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Minister, Ladies and Gentlemen,

It is an honour, and my great pleasure, to talk to you today, to such a distinguished audience. I really regret that it was not possible for me to come to Brisbane in person.

Australia and Europe have a lot more in common than might appear at first sight. We share many values and principles, we share the desire to combine economic progress and social justice. We want all our citizens to share in the wealth and opportunities of the new century, regardless of where they live.

I am convinced that you would agree with me that Europe and Australia are also facing similar challenges – the accelerated changes to global markets, rapid advances in technology, the need to preserve our environment through sustainable development, the ageing of population and the unprecedented rate of social change.

And, it is my impression that we both believe that in responding to these challenges regional policy is a good instrument. This common view is perhaps best encapsulated in your framework for developing Australia's regions: Stronger Regions, A Stronger Australia. Indeed, we should enable regions to manage economic and social change, fully realise their growth potential and lead their own development, to the benefit of the whole continent.

This is why I am pleased to talk to you about the European Union's experience regarding policies that seek to promote harmonious development and opportunities in territorial, economic and social terms. I would like to start my presentation with a few words on the history and philosophy of regional policy and move on to some key principles of the next generation of the policy programmes - by looking at the challenges and opportunities lying ahead of regional policy in a longer time perspective.

I know that you have your own regional policy, which was launched in 2001. Therefore, whenever possible and to the extent my knowledge permits, I will try to highlight the similarities and differences between your and the Community's regional policy.

A few words on the history and philosophy of regional policy

The legal basis of the Union's regional policy is enshrined in article 158 of the European Community Treaty signed by all of the Member States. It 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". In other words, regional policy has a clear objective - it is about mobilizing endogenous potential of development.

Last year, we celebrated the 30th anniversary of the European Regional Development Fund (ERDF) - the first and main financial instrument of our policy. Curiously enough, the ERDF was created at the United Kingdom's behest, as a mechanism to compensate it for its budget contributions. But it was the move towards the Single European Market – free movement of goods, services, labour and capital – which laid the foundations for the regional policy we know today.

The Single European Act of 1985 codified the Community's commitment to reducing the regional and social imbalances which either existed or would be aggravated by the opening up of the Member States' markets. It was in this period that the basic hierarchy of so-called structural funds was established - the ERDF was earmarked to invest in economic infrastructure in disadvantaged regions, the Social Fund was targeted at social capital - youth and long-term unemployment reduction - and the agrarian extension of the ERDF took up the modernisation and restructuring of rural economy.

The notion of financial perspectives introduced one of the main advantages of the regional policy – stable and independent financing over a period of 7 years. I note here that in Australia you also recognize the advantage of mid term stable financing, as your regional policy is

based on three year funding. In Europe, we are now approaching the fourth, 2007-2013, programming period based on financial perspectives.

The increasing role of regional policy can also be seen in the amount of financial resources which we devote to it. For its first few years, the ERDF represented approximately 4% of the EU's budget. The budget for these activities has increased steadily over time and now the Structural Funds represent around one third of the EU's budget and as of 2007, around 40%. This translates into 308 billion euros for the 7 year period, almost 0.4% of European GDP.

But while the financial dimension was – and still is - important, the increasing role of regional policy was even more manifest in the way it was beginning to shape up as a fully fledged policy, with its own objectives, criteria and rules. Those objectives and rules are laid out in the legal regulations for our funds, which the Commission adopts, in agreement with Member States and European Parliament, at the beginning of each 7-year cycle of financing.

Perhaps the most important non-financial development I would like to mention in this context is the switch from funding single projects managed by the Commission to the approach based on programming and on the principle of partnership with the regions and Member States. As a result, regional and local public authorities and other stakeholders became deeply involved in the design, implementation and follow-up of the interventions in the framework of regional policy.

What are the main objectives of regional policy today?

There are two challenges we are facing today. First, the last enlargement of the Union, which added 20% to the Union's population but only 5% to its GDP, has increased economic disparities in Europe. The number of people living in regions where GDP is less than 75% of the EU average – and where the majority of our investment goes - has increased from 69 million in the EU of 15 Member States to 118 million in the EU of 25. Helping regions in these Member States to fulfil their potential for convergence contributes to the growth and competitiveness of the EU as a whole.

If we look from this point of view on Australian states, the range of differences in the level of economic development, measured in terms of GDP per capita, seems to be narrower. The richest state, Australian Capital Territory, represents 120% of the average GDP per capita while at the other end of the scale we see Tasmania with 70% of the average. In the EU the richest Member State is Luxembourg with 248% of the average, while the GDP of Latvia, the poorest EU country, represents 39% of the EU average. Regional differences are even wider – the area of inner London has GDP per capita almost 10 times higher than the poorest region in eastern Poland.

However, it seems that a more appropriate approach to regional differences in Australia is one which takes local governments as the basis for comparisons. There the differences are much more pronounced. When we compare real income per taxpayer, it is almost 4 times higher in the local government area of Mosman – “Major Cities”

class (North South Wales) than the real income in Jerramungup – “Remote” class (Western Australia). So, regional convergence seems to be an issue for Australia too.

The second challenge we face is, of course, globalisation. Certainly, it is not a new phenomenon, but the rate and extent of economic change is unprecedented, pressures coming from outside have impact on even the most remote regional and communities in the Union. Factors of competitiveness are no longer bound to costs or natural or geographical advantages, but to the capacity to create new goods and services in response to – quickly changing - market needs. As never before, competitiveness is “man made”. Building it requires a much more sophisticated and complex approach to development strategies.

The Union’s response to both challenges – enlargement and globalisation - has been a renewed growth and jobs strategy with regional policy as a key instrument for delivering results across the Union. Why regional policy?

First, because past experience has demonstrated clearly that it has the capacity to reduce economic disparities, thus accelerating the growth in the whole of the Union. Evidence from independent experts suggests that EU regional policy has helped the poorer regions in Spain, Portugal and Greece to reduce the gap in levels of GDP per head by between 11 and 13 percentage points between 1988 and 2003. Ireland, another major recipient up until the recent past, speaks for itself, with income per head doubling over the past decade.

For the period 2007 to 2013, we estimate that regional policy investments in the new Member States (the ten that joined the EU in 2004 plus Bulgaria and Romania) including more than half of the poorest regions of the Union, could create up to 2.5 million extra jobs and raise their GDP by between 10 and 16 per cent. And we have already some evidence showing that these forecasts are reasonable – it is estimated that in the last two years, in Poland, 250 thousand jobs were created or maintained as a result of investments made by EU regional policy.

A second reason why regional policy is a central element of our strategy for growth and jobs is because Europe's businesses need innovation and the ability to apply innovation to stay ahead in the globalisation game. And regional policy is particularly suited to promoting an economic model for Europe based on innovation.

This is because most of the resources essential for innovation – technology centres, research institutes, innovative SMEs, bodies providing financing - can be found within the region. It is also there that indispensable local knowledge and expertise can be mobilised to address most appropriately local and regional development issues. In addition, short distances make the regional level appropriate for stimulating interaction between the producers, users and mediators of innovation, for gearing all these resources towards the objective of creating an innovative regional economy. In doing so, regions can also make use of a wide range of powers, both regulatory and expenditure-based.

Therefore, the regional and local approach is an inherent part of development strategies designed and run at both European and national level. This indeed is where the unique governance of regional policy in Europe comes into play – meaning that programmes are drawn up in strong partnership with national, regional and local partners. The importance of the region in the face of global competition led us to the conclusion that the new 2007-2013 programmes should reinforce the emphasis on partnership between the Commission, the Member States, and the regions.

And I am happy to note that you in Australia share this diagnosis and decided to follow a similar path, by recent changes which make regional partnerships in Australia stronger and reinforced the role of Area Consultative Committees.

Ladies and Gentlemen,

I have until now focused on the first priority for regional policy in the next programming 2007-2013 period - encouraging innovation, entrepreneurship and the growth of the knowledge economy, including new information and communication technologies. Still, we have to recognize that there are other, more traditional impediments to growth. Thus, the second area where regional policy intervenes – and will continue to do so in the future - is in the provision of adequate basic infrastructure (such as transport, telecoms and energy networks, water supply and environmental facilities). In the absence of acceptable minimum levels of investment in these areas – which results from the

inability of Member States to mobilize sufficient public funding or due to the market failure - the development efforts undertaken in the less developed regions are condemned to failure. Investors simply do not come to areas which lack basic infrastructure or are characterized by low quality of public services.

This type of action in our policy comes under the label of accessibility, and can be compared to your priority aiming at overcoming geographic and social isolation and at better delivery of regional services.

Finally, the last, and third priority of our regional policy is linked to creating more and better jobs by attracting more people into employment or entrepreneurial activity, improving the adaptability of workers and enterprises, integrating migrants in the labour market and increasing investment in human capital. It also promotes social inclusion in order to create new sustainable jobs in disadvantaged regions, cities and rural areas. Here, the comparison with Australia policy could be extended to your activities addressing pressing social issues and community skills in regional communities.

Ladies and gentlemen,

I have spoken to you about governance, about strategic priorities, about growth and jobs. But regional policy is more than that. It is about creating new jobs from local ideas, it is about local leadership, about successful, vibrant and self-reliant regions. That is why we made regional policy funding available to every EU region. Thus a significant share of our

resources goes to regions that may not be the poorest, but where there is nevertheless scope for improving the performance of regional economy – for example, in the areas that have undergone substantial industrial restructuring.

This is an approach which fosters the idea of European solidarity, which triggers local community energy, which gives people belief that they themselves can find an answer to the impact of globalisation on their lives and businesses.

I wish you a good debate and hope that learning from each other will greatly contribute to the attractiveness and efficiency of regional policy, both in Europe and Australia.

Thank you very much.