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“European History, Perspectives” Regional Achievements policy: and

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

Lunch Debate “50th Anniversary of the EU”

Brussels, 17 September 2007

Dear colleagues,

Welcome to this first of six lunch time debates. I think that DG Administration has an excellent idea that DG to initiate - on the occasion of the Union's 50th anniversary – this series about the history, achievements and perspectives of EU policies.

Today I would like to look at the regional policy precisely in this order; starting with some history, followed by a quick look at what we achieved until now and than moving towards the perspectives and rationale of the policy in the beginning of the 21st Century.

So let us start from the very origins of the current article 158 of the European Community Treaty which states that “the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas”. Although the notion of EU regional policy can be traced back to the Treaty of Rome, it was not until 1975 that the small European Regional Development Fund was created. Curiously enough, it occurred at the United Kingdom's behest, as a mechanism to compensate it for its budget contributions.

In these early years, ERDF operations remained purely national, with little European or regional influence. A more genuine ‘European’ cohesion policy was given impetus by the Single European Act of 1986 which introduced for the first time a specific title covering the notion of economic and social cohesion. Under this title, Article 130b emphasized that the implementation of common policies, including internal market, shall take into account the objectives of social and economic cohesion. Importantly, the article referred to the necessity to "redress regional imbalances" through regions "participating in economic development" and undergoing "structural adjustment".

I recall this wording because it defines in a nutshell three important aspects constituting the rationale of modern regional policy until today.

Firstly, as the Single European Act and, later, Maastricht Treaty, followed the Union's second enlargement, they both established the link between the level of economic development and the capacity of countries and regions to participate in European integration.

Secondly, the reference to region's participation in economic development calls the policy to bring unused regional resources into play. In other words, regional policy has a clear objective - it is not about redistribution; it is about mobilizing endogenous, local potential of development.

Finally, Single European Act is talking about the policy which shall foster structural adjustment. This means that the policy's focus is on long term change in the investment pattern and on overcoming structural barriers to development.

The landmark reforms of 1988, following the signing of Single European Act, doubled the budget of the regional policy. But while the financial dimension was – and still is - important, it was this rationale designed by the Single European Act that guided the shaping of regional policy into a fully fledged fiscal policy, with its own objectives and rules. These rules since then remain crucial for the policy's "mode d'emploi":

- Multi-annual **programming** based on analysis, strategic planning and evaluation instead of a project-based approach;
- **Strategic concentration** on a limited number of objectives related to development, with the focus on the least developed regions;
- And, finally, **partnership** involving national, sub-national and EU actors, in the design and implementation of programmes and thus ensuring a transparent policy responding to local needs.

What have we achieved with the regional policy until now?

Our recently published **Cohesion Report** shows that EU cohesion policy has played an important role in the convergence process. It shifted Member States' policies towards growth enhancing investments. It reduced social exclusion and poverty by providing skills for the knowledge economy and reinforcing labour market policies. It has improved administration and public governance, particularly at sub-national level and it encouraged an integrated approach to development which improves the overall impact of sectoral policies. And on the basis of all of these elements, it contributed to more growth and jobs in the Member States.

At national level, Greece, Spain, Ireland and Portugal - the largest beneficiaries of cohesion policy in recent years - have achieved an impressive growth performance between 1994 and 2006. Between 1995 and 2005, Greece reduced the gap with the rest of EU-27, moving from 74% to reach 88% of the average in 2005. By the same year, Spain had moved from 91% to 102%, and Ireland reached 145% of the Union's average starting from 102%. At the same time, the lagging regions in the EU-15 showed a significant increase in GDP per head. Between 1995 and 2004, in a quarter of them the GDP per head had risen above the 75% threshold.

As different **evaluations** show, cohesion policy has considerably contributed to GDP growth. Between 1989 and 1999 the additional growth impact of EU funding has been at 10% in Greece and 8.5% in Portugal. Between 2000 and 2006, it has been in the order of 6% for Greece and Portugal, 4% in the East German *Länder* and 2.4% in Spain.

If we look at the 2007-2013 period, studies suggest that cohesion policy will add some 5-15% to GDP in most of the new Member States, on top of a baseline scenario without cohesion policy. For example, additional 8% of GDP growth for Lithuania, the Czech Republic and Slovakia are estimated, and 5.5 - 6% for Bulgaria, Poland and Romania, 3% for Greece and 1.5% for Spain, the German *Länder* and the Mezzogiorno.

Finally, the policy's **added value goes well beyond growth and jobs**. Cohesion policy "levers-in" and safeguards compliance with other Community policies in the Member States – be it in the field of state aids, environment, transport, support for innovation or the information society. And last not least, it works as a "Trojan horse" to improve and modernise public administrations, to enhance transparency, and to foster good governance.

What is the rationale of regional policy today?

Today, cohesion policy could be represented as the leading edge of a system of multi-level governance in which supranational, national, regional and local governments engage in overarching networks across policies and territories. Principles such as partnership, transparency, subsidiarity, local democracy and integrated approach to development make an essential asset of development policies. They empower local people and help growth strategies by targeting local resources in a more efficient and effective way. They reinforce the co-operation between public and private sector – for example under the form of public-private partnerships.

The rationale of EU regional policy is of macro-economic nature and based on the political agreement that the Union's internal market policies should be accompanied by fiscal policy. The objective is to exploit and equally spread the advantages of our common economic area. In this sense, cohesion policy may be understood as the "visible hand" of the EU fostering economic integration throughout its territory.

Moreover, as new growth theories suggest, there is a role for "the territory" in the sense that rather than being an obstacle to the optimal allocation of economic activity it should be seen as a source of economic growth on its own. In other words if endogenous factors are put in the centre of regional development policies they can stimulate "growth from below", leading to higher growth and productivity in the whole of the Union. In this respect, regional policy should therefore be seen as allocative policy, based on conditional grants and targeting local growth resources.

How this rationale has been reflected in the new European regional policy, designed for 2007-2013 years?

In the current programming period regional policy will more than ever influence the focus of public investment. All Member States agreed to " earmark " a certain proportion of their cohesion policy resources to the renewed growth and jobs agenda. 60% of cohesion funding in the least developed regions and 75% in other regions should be concentrated on investments in key drivers of Lisbon agenda.

These targets have been reached. The average proportion of the resources earmarked for key Lisbon investments is 61.2% under the "Convergence" objective and 76.7% under the "Regional Competitiveness and Employment" objective. Overall, around EUR 200 billion will be allocated to these investments. Compared to the previous period, this represents an increase of more than EUR 50 billion.

The **major shift in cohesion policy investments** concerns research and innovation: almost EUR 50 billion or 15% of the overall cohesion budget will be allocated to this type of investment, about equalling to the total of the 7th Framework Programme for Research. Compared to the period 2000-2006, this represents a doubling and tripling of financial resources dedicated to R&D and innovation, respectively, under the "Convergence" and the "Regional Competitiveness" objectives. In the new Member States the share of R&D and innovation expenditure has increased on average by even more than 300%.

Thus, for the first time, we framed the notions of competitiveness and cohesion in the same context; the potential of EU regional policy to bring greater cohesion between regions is grounded in its capacity to deliver the EU's Lisbon agenda. Competitiveness and cohesion not only go hand in hand - competitive advantage and sustainable prosperity is the key to bring sustainable cohesion to Europe.

What are the challenges ahead of European Regions?

The European territory is currently at the crossroads of numerous factors of change, many of them are exogenous in nature, such as accelerating globalisation, rising energy prices, stronger external immigration pressure or emerging climate change, while others are more indigenous in nature, such as population ageing or the struggle to promote competitiveness and to improve the living environment. The challenges do not care about national, institutional or policy borders and they impact directly on regional and local communities.

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 61 regions which have more than 3% of their total employment concentrated in vulnerable industries, such as textiles, audiovisual and ICT equipment or steel making. Regional cohesion programmes will support forward-looking strategies anticipating change to adapt the economic fabric in time.

Europe's population is projected to start declining by around 2020. Between 2000 and 2005, the 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.

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

On the other hand, the need to improve energy efficiency and to reduce traditional energy dependency is an opportunity for European enterprises. Many of our new regional policy programmes support now to a higher extent the development of renewable and alternative technologies - wind, solar, biomass - which can give the EU a leading edge and thus strengthen its competitive position.

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 EU-27 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. 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.

I am convinced that in the coming years all these challenges will redraw the regional map of Europe and overshadow the traditional descriptions we are using today – such as those referring to new and old Member States. The impact of increasing economic pressure from global competitors, the ageing of our societies, the developments in the market for energy, climate change and social polarisation will be felt, with diverse intensity, in all parts of the Union. In this global context catching up takes different forms. The role of cohesion policy is to help regional economies find their place in world markets, in critical global networks and clusters; to allow them to measure their strengths and weaknesses against global challenges and opportunities and to foster their internationalisation.

Finally, some words about the Roadmap towards a modern European Regional Policy in 2020

These new challenges raise the question how the current mix of EU policies should best reflect the challenges ahead. Following the recent adoption of the "issue paper" on the 2008/09 budget review, a public debate on the EU policies has just been launched. Together with an academic conference planned for March 2008 and a political conference in May/June the elements for the Commission's conclusions will be put together at the end of 2008. Of course it will not be before 2010, that a proposal for the financial perspectives will be put on the agenda of the newly elected European Parliament and the Council.

Towards this background, what are probably the main **issues at stake for cohesion policy** beyond 2013? Cohesion Report focuses on three groups of questions:

- The first group of questions takes stock of new, global developments which will have increasing impact on the EU economy in the years to come. To what extent will new policy challenges affect regional economies? How should they best respond to these challenges?
- The second group of questions looks at the possible responses that European cohesion policy can develop to foster growth and development. 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 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 a changing political environment. What allocation of responsibilities within the multi-level governance system? How to assure better horizontal coherence between different sectoral policies?

These questions will be on the table of the European Cohesion Forum which will take place in Brussels on 27 and 28 September. On that occasion, I will launch a public consultation with all stakeholders until early 2008. Its result will be presented 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 in 2010.

Conclusions

While the challenges lying ahead are complex I am confident that European regional policy is well equipped to meet them. The most important asset which, as I believe, will be turning in the years to come into Union's competitive advantage is the system of multi level governance. The system which, on one hand, fosters economic efficiency and development through the co-operation between the European, national and regional levels, on the other, firmly anchors the policy in the Union's territories and hearts of its citizens.

This has been best appreciated in Berlin Declaration, where we can read that: "There are many goals which we cannot achieve on our own, but only in concert. Tasks are shared between the European Union, the Member States and their regions and local authorities".

These principles gradually turn our policy into a "golden standard" of any development strategy in any part of the world. EU cohesion policy's design has been used in many other countries and organisations to design similar approaches. We signed in 2006 a cooperation agreement on regional policy with China and in May this year with Russia. In both countries promoting balanced regional economic development is one of the key political priorities given the widening of regional income disparities over the past years.

Brazil expressed also strong interest in concluding such type of dialogue with us soon. Switzerland's "New Regional Policy" will be in force as of 2008 focussing now on a multi-annual approach based on programming and partnership. We have also been asked to contribute to policy development done by the West African Economic and Monetary Union, the United Nations and the World Bank Committees in this field.

Many EU policies are able to map Europe's needs and challenges. **EU regional policy really goes there** and makes change happen. Let me invite you to follow us.

Thank you for listening. I am looking forward to your questions.