and Social Cohesion which the Commission will adopt in the first half of 2008. Ultimately, all the ideas which will emerge during this discussion will constitute the basis for the 5th Cohesion report (2010) which will put on the table the Commission's proposals for the post 2013 cohesion policy.

I am happy to answer any question you might have.

Thank you very much for attention.