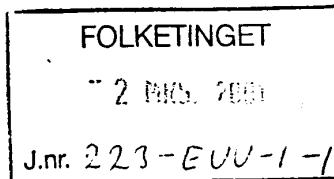


MICHEL BARNIER
Membre de la Commission européenne



IA

IVH

JOJ

MB

JA

IB

Bruxelles, den 15. februar 2001
D(2001)

Hr. formand

Vedlagt finder De den anden rapport om økonomisk og social samhørighed, som netop er blevet vedtaget af Europa-Kommissionen. Rapporten er fastsat ved Traktatens artikel 159.

Rapporten indeholder først et resumé samt nogle konklusioner, der redegør for de væsentligste resultater, retningslinjer og muligheder for den fremtidige samhørighedspolitik. Selve rapporten består af tre dele. I første del ses nærmere på udviklingen af den økonomiske og sociale samhørighed samt de faktorer, der bidrager til udviklingen af EU's regioner. I anden del gennemgås de forskellige EU-politikkers bidrag til samhørigheden. I tredje og sidste del gøres der status over, i hvilken grad EU-budgettet og strukturpolitikken har bidraget til at nå målsætningerne for samhørighed.

Den første rapport om samhørighed udgjorde grundlaget for forslagene i Agenda 2000. Det er mit ønske, at der med den nye rapport kan indledes en bred debat, som vil gøre det muligt at skitsere retningslinjerne for en samhørighedspolitik i et udvidet EU. Alle berørte aktører bør deltage i denne debat: ikke kun EU-institutionerne, medlemsstaterne, regionerne og de lokale partnere, men også de økonomiske og sociale aktører og NGO'erne.

For at fremme denne debat arrangerer Kommissionen et forum om samhørighed den 21. og 22. maj 2001 i Bruxelles, og der bliver en onlinediskussion på Internettet den 26. marts, som jeg selv deltager i. Efter debatten har fundet sted, vil Kommissionen forelægge et forslag for Parlamentet og Rådet om detaljerne i den nye samhørighedspolitik for perioden, der begynder den 1. januar 2007.

Rapporten findes for øjeblikket på engelsk, fransk og tysk. Snart vil den også være tilgængelig på de andre officielle EU-sprog, og der vil være direkte adgang til den på Generaldirektoratet for Regionalpolitikks hjemmeside: <http://www.inforegio.cec.eu.int/2cr>.

Brni Indiakou

Med venlig hilsen

M. Barnier

Michel Barnier

Hr. Ivar HANSEN
Praesidium
Folketinget
Christiansborg
DK-1240 KØBENHAVN K



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 31.1.2001
COM(2001) 24 final

**REPORT FROM THE COMMISSION TO THE COUNCIL, THE EUROPEAN
PARLIAMENT, THE ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

**SECOND REPORT
ON ECONOMIC AND SOCIAL COHESION**

**REPORT FROM THE COMMISSION TO THE COUNCIL, THE EUROPEAN
PARLIAMENT, THE ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

**SECOND REPORT
ON ECONOMIC AND SOCIAL COHESION**

INTRODUCTION

The role of the Cohesion Report

Article 159 of the Treaty states that every three years the Commission should present 'a report on the progress made towards achieving economic and social cohesion and on the manner in which the various means (including different Community policies) provided for in (the) article have contributed to it.' This report is the response to this requirement. Article 45 of the General Regulation on the Structural Funds specifies the contents of the report.

The Commission adopted the First Cohesion Report at the end of 1996. This was the basis for the first Cohesion Forum held in April 1997 and for the proposals contained in 'Agenda 2000 - for a stronger and wider Union,' which led to the reform of cohesion policy adopted by the Council in June 1999.

The Commission has chosen to present the Second Report on Economic and Social Cohesion at the beginning of 2001, which falls immediately after the first phase of the implementation of the reform of the Structural Funds, and after certain key decisions have been taken as regards financial allocations and geographical eligibility for support. It is, therefore, already possible at this stage to make a broad *ex ante* assessment of the possible impact of the reform.

The second Report also contains an updating of the regional analysis contained in the Sixth and last Periodic Report on the situation and development of regions published in 1999. Such an updating is more necessary than before since the Cohesion Reports replace the Periodic Reports which the Commission has published since the beginning of the 1980s.

First analysis of cohesion in an enlarged Union

As the Treaty and the general Regulation on the Structural Funds require, the Report analyses the changes in cohesion and the factors which contribute to it. Without prejudging the timing, the procedures or the order of countries entering, the working hypothesis adopted relates to an enlarged Union of 27 Member States.

So far as the data allow, each part of the Report includes consideration of the situation in an enlarged Union. This should be the context for analysis, rather than in terms of a more static analysis of the respective situation in the present 15 Member States and the 12 countries with which accession negotiations are taking place. An analysis of regional features in Turkey, the 13th candidate country with which negotiations have not yet begun, is included separately. This will be the subject of a more systematic analysis in future reports after negotiations have begun.

Launching the debate

The report develops a set of conclusions and recommendations with a view to opening up a debate on the future of cohesion policy after 2006 in an enlarged European Union. The Commission is convinced that for the future, important changes will be required to a policy which was designed for the present Member States. While enlargement is major part of the explanation for the need for change, it is not the only one in view of the far reaching economic and social and territorial changes affecting the present EU15. These changes are also examined in the report.

The debate which will ensue will involve the EU institutions and agencies, Member States and regional and local authorities, as well as the relevant economic and social interests, non-governmental organisations, universities and other academic institutions. The Commission itself is organising a **Cohesion Forum** in Brussels on 21 and 22 May 2001 to provide an opportunity for the exchange of ideas and discussion of future cohesion policy. The candidate countries will be fully involved in this consultation exercise.

At a later stage, the Commission will set out proposals which will then be presented to the European Parliament and the Council of Ministers for a new cohesion policy to take effect from 1 January 2007.

**Synthesis of the report
on economic and social cohesion**

Table of contents

PART I : Situation and trends

PART II : Contribution of Community policies to cohesion

PART III : Economic and social cohesion policy : the results

CONCLUSIONS AND RECOMMENDATIONS

TEN ISSUES FOR PUBLIC DEBATE ON THE FUTURE OF COHESION POLICY

SYNTHESIS OF THE COHESION REPORT

PART I: Situation and trends

A narrowing of income disparities in the EU15

In the EU today, disparities in income (GDP) per head between Member States and, more particularly, between regions, remain considerable. The average income per head of the 10% of population living in the most prosperous regions is, for example, 2.6 times greater than the bottom 10%.

The disparities, however, have narrowed over time. In the three least prosperous Member States (Greece, Spain and Portugal), average income per head has risen from 68% of the EU average in 1988 to 79% in 1999, a reduction of a third in the initial gap. Disparities between regions have narrowed by less, partly because the gaps have widened between regions within certain Member States.

Lower income per head at regional level is associated with lower output per person employed, lower levels of education and training – despite significant progress achieved in recent years – less research and development activity and innovation, as well as a slower pace of introduction of the new information and communication technologies. On the other hand, there has been a marked improvement in relative infrastructure endowment in less prosperous regions, a key factor in their longer-term development prospects.

A step change with enlargement

With the enlargement of the Union, the economic landscape is set to change significantly. An analysis of the situation as it stands today points to a doubling of the income gaps between countries and regions, a doubling in the sense that if a Union of 27 existed tomorrow:

- at national level, over one-third of the population would live in countries with an income per head less than 90 % of the Union average - the current threshold for eligibility for aid under the Cohesion Fund - compared to one-sixth in the present EU15.
- at regional level, the average income per head for the bottom 10% of population, living in the least prosperous regions in EU27, would be only 31% of the EU27 average. In the EU15 today, the income per head of the bottom 10% of population equates to 61% of the average.

At national level, in a Union of 27 the countries separate into three main groups. The most prosperous group comprises 12 of the current Member States of the Union – all except Greece, Spain and Portugal - where income is above average. This is followed by an intermediate group of Greece, Spain and Portugal, together with Cyprus, Malta, Slovenia and the Czech Republic, where income per head is around 80% of the EU27 average, with 13% of the total EU27 population. The real change compared to the Union of today, however, would be the existence of a third group comprising the 8 remaining candidate countries where income per head is around 40% of the EU27 average. This is a significant group accounting for around 16% of the population of the EU27.

As an example, infrastructure in the candidate countries is inadequate in quantity and often of poor quality, while evidence suggests that labour force skills and the kind of education and training provided do not match the needs of a modern market economy. As regards transport, the Transport Infrastructure Needs Assessment estimates the total cost of constructing trans-European networks in these 12 countries at € 90 billion, while several studies put the cost of complying with Community environmental standards at € 50-100 billion, giving an overall amount of € 15-20 billion a year, for the next 10 years, for the two sectors.

In sum, the evidence demonstrates that considerable progress has been achieved in the present EU15 in reducing income gaps between regions, though on past trends it is likely to take another generation before regional disparities are eliminated. Enlargement widens the disparities markedly. Given existing levels of income per head in the candidate countries, convergence between regions in the enlarged Union would take at least two generations if it occurred at the same pace.

Employment: some signs of progress

Employment in the EU15 rose by over 2 million during the 1990s, but this was not sufficient to **significantly** increase the employment rate - the proportion of the population of working age in employment - which remained at just over 60%, well below the ambitious objective of 70% fixed for 2010 by the Lisbon European Council. The average figure, however, conceals substantial differences across the Union. Only 4 Member States had an employment rate in 1999 above 70%, while in Greece, it was only around 55% and in Spain and Italy, even lower. 10% of the Union's population lived in regions where well below half of those of working age were in employment (44%).

Despite strong growth of employment of women, mostly in part-time jobs (one woman in three in the Union works part-time), their employment rate was 19 percentage points below that of men in 1999. All of the employment growth in the Union over the 1990s was in services, the largest increases occurring in the most prosperous regions and in high-skilled jobs. At the same time, because of skill mismatches, labour shortages are beginning to emerge in many regions, especially in new sectors of activity and particularly in information technology.

The persistence of wide gaps in unemployment in the EU15

Disparities in unemployment remain wide in the Union. In 1999, Greece, Spain, France, Italy and Finland had unemployment rates of more than 10%, at least twice the rate in Luxembourg, Netherlands, Austria and Portugal where the figure in each case was below 5%. Regional disparities are much more pronounced: the 10% of population in the worst-affected regions - mostly regions where development was lagging, but some of which were undergoing restructuring - had an unemployment rate in 1999 of 23%, nearly 8 times the average for those in the least-affected regions (3%).

Labour markets in the candidate countries: an incomplete transition

While there are superficial similarities between labour markets in the candidate countries and the EU15 - in 1999, unemployment averaged 10.2% in the former 9.3% in the latter, while the average employment rate was much the same in the two - there are major underlying differences, which are a legacy of the ongoing process of transition. Five key features are worth highlighting:

- women in the candidate countries are continuing to withdraw from the labour market, though participation rates are still higher than those in most parts of the Union;
- employment in traditional industries remains high even after the loss of 25-50% of jobs over the 1990s;
- agricultural employment, at 22% of the total, is 5 times the average for the Fifteen (4.5%), though its importance varies markedly between the countries;
- labour productivity remains lower than in the EU15;
- employment in services has grown significantly, but at a much higher rate in the capital cities than in other parts of the countries.

In sum, the return of stronger economic growth in the second half of the 1990s has generally had favourable consequences for employment and unemployment in the EU15 but the effect in terms of reducing regional disparities in income and employment has been more limited. In the candidate countries, the transition process remains incomplete, with the risk that unemployment could rise in many regions in the period ahead. But the outlook for labour markets in an enlarged Union will be heavily influenced by demographic trends. In the EU15, these will lead to an ageing of the labour force and could result in it declining in number after 2010. In the candidate countries the pattern is broadly similar, but an important feature here is the expected growth in the number of young people aged 20-35. In an enlarged Union, this would be an important balancing factor in an otherwise ageing population and labour force.

Social cohesion and the incidence of poverty: a persistent problem

In 1996, 18% of the population in the Union, or one in six, had income below the poverty level.¹ The countries where the proportion was lowest, Denmark and the Netherlands (11-12%), are also those with income per head above the EU average. At the other extreme, 20-25% of the population in Portugal and Greece had income below the poverty line. The contrast is even sharper in respect of long-term, or persistent, poverty which affects only 3% of people in Denmark and the Netherlands but 12% in Portugal and 10% in Greece.

There are many root causes of poverty and particular groups are especially at risk, including people with low education, old-age pensioners, the unemployed and others not in work, lone-parent families and families with large numbers of children. Many poor families have more than one of these characteristics.

While comparable data for the candidate countries are not yet available, the evidence suggests that rural areas are most affected by poverty.

The territorial dimension: persistent imbalances

The most important territorial imbalance in the Union today is that between the less developed regions and the rest. At the same time, spatial disparities in the Union reflect a more complex reality than indicated by differences in income and employment between regions. This reality has to do with the potential for development and is implicit in Article 158

¹ According to the EUROSTAT definition, which is the proportion of the population with income equal to or below 60% of the median in their own country.

of the Treaty, which refers to the need to promote a harmonious development of the Union as a whole.

For the Commission, and for the Member States, this was the rationale behind the European Spatial Development Perspective (ESDP), which was the first coherent effort to clarify the nature of the major territorial imbalances across the Union as a whole. These imbalances and the need to address them assume an added dimension with enlargement, if only because the land area of the Union will have doubled in relation to the early 1990s once the candidate countries have entered.

High geographical concentration of activity in the Union

Economic activity is concentrated in a core part of the Union situated in the triangle extending from North Yorkshire in the UK to Franche-Comté in France and Hamburg in Germany. While this area accounts for only one-seventh of the Union's land area, a third of the population live there and almost half (47%) of income is produced there. In other comparable economies, like the US, the pattern of activity is more dispersed.

For the EU, this concentration has negative implications not only for peripheral regions but also for the central regions themselves, particularly in terms of traffic congestion and pressure on the environment and health, which could in the long-term offset the apparent advantages.

Urban areas: growth centres for achieving polycentric development...

The concentration of population in central areas is reflected in a high degree of urbanisation and a disproportionately large share of the highly skilled functions associated with the knowledge economy being located there: business headquarters, research installations and the most highly qualified workers. The net result is a level of productivity some 2.4 times higher than in peripheral areas. The counterpart of this concentration is that the Union lacks the kind of polycentric pattern of activity which is undoubtedly a factor in the territorial cohesion of the US, in its less pronounced regional disparities in income and employment and, perhaps, in its competitiveness.

...but with pockets of deprivation

The Union's urban areas, however, are also those where social and economic disparities are most marked and certain districts have high levels of poverty and exclusion. Differences in unemployment and dependency rates, for example, are wider within some cities than between regions in the Union. (The Commission's urban audit identified a number of cities where unemployment varied by a factor of 10 between districts.)

Varying circumstances in the rural areas

The extent of rural areas varies significantly between Member States, from the Nordic countries and Ireland, where two out of every three people live in such areas, to Belgium, Germany and the UK, where only one in eight does.

The population living in rural areas is increasing, if to differing degrees, in all Member States and employment growth is higher there than in the rest of the Union, reflecting their comparative advantages. Equally, however, many remain in difficulty because of their many handicaps.

Border regions: the problems shift eastwards

Border regions, which are home to one in four Europeans, often suffer from problems of accessibility and lack of economic opportunities because of the fracture created by an international frontier. With the creation of the single market, backed by cross-border cooperation programmes supported by European funds, for the most part existing internal border regions no longer show significant differences in income per head and unemployment compared to the Union as a whole. In general, the same applies to those regions in the EU15 bordering candidate countries, although there are important differences between the regions concerned. For these regions, the situation could change in the future, in the sense that they are in the frontline in the more competitive circumstances after enlargement.

In the candidate countries, a significantly larger proportion of the population live in border regions (6 out of every 10 people), than in the Union, the main problem areas being in the east along frontiers with third countries.

Specific areas

Islands and archipelagos, mountain and peripheral areas - including the 'outermost' regions - are an important part of the Union and share many common physical and geo-morphological characteristics and economic disadvantages. These regions generally suffer accessibility problems which make their economic integration with the rest of the Union more of a challenge. Accordingly, a large number already receive EU regional aid - 95% of both mountain areas and islands are covered by Objective 1 or 2. At the same time, their social and economic conditions vary widely and two of the most prosperous candidate countries are islands (Cyprus and Malta).

PART II: Contribution of Community policies to economic and social cohesion

This part of the Report examines the manner to which Community policies have contributed to cohesion, as stipulated in the Treaty (Article 159), and the implications for enlargement of the Union.

1. Economic and monetary integration policies

Economic and Monetary Union

Macroeconomic stability helps to achieve economic convergence

For high rates of economic growth to be sustained in lagging regions of the Union, it is important that structural policies are allied to macroeconomic policies which ensure financial stability. The establishment of a single currency makes the maintenance of such stability easier to achieve.

Over the 1990s, in the run-up to monetary unification, inflation was reduced considerably in the cohesion countries, especially in Greece and Portugal, from well above the EU average to around 2½%. At the same time, growth of GDP was above average in all four cohesion countries in the second half of the 1990s. Nominal convergence was, therefore, accompanied by real convergence.

This tendency was particularly marked in Ireland, while convergence has occurred more slowly in Spain and Portugal and more recently in Greece.

The introduction of the Euro makes differences more transparent and capital more mobile

The introduction of the Euro should lead to increased competition and, therefore, to greater market efficiency. By reducing transaction costs and interest rate differentials, it should lower the price of capital and increase its availability in lagging regions. Capital is likely to flow more easily to areas where the returns are highest, implying that the specific features of different regions will assume more weight in the competition for finance. The least competitive regions will therefore be particularly exposed.

At the same time, regional variations in labour costs will become more transparent, which should help to focus attention on underlying differences in productivity, a major cause of differences in regional competitiveness.

The internal market

The decisions taken in 1988 and 1992 to strengthen the Union's support to regions with structural difficulties were motivated by a recognition that closer economic integration would not necessarily permit the reduction of regional disparities and could, initially at least, lead to them widening. Cohesion policy therefore sought to help less developed regions benefit from the advantage of European integration and to enable the Union as a whole to fully exploit its growth potential.

The progress achieved towards a more integrated economy, now extending to the applicant countries as well as the present Member States, is reflected, in particular, in convergence of prices across the Union, expansion of trade and growth of direct investment between countries.

The extent of price convergence differs between sectors

In contrast to the prices of manufactures, which have tended to converge across the Union, differences persist for most services, which underlines the local nature of markets in a number of sectors. Convergence towards EU prices also seems to be occurring in the more advanced candidate countries, at least for traded industrial goods.

Significant growth of trade

The EU economy is becoming more integrated into the global economy as well as internally. Closer integration is being accompanied by growing similarity in the composition of trade between Member States.

Trade flows between the Union and the candidate countries have increased markedly during the 1990s, reflecting the progressive move towards a free trade area planned for 2002. The Union already accounts for 60% of total exports of the candidate countries while these account for 10% of Union exports. The composition of trade between the two suggests that they do not compete in the same type of product.

Growth of foreign direct investment (FDI)

FDI is particularly important in some Member States, especially Ireland, Sweden and the Benelux countries. Mergers and acquisitions, which doubled between 1991 and 1999, account for a significant part of this.

Union direct investment in the applicant countries is also growing considerably. Since such flows now amount, on average, to around 5% of the GDP of the recipient countries and some 20% of investment, they have a major impact on their growth and productive potential.

On the other hand, these flows are very small in relation to Union GDP. They seem to be aimed more at supplying the home market than at exporting back to the EU and are, therefore, unlikely to have a depressing effect on employment and wages in the Union.

Tendencies to concentration or dispersion?

A key question concerns the extent to which economic integration is likely to lead to some sectors of activity concentrating in a few regions to exploit economies of scale. In practice, there seems to be a general trend towards concentration in manufacturing, but the extent varies between industries and is occurring at a very slow pace because of the scale of the investment required to change the locational distribution of activities significantly (Ireland and Finland, for different reasons, are exceptions). The risk exists that such a concentration would increase the vulnerability of some regions to external shocks which affect particular sectors concentrated there.

The effects of integration and the need for accompanying policies

The increased competition generated by closer integration and the diminished possibility of protecting local industries are likely to put a premium on technical know-how and to reduce the demand for low skilled workers even further. The response to this should be to raise the levels of education and training of the work force and to orient training towards the skills required in growing sectors. Education policy and active policies for employment and social development therefore have an important role to play in accompanying economic integration.

At the same time, the candidate countries will need to comply with the requirements of the 'acquis' (the body of Community law, including directives, regulations as so on) which is likely to add to production costs and affect the ability of their businesses to compete with those in the present Member States.

However according to the studies which have been carried out, enlargement of the single market to include the candidate countries should have generally beneficial effects for all parts of the Union, especially for those on the two sides of the border between the old and new Member States.

Competition policy

Competition policy improves the functioning of the internal market

State aids provided by Member States have a potentially important effect on the regional distribution of economic activity. In the period 1996 to 1998, they accounted for 2½% of total public expenditure in the Union or over 1% of EU GDP (in other words, roughly the same size as the Community budget as a whole) as compared with 0.45% of GDP allocated to EU structural policies.

The scale of expenditure on them, however, varies significantly between Member States. Although the gap narrowed in the latter part of the 1990s, it is still the case, according to the latest figures, that the more prosperous countries spend more than the cohesion countries, so offsetting to some extent the effect of EU structural policies in the latter.

In an attempt to reduce this negative effect, more objective and transparent criteria were established by the Commission during the course of 1999-2000 for defining eligibility for regional aid. As a result, the proportion of the EU population living in regions qualifying for such aid was reduced from 46.7% to 42.7% and assistance has become more concentrated on the most disadvantaged areas. Nevertheless, because of the decisions made by Member States, it was not possible to achieve a better correspondence between the regions eligible for EU structural support and those assisted by State aids.

2. The Common Agricultural Policy : prices and agricultural markets

Successive reforms have greatly changed the concept of the Common Agricultural Policy (CAP) and the way it works. During the 1980s, the CAP was directed at reducing official prices of agricultural produce and compensating for the effects of this on farmers' income through direct payments (direct aids), the use of which was generalised under the 1992 reform. A new reform with two important strands was introduced as part of *Agenda 2000*. First, official prices were lowered with the aim of strengthening the competitiveness of the sector while ensuring a reasonable standard of living for producers. Secondly, a new framework was established for rural development policy, which became the second pillar of the CAP.

Significant changes in the distribution of expenditure between countries

Accordingly, direct aids and support for rural development have accounted for a growing share of total expenditure on agriculture, while only 29% of spending under the EAGGF-Guarantee went on market support and payments to exporters in 1998 as against 82% in 1992.

The CAP, through market support measures and direct aid in particular, involves large transfers between Member States as well as between sectors of economic activity and between social groups.

In 1998, as in 1993, net transfers were positive for three of the four cohesion countries. Portugal, however, traditionally a low beneficiary, remained a net contributor, despite its share of total agricultural expenditure rising from 0.6% to 1.6%. The change in the scale of net transfers, however, differed between Member States. In absolute terms and in relation to their agricultural area, three Member States (France, Germany and Spain) absorb over half of EAGGF-Guarantee expenditure. On the other hand, if transfers are expressed in relation to agricultural employment, Denmark and Belgium are the main beneficiaries.

But very different regional effects

The level of support to agriculture has increased in relation to the number employed in all regions of the Union, largely because of a continuing fall in employment. Overall, the 1992 reform has not radically altered the distribution of support between regions, although it has increased the amount going to regions producing cereals, oil seed and beef, so to many regions in France, Spain and Ireland. Support to producers is lower in the least prosperous regions.

There remains a marked difference between the southern and the northern regions in respect of the economic size of agricultural holdings. The average size of those located in the 20 regions with the smallest size of holding (all situated in the south) declined by just over 2% between 1993 and 1997. At the same time, it grew by almost 25% in the 20 regions with the largest size of holding, all these being in the north.

3. Horizontal policies

Employment policy and the development of human resources

Although Member States are responsible for developing and implementing employment policies, there is a clear need for coordination, elaboration of common objectives and exchange of information at the Union level. This is the reason why a European Employment Strategy was launched in the Treaty of Amsterdam in 1997, with priority being given to active labour market measures. Its most visible component is the 'Luxembourg process,' within which the 'employment guidelines,' adopted by the Council each year, are translated into 'National Action Plans' (NAPs) in each Member State. These are then evaluated annually in the 'Joint Employment Report,' adopted by the Commission and the Council.

The Luxembourg process

The Luxembourg process is based on four operational pillars: employability of the labour force; development of entrepreneurship; adaptability of enterprises and those in employment and support for equal opportunities. The objective of policy is two-fold: to reduce unemployment and increase employment, in part to ensure the long-term sustainability of the European social model. These objectives were confirmed by the European Councils in Lisbon and Nice.

In addition, after the Nice European Council, a process for the coordination of national plans for social inclusion was begun.

Although it is difficult to identify the specific contribution of the Employment Strategy, the favourable employment developments which have occurred in the recent past seem to suggest that a virtuous circle has been created, in which Member State macroeconomic policies of stability and structural reform are an important part.

Regional disparities in employment and unemployment

Labour market performance continues to vary widely between regions, which suggests the need for the development of a regional and local employment strategy.

Labour shortages are beginning to appear in a number of Member States at the same time as unemployment remains high, reflecting the mismatch between the jobs on offer and the labour skills available. This requires action both to raise the level of education and training and to direct it to towards sectors of activity in which the demand for labour is growing, while ensuring that priority is given to groups at risk. Despite the general increase in levels of education, too many young people still leave school without adequate qualifications. There is also a need to reduce the risk of exclusion of those with low skills from the technological revolution. All the NAPs include specific measures aimed at target groups for tackling this problem.

Improvements can be identified in the way Member States address equal opportunities, especially in Finland and Ireland. Nevertheless, more could be done in many countries.

2002: Evaluation and new proposals

In the proposed employment guidelines for 2001, the Commission has focused on achieving full employment, the role of the social partners, continuing training throughout a person's working life and social inclusion. An overall evaluation of the results of the strategy and of the objectives will be carried out in 2002.

Environmental policy

The pursuit of economic and social cohesion and the protection of the environment are complementary objectives. Even though environmental protection may initially increase the costs of production or, more accurately, make them more visible, the effect should not be overestimated. The cost of implementing all the directives on water and waste treatment as well as the measures resulting from the Kyoto conference should amount to only around 0.5% of Union GDP.

Environmental protection should not be regarded solely as imposing costs on the economy, but equally as a means of improving the quality of life, especially in problem urban areas.

Higher costs, but also advantages for least prosperous regions...

In the case of policies on water and waste, which are critical for environmental protection, there needs to be considerable investment to tackle problems in the cohesion countries and the least prosperous regions. The Structural and Cohesion Funds will help cover the cost of this in lagging regions and bring standards up to those elsewhere.

... for the weakest social groups...

The cost of environmental protection, as in the case of implementing the framework directive on water, will sometimes fall on the weakest members of society, because of the transfer of some of the costs involved on to users, notably on to households and farmers, under the 'polluter pays' principle.

The measures involved, however, also contribute to social cohesion, in respect of public health and in terms of the jobs created. Although the likely effect on employment seems modest at the Union level, several tens of thousands of jobs could, nevertheless, be created over the next few years as a result of the directives on water and waste treatment.

...and for the candidate countries

The candidate countries face the same problems as the cohesion countries but to a greater extent, particularly in respect of waste treatment. The Union is already helping to finance the investment required through ISPA and after accession, this will be one of the priorities for the Cohesion Fund.

4. Other Community policies

Research and development

The Community research and technological development policy (RTD) is focused on the pursuit of excellence in order to strengthen the Union's position in relation to its international competitors. In terms of territorial balance, the establishment of a *European Research Area* opens up further prospects for integrating research and regional development.

A more even distribution of knowledge...

By requiring the involvement of partners from several Member States, the Framework Programme helps improving the exchange of knowledge and the joint development of technologies. The proportion of projects involving at least one participant from an Objective 1 region has risen from 27% in 1994 to 41% in 1998. In the cohesion countries, however, participants tend to be located in the centres of excellence in the capital cities or most prosperous regions.

...greater mobility of researchers...

The cohesion countries are well represented in programmes designed to encourage the mobility of researchers, many of whom are given an opportunity to spend time in non cohesion countries'. This, however, should not lead to a brain drain towards central areas, where research is already concentrated, which could compromise balanced territorial development in Europe, a problem which might also arise in the candidate countries.

...and a need for new approaches in disadvantaged regions

It is important to create in lagging regions the proper framework conditions for research and innovation. Improvements in the international career opportunities of young researchers and an increase in RTD resources are not sufficient by themselves to expand their innovative capacity. In these regions, it is important to create more career opportunities for researchers.

Transport policy

The objective of the common transport policy is to ensure access throughout the Union to suitable transport services which respond to user demand.

More efficient use of resources

With the entry of new Member States, there will be an even greater need to use Community resources more efficiently, which means better assessment of alternative projects, increased mobilisation of private sources of finance, greater utilisation of existing capacity, improvements in the quality of service and more respect for the environment. On this last point, new technologies, like intelligent transport systems and intermodal equipment, can radically reduce the negative effects of transport.

The trans-European transport networks

The trans-European transport networks are improving access to remote peripheral regions and islands, opening up border areas through the construction of new routes across natural barriers and achieving a better balance of activity along the coastline.

Community measures need to be aimed at ensuring the mobilisation of public and private organisations and companies to carry out the investment required for constructing the network defined in the 1996 Guidelines.² It is also necessary, however, to introduce major modifications to the guidelines. A first step has been made in this direction by including ports in the plans and other changes are foreseen to equip lagging regions and to improve the distribution of the major traffic flows in the Union. There is also a need to tackle the growth of goods transport by road which threatens sensitive areas and already congested routes for long distance haulage, this means putting in place a genuine European freight network, based so far as possible on rail and waterway.

The continued construction of high-speed lines coupled with a trans-European network of airports will provide fast international travel which is essential for reducing the territorial fragmentation of the Union, while the progressive introduction of quality and safety standards harmonised at the EU level is also a major aim of policy.

Trans-European transport networks, therefore, have an important effect on territorial development and regional disparities, as well as on the distribution of activity, the functioning of the labour market and trade flows, as emphasised by the European Spatial Development Perspective (ESDP).

Energy policy

Energy: an important factor in competitiveness and sustainable development

There should be no marked differences between regions in the availability of energy and prices. Despite the efforts undertaken, however, there is not yet a single market for energy in the Union.

² Decision 1692/96/CE.

Common rules for environmental protection are still in embryonic form and their implementation could have positive or negative effects on particular sectors of activity and regions. Sustainable development requires an intensification of programmes for increasing energy efficiency – but also an improvement in the means for managing and controlling atmospheric emissions and the application of market mechanisms to encourage this. There is also a need to introduce legislation which encourages the use of renewable energy sources.

Dependency and the need for diversification

The extent of dependence on external sources is a constraint on development in the Union as a whole. This dependency, which is set to increase if the use of renewable sources and more rational energy use are not encouraged sufficiently, could well penalise lagging regions the most in the event of a supply shock.

Enterprise policy

The Lisbon European Council set the Union the objective of becoming the 'most competitive and dynamic, knowledge-based economy in the world.' To attain such a goal, and to support employment creation, requires entrepreneurship to be encouraged and an environment favourable to change and innovation to be developed.

Enterprise policy is intended to help achieve this objective for the whole of the Union, without distinguishing *a priori* between different areas. Nevertheless, certain measures address problems which particularly affect lagging regions. These include help in accessing risk and start-up capital (especially for SMEs), policies for the diffusion of innovation and entrepreneurial best practice, and support for tourism, often a key sector for the development of these regions.

Common fisheries policy

The Common Fisheries Policy is focused on four major areas: the conservation of fish stocks, the restructuring of the fleet, the organisation of markets and fishing agreements with third countries. While the sector is small relative to the EU economy as a whole (accounting for only 0.2% of GDP and 0.4% of employment in 1997), concentration in coastal and peripheral areas (including the outermost areas) gives it a particular importance for regional development. These areas are in many cases disadvantaged, 70% of fishermen and 60% of total employment in the sector being located in Objective 1 regions in 1997.

Because of this concentration, many of the measures supported by the Common Fisheries Policy, which are intended to strengthen the competitiveness of the sector, contribute to economic and social cohesion, particularly fishing agreements with third countries as well as measures on fish farming and processing.

The restoration of a sustainable balance between fish stocks and fishing will necessitate a significant reduction in capacity, catches and the number of fishermen. Accompanying social and economic measures to maintain employment in areas dependent on fishing and their viability (restructuring within and outside the sector, vocational retraining, and so on) will become increasingly necessary. This is the aim of the Financial Instrument for fisheries Guidance (FIFG).

PART III: Economic and social cohesion policy: the results

Over the ten years since the reform of the Structural Funds, significant progress has been made in terms of convergence and cohesion in the Union.

Impact of structural policy since 1989

Increased financing

The finance made available through the Funds almost doubled between 1989 and 1999, rising from 0.27% of EU GDP to 0.46%. The transfers were most pronounced in the cohesion countries, the main beneficiaries, equivalent to over 10 years to 1.5% of GDP in Spain, 3.3% in Portugal and 3.5% in Greece. In Greece and Portugal, Community transfers represent over 10% of investment.

Increased financial and geographical concentration

Following the decisions taken by the Berlin Council in the perspective of the first stages of enlargement, the amount of finance allocated to cohesion policy in the present 15 Member States will be reduced by 2006 back to the level in 1992 – 0.31% of GDP of the present EU15.

The concentration of finance in lagging regions will, nevertheless, enable the average amount of aid per head to be maintained for the period 2000 to 2006 at the same level as in 1999. Overall, 60% of the total of the Structural and Cohesion Funds will be allocated to Member States, which, together, account for no more than 20% of EU GDP and 70% will be concentrated in lagging regions.³

The geographical concentration of Structural Fund intervention on the regions most in difficulty has never before been as high, only 41% of the EU15 population living in regions eligible under Objective 1 (lagging regions) and Objective 2 (regions undergoing restructuring) in 2006. Nevertheless, concentration is limited, on the one hand, by the high degree of fragmentation of areas eligible under the new Objective 2 and, on the other, by the lack of coherence with the map of State regional aids.

The impact of structural policies: positive but uneven effects

Between 1988 and 1998, the difference in income per head between Objective 1 regions and the EU average narrowed by one-sixth, GDP per head in PPS in the former increasing from 63% of the average to 70%. Within this general trend, a number of regions, in particular those in Ireland, the new German Länder and Lisbon, have performed better than the average. Nevertheless, rates of employment and unemployment at the regional level have shown little sign of converging.

In the case of Objective 2 and 5b regions, available data seem to indicate that employment and unemployment tend to have changed in a more favourable way than in the rest of the Union. In particular, the average unemployment rate in Objective 2 areas declined by 2.2 percentage points over the period as compared with 1.3 points in the Union as a whole.

³ Regions where GDP per head is below 75% of the EU average.

Over the period 1989 to 1999, structural intervention had a significant effect in Greece and Portugal, GDP at the end of the period being an estimated 9.9% higher in the former and 8.5% higher in the latter as result of intervention. The effect was less in Ireland (3.7%) and Spain (3.1%), the Structural and Cohesion Funds forming a smaller proportion of GDP there. This significant contribution to growth was accompanied by more limited effects on the level of unemployment especially in Ireland and Spain.

Strengthening factors underlying competitiveness

The Structural and Cohesion Funds do not only stimulate demand by increasing income in the regions assisted. By supporting investment in infrastructure and human capital, they also increase their competitiveness and productivity and so help to expand income over the long-term. Structural intervention, therefore, tackles the root causes of regional imbalance and is aimed at strengthening the factors which provide the basis for sustained growth. Improving systems of transport, supporting SMEs, RDT and innovative capacity, strengthening education systems and improving the environment have, therefore, been the main focus of intervention.

Transport infrastructure has expanded significantly, investment co-financed by the Structural and Cohesion Funds achieving time savings of, for example, 20% in Spain, through an improvement in the motorway network, and 70% in Portugal in the case of rail freight.

Around a sixth of firms located in Objective 1 regions were recipients of support to SMEs, creating over 300,000 new jobs. In the case of Objective 3, the rate of placement of people who had followed a training programme varied between 25% and 50% according to the country and the groups targeted.

Improving employability in the Union

While the human resource measures taken under Objective 1 have contributed to the development of the regions concerned, those taken under Objective 3 have helped young people, the long-term unemployed and those threatened by exclusion to find employment. However, the modest scale of Community funding in relation to national expenditure has often weakened the specific targeting of measures in a context in which national employment priorities tend to take precedence. Although co-financed measures tend to be more effective the more they are concentrated on those who have the greatest difficulty finding employment, targeting on the most vulnerable groups has remained limited. Nevertheless, over the period 1994 to 1999, the placement rate of recipients who participated in training measures increased, the rate varying between 30% and 80%. As regards Objective 4, which had a slow and difficult start, some of the evaluations undertaken suggest that the benefits were divided between an improvement in the competitiveness of firms and an increase in the skills of some categories of worker.

Community Initiatives: their cross-border and transnational nature increases the added value for the Community

Community Initiatives have enabled a common approach to recurring problems in the Union to be developed. The development of cross-border and transnational cooperation, under INTERREG, and the strengthening of partnership at local level, which is a feature of LEADER and URBAN, are of most significance in terms of Community added value.

Structural Funds procedures : increased efficiency of public intervention

Medium-term strategic programming has had a significant influence on national and regional development policies.

The Structural Funds have also helped spread the use of evaluation of public intervention and of linking the results achieved more clearly to the finance allocated. The advances made in this respect, however, vary between Member States.

Community assistance is an effective means of mobilising private capital as well as loans, especially from the European Investment Bank, as witnessed by major infrastructure projects in Greece.

The principle of partnership has enabled local elected representatives, social and economic organisations, non-government organisations and associations to be more involved in decision-making. However, apart from the formal respect for the obligation, the extent of partnership in practice has differed greatly.

Financial procedures have often proved complex and a source of payment delays.

Prospects for the 2000-2006 programming period

A renewed effort to ensure the added-value of Community intervention

With the new regulatory system for the 2000 to 2006 period, the Commission has attempted to increase the added-value of Community intervention and to improve its visibility on the ground. Four elements are worth highlighting:

- a better formulation of Union priorities with the adoption by the Commission of guidelines for Structural Funds intervention, even if these guidelines remain 'indicative' at the request of the Member States;
- the obligation, as clearly indicated in the legislation, to mobilise partnership at different stages of the programming process ;
- the formulation and diffusion of ideas on Community policy, notably through the establishment of the European Spatial Development Perspective (ESDP), published in 1999 ;
- taking into account the employment strategy, to reinforce and to improve job quality.

Prospects for Objective 1 regions

Because of the slight reduction in assistance in relation to the preceding period decided by the Berlin European Council, the effect of structural intervention on economic growth will be smaller than in the past, especially in Spain, Portugal and, above all, in Ireland. The effects on investment, however, will remain significant, especially in Portugal and Greece, giving rise to long-term gains in productivity.

In other Objective 1 areas, especially the new German Länder and the Mezzogiorno, the effect of the Structural Funds on the supply side should be significant, though smaller than in the previous period.

A strategy focused on the factors underlying competitiveness

The Community guidelines have made it possible to adjust the focus of regional development strategies for the 2000 to 2006 period. In general, there is increased emphasis on structural factors underlying competitiveness which determine the long-term growth of Objective 1 regions, in particular, research and innovation, information technology and human capital.

Other modifications involve, for example, an improved balance between means of transport in favour of rail, a reduction in direct payments to firms and greater attention given to environmental considerations and sustainable development in the formulation of policy, to urban areas and to equal opportunities.

The challenge of more effective management

The role of evaluation was strengthened by the 1999 reform, especially through the introduction of the performance reserve which will be allocated in 2003 on the basis of the results of the mid-term evaluation. Evaluation has, therefore, become a management instrument in its own right.

It is premature to draw lessons from the simplification resulting from the new regulatory system. Indeed, the process of approving programmes by the Commission has not yet been completed. The Commission's role has been refocused on the strategic aspects of programming. Accordingly, in the negotiations with the Member States and regions concerned, it examines the priorities proposed particularly carefully while decentralising implementation largely to the Member States and the relevant administrative authorities.

A first assessment of the effects of decentralisation will only be possible after a few years. The focus of this should be on verifying whether decentralisation has benefited Member States and regions and on identifying the measures which need to be taken in order further to increase simplification in programming and management.

CONCLUSIONS AND RECOMMENDATIONS

Introduction

The evidence examined in this report shows that over the previous programming periods (1989-93 and 1994-99) Community cohesion policies have had some notable success. This is perhaps most visible in the case of the regions where development is lagging behind, where there has been a general process of catching up in economic and social terms.

At the same time, looking ahead to the next period of Community regional policies, after the end of the current planning period in 2006, the analysis in this report suggests the need to take particular account of:

- the important increase in social, economic and territorial disparities resulting from enlargement;
- the far-reaching effects of ongoing social and economic trends such as globalisation, the radical transformation of the European economy towards knowledge-based activities, the changing structure of population and so on.

In addition, a future reform of cohesion policies should take the opportunity to increase the added value and the visibility of Community policy. Ideally, reform should be accompanied by a strengthening of the effort to ensure that the other Community policies contribute to cohesion as much as possible, consistent with the pursuit of the objectives which they are principally designed to achieve.

Drawing on the analysis of the report, the following sections attempt to set out the main issues to be addressed in order to prepare the basis for a debate on the future of cohesion policies. Here, it is important to place the main issues in their correct logical order. Past experience of reforming cohesion policy reveals an increasing tendency for discussion at Member State (Council) level to concentrate on financial aspects. For example, in the negotiations on the financial perspectives for 2000 to 2006 ('Agenda 2000'), discussions on cohesion policy probably focused more on the amount and division of funding between Member States than on the content of the policy. Arguably, a more logical order would be to begin with the content - and, in particular, to identify priorities for future cohesion policies - before going on to address issues relating to the delivery system and financial allocations.

Promoting the factors determining convergence

To remain credible, Community cohesion policy must support those actions that are most likely to contribute to the reduction of the economic, social and territorial disparities in the Union. A system based simply on fiscal transfers is not enough and the Union must support the factors that play a decisive role in promoting competitiveness and help to reduce the profound imbalances affecting its territory. In short, supporting investment in physical and human capital must remain the key objective of Community cohesion policy before and after enlargement.

Beyond this broad statement, it is not easy to identify the priorities, especially in the longer-term perspective of the period post-2006. For example, a decade ago few could have imagined the role and significance that the new information technologies would assume in today's economy and society. Today, it is difficult to imagine an economic and social development strategy which would not have the promotion of these technologies as a major component. In

spite of the difficulties, there are, at the same time, certain points of reference for considering future priorities.

In general, it is evident that the level of productivity is a key factor in the process of growth and the convergence, in real terms, of national and regional economies. Productivity is determined to a major extent by the quality of human resources, physical infrastructure endowment and the capacity for innovation.

The quality of the labour force is determined, in part, by the level of education and, in part, by the updating of knowledge and skills throughout working life. The evidence suggests that matching the available skills of the work force with those required by an economy undergoing fundamental change has become a major problem. The demographic outlook, and its likely consequences in terms of falling numbers in the labour force in the next decade in the EU15, can only add to this problem, although the demographic imbalances are less marked in a Union of 27 in view of the rising numbers of young people in the candidate countries. Making the best use of all its human resources is clearly a major long-term challenge to the Union.

An adequate endowment of physical infrastructure of a high standard remains a necessary condition for economic development. Within the Union, while the regional gaps have closed in certain sectors such as telecommunications or road transport, more remains to be done in others (for example rail transport, centres of research, etc), especially in the least developed regions. In the candidate countries, the information is incomplete but the assessments available at present point to major gaps in key economic infrastructures. Priority needs to be given to promoting the development of the major trans-European networks in transport, telecommunications and energy and their connection with regional secondary networks.

Investment in knowledge and in new communication technologies is likely to continue to be the basis of long-term growth in Europe. This is a positive factor for the Union as a whole, although the new activities associated with the knowledge society are tending to concentrate in certain urban centres giving rise to a dense network which inter-connects the economies of Europe's central heartland. In order to avoid a widening of the imbalance between centre and periphery, a long-standing feature of the EU15, ongoing investment in the new technologies will be needed in order to link the peripheral regions into the major European networks, including the 'new periphery' resulting from enlargement to the East and South. Moving to a knowledge based economy and society depends also on an integrated approach combining the various dimensions of knowledge: education, training, research and development, innovation and the information society.

Finally, strengthening the capacity to innovate requires a greater focus on the environment in which businesses operate. In particular, there is a need to improve the interaction between firms, especially small firms, and research centres, universities and public bodies.

A key reference point for future actions: environment and sustainable development

Efforts to raise productivity and promote growth for one generation must not, however, be at the expense of the next. In other words, the *development path followed must also be a sustainable one*, a general point which needs to be reflected in all investment decisions.

A key consideration is that economic development can only be secured in the long-term by the prudent use of natural resources. In this regard, the availability and quality of water are particular problems in the Mediterranean. Cooperation between countries is one way of

addressing water problems but certainly not the only one. Investment in waste water treatment, water pricing, environmental control of emissions into the water are others.

In addition, it is important to encourage investment which serves to limit the damage which industry, agriculture and households can do to the environment, which means, in particular, the construction of facilities for treating wastewater and household and industrial waste. Investment in this area is a priority in the candidate countries.

Identifying priorities for economic and social cohesion

According to the Treaty, the Community must act 'to promote overall harmonious development' with the particular aim of 'reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas' (Article 158).

Based on the analyses in the report with regard to the long-term problems as well as the opportunities, facing the Union, it is possible to identify certain priorities with an economic, social or territorial dimension for future cohesion policy.

Among the priorities which have an important *territorial dimension*, the following are suggested for illustrative purposes:

- **The least developed regions.** This remains the principal priority of EU cohesion policy and the analysis of the report confirms that there are major gaps in income and opportunity between the least developed regions and the rest of the Union, although a process of gradual convergence is discernible within the EU15. With enlargement, however, the gaps widen once again.
 - With the reduction of gaps in endowments in certain types of infrastructure in the less developed regions of the EU15, less emphasis will need to be placed on basic investment and more on raising business competitiveness. Basic infrastructure needs remain considerable in the candidate countries.
 - The challenge for all of these regions in an enlarged Union is one of creating an innovative environment based around a qualified workforce, research and development and the information society.
 - Even if the human resource gaps are closing, eliminating the weight of the past in terms of the low level of qualification of the adult labour force is a long-term challenge in the EU15. In the candidate countries, the challenge is to adapt rapidly the workforce to a modern market economy.
- **The urban question**, which is at the heart of economic, social and territorial change. Cities are a key location for the pursuit of a strategy for cohesion and sustainable development.
 - Many kinds of disparity are concentrated in cities, where problem areas in which exclusion and deep poverty prevail are in close proximity to areas of high prosperity.
 - It is in the urban areas where the environmental pressures are the most acute.

- Cities are economic centres for the development of the surrounding suburban and rural areas.
- Networks of large cities can stimulate a more balanced and polycentric form of development in which medium-sized towns and cities can play a key role.
- **The diversification of rural areas.** These areas continue to experience large-scale changes. Their future depends in large measure on their links with other areas, including towns and cities.
 - Agriculture is no longer a major source of employment though it continues to be the main user of rural land as well as the key determinant of the quality of the countryside and the environment.
 - The revitalisation of rural areas and the maintenance of population depend on the development of new activities outside agriculture, notably in services.
 - Cohesion policy must play the major role in the diversification of the rural economy, complementing rural development policies financed by the CAP which is focused on adapting agriculture to new economic realities as well as on strengthening the competitiveness of rural areas.
- **Cross-border, transnational and interregional cooperation.** This is a priority *par excellence* for the Union in order to promote integration and reduce the economic and social fragmentation created by national borders. The internal market and cross-border cooperation have enabled border regions to become more integrated with the rest of the Union.
 - The internal border regions of the EU15 have, with the support of INTERREG, developed new forms of cooperation which the elimination of frontiers alone would not have been sufficient to create. Their social and economic situation has improved significantly over recent years, with closer integration into the internal market.
 - With enlargement, there will be a renewed need for cross-border measures to promote cooperation between the candidate countries and the Union, as well to assist the regions within the candidate countries that share common frontiers with third countries to the east and to the south, including the Mediterranean rim.
 - The Union should promote transnational cooperation areas, within a framework adapted to the development of networking between regional and local economies and to new forms of administration.
- **Areas undergoing industrial restructuring.** The return of sustained growth across the European continent has to some extent hidden the often serious territorial and regional effects of industrial restructuring.
 - Job losses are continuing in many industries such as textiles, cars, coal and steel production, as well as some service sectors. In this regard, the liberalisation of trade in 2005 for textile imports represents a particular challenge.

- Where such sectors are concentrated geographically, there can be severe consequences for the local and regional economy, with the need to promote new opportunities and the retraining of workers who lose their jobs.
- While encouraging economic diversification, territorial policy should also take account of the distribution of activity across the different parts of the Union.
- **Areas with severe geographical or natural handicaps.** In certain parts of the Union, efforts to achieve full integration with the rest of the European economy run into difficulty because of particular geographical or natural handicaps.
 - These areas – outermost regions, islands, mountain areas, peripheral areas, areas with very low population density – are often a key component of the Union’s environmental and cultural heritage.
 - There are often acute difficulties in maintaining population.
 - Additional costs for basic services including transport can impede economic development.

Among the priorities under economic and social cohesion policy relating to **employment and social** policy, which have both a general and regional dimension, are:

- **More and better jobs.** the rate of job creation in some parts of the Union remains low, while significant skill gaps persist to constrain economic and social convergence between regions.
 - A more strategic approach to employment policy across the EU could provide a valuable framework for coordinating Community intervention. Negotiations over current ESF programmes have demonstrated the value of a strategic dimension as provided by the European Employment Strategy.
 - Employment policy needs to adopt a proactive approach to anticipate the effects of industrial change.
 - There needs to be more targeting on the specific requirements of both individuals and particular regions, given that a major factor underlying disparities in prosperity across the Union is the difference in the qualifications and skills of the labour force.
- **Supporting the New Economy and the Knowledge Society.** The impact of the new economy is far-reaching in terms of both the pace of change and its consequences for policy. The dangers of an emerging digital divide highlight the need to tackle risks of exclusion from the information society.
 - Life-long learning is an essential response to economic change. It is important, however, that access to this is not confined to those already in the most highly qualified jobs.
 - There must be a more affordable access to the tools of the information society accompanied by ICT literacy.

- Over the past three decades, the level of educational attainment in the Union has increased markedly, especially in the least developed regions. But there remains scope for improvement in their education and training systems to reduce the emerging digital divide. This applies also to the candidate countries where vocational training systems in particular are often poorly adapted to the needs of new sectors.
- **Promoting social inclusion:** The level of poverty and social exclusion remains unacceptably high in the European Union. Many of the causes can be traced directly to the labour market and to the failure of policy to address the needs of those without the skills necessary to compete for jobs.
 - Better access to the labour market, creation of new employment opportunities and skill development are of major importance in the fight against social exclusion.
 - In order to address the deep-seated problem of pockets of social exclusion, labour market policies are becoming increasingly localised, involving broader local partnerships and responding to specific local needs. Local employment development, the 'third element' in the European Employment Strategy, could be strengthened in future Community policy.
 - The concept of policy additionality (extending or deepening national policy) must be applied to social inclusion policies and could be supplemented with the concept of '*policy territoriality*' aimed at increasing the spatial concentration of scarce resources to achieve a greater impact.
- **Equality of opportunity.** Discrimination in all its forms is a waste of talent and resources in a situation where the evidence points to the growing need to make the best use of a work force set to decline in the coming years. Equal access to the labour market is both a fundamental right and a sound economic policy.
 - A strong policy commitment to the creation of a labour market open to all is essential to cohesion.
 - Policies to promote and support the participation of women in the labour market are a key part of the employment rate targets set at Lisbon.
 - The most significant progress will come about reducing narrowing the employment gap between men and women.

While the above target areas are not entirely new in themselves, they represent a difference of approach compared to that which has been characteristic of the priority 'Objectives' up to now. It is an approach inspired to some extent by the experience of certain Community Initiatives such as URBAN or LEADER which have shown how efforts focused on a clearly defined European priority can, if deployed at the right level, attract a great deal of interest, generate new thinking and activities. An aspect not to be ignored is that these actions, where they have been operated successfully, have probably done most to create a positive image of Union cohesion policy among its citizens.

The priority areas should not be seen as a simple substitutes for the existing Objectives. Given the rapid pace of economic change, and the challenges that it poses, the formulation of future policy - and perhaps the territorial dimension in particular - needs to take account not only existing problems but, more importantly, to anticipate future ones. Accordingly, there is a basic need for a cohesion policy which has a more global and longer-term vision and which seeks to follow a proactive approach. This would also mean that future policy would focus not just on problems but also on opportunities for economic and social cohesion and the reduction of territorial imbalances.

This was the kind of approach that characterised the work undertaken by the Member States and the Commission on the European Spatial Development Perspective (adopted in Potsdam in 1999) which had as an objective the promotion of more balanced territorial development in Europe. Inspired by this work, the Commission could at a later stage propose a strategy for territorial development to the other institutions of the Union as a basis for future policy in this field.

In sum, future cohesion policy should be targeted on the factors that promote convergence and on a limited number of priorities of Community interest, in order to achieve concentration of scarce resources.

How should the delivery system for future economic and social cohesion policy be organised ?

While Agenda 2000 achieved many advances in improving the delivery system which are set out in the report, the new circumstances of enlargement, the reshaping of priorities and the need to continue to the drive to achieve greater value-for-money call for further reflection on the means by which the policy is delivered. At this stage it is only possible to address the broad issues and consider options. The third cohesion report in three year's time would have the role of specifying more clearly how the next generation of cohesion policies should be delivered.

The principal issues addressed in the following sections are as follows:

- the effective targeting ('concentration') of the limited resources available in an enlarged Union
- the particular challenge of enlargement in the current period
- cohesion policy in an enlarged Union after 2006, including certain financial aspects.

The effective targeting of the limited resources available in an enlarged Union

The starting point is that a future cohesion policy needs to be able to address not only the new Member States and regions, but also the regions in the present EU15 where the analysis of the report confirm the existence of often profound regional and territorial disparities.

It is clear, however, that when the next programming period begins in 2007, the presence of new Member States composed almost entirely of regions with a general need for support for economic development, will necessitate a massive refocusing of the effort in order to achieve a significant catching up within a reasonable period. At the same time, the least developed regions of EU15 will have ongoing needs even if they appear less severe in relative terms.

The basic principle must be the same as in the past in that limited resources must be concentrated on a limited number of problems of Community interest and areas, in order to achieve the necessary critical mass.

Maintaining priority support for regions where development is lagging behind

For the less prosperous regions, the maintenance of direct zoning (see box), for reasons of objectivity and transparency, represents the most appropriate method for concentrating support on regions most in difficulty.

The use of GDP per head (measured in terms of purchasing power standards - PPS) as a criterion and its level of application (NUTS 2 regions) still seem to be appropriate, as indicated by the comparative analysis presented in the first part of the report. For reasons of transparency and efficiency, however, there is a need to determine the principles which should apply to the definition of statistical territorial units - ie the regions.

How should the threshold for eligibility be set?

The eligibility threshold (currently set at 75% of the EU average GDP per head, see box) needs to be decided on the basis of the following two considerations. First, enlargement will automatically reduce the average level of GDP per head in the Union substantially. On the latest data available (1998), the application of a threshold of 75% of GDP per head in a Union of 27 Member States would reduce the population in the present EU15 eligible for Objective 1 assistance by more than half. This raises the question of how to treat regions in EU15 that have improved in relative terms even if underlying conditions are the same as before enlargement.

Secondly, disparities between lagging regions in the enlarged EU would be wider than at present, with some regions having a level of GDP per head of three-quarters of the EU average and others only around a quarter. The number of regions involved is not only greater, they have more profound needs.

Methods of defining eligible regions and areas

The different Objectives and Community Initiatives of the Structural Funds are currently targeted either vertically (regionally) or horizontally (by theme).

Horizontal targeting applies to the present Objective 3 financed by the European Social Fund, which has become the Community instrument for supporting the European Employment Strategy at national level. Following this approach, actions aimed at improving national education and training systems can be supported across the whole of the Union, within the limit of the resources available.

A regional targeting approach begins with the definition of a list of eligible regions and areas. Actions can be supported only within these localities. In practice, two methods have been applied in this respect:

Direct regional zoning

The Commission constructs an exclusive list of areas eligible for support. These can be defined in cooperation with the national authorities, as in the case of the present Objective 2, or by the Commission alone on the basis of statistical criteria applying to the Community as a whole, as for the current Objective 1.

This method enables intervention to be concentrated in eligible areas in a direct and transparent way. In the case of Objective 1, the use of the criterion of low GDP per head (defined as less than 75% of the EU average), expressed in terms of purchasing power standards, which is a simple, comparable and relatively robust indicator, has enabled the list of regions receiving assistance during the 2000-2006 period to be drawn up objectively.

Direct zoning, however, lacks flexibility in the face of changing regional circumstances, which, in the case of Objective 2, has led to the Commission being directly involved in the definition of very detailed maps, a task for which its competence and the legitimacy of its involvement are in doubt. In particular, outside the larger, least developed regions of the Union, the Commission has insufficient statistical and other information necessary to identify problem areas, a difficulty which has been compounded by the increasing complexity of the problems themselves and their spatial distribution.

Indirect zoning

In this method, eligible areas are decided by national governments on the basis of a set of parameters established by the Commission. This is the approach adopted by some Community Initiatives.

Indirect zoning has the advantage of being flexible and can resolve difficulties experienced under Objective 2, so long as the resources available attain the critical mass needed to be effective (as in the case of URBAN). This method can also be applied to horizontally-targeted policies, and some Member States have chosen on their own initiative to introduce regional targeting of intervention under Objective 3.

Insofar as there is cofinancement by the state, it is important that state aid rules (both geographical and sectoral) are respected.

Four options for determining eligibility and temporary support

In the light of the foregoing, the exercise of Community cohesion policy in relation to lagging regions could take one of the following four forms:

- the application of the present threshold of 75% irrespective of the number of countries joining the Union. This option on its own would eliminate a large number of regions in EU15. Their future eligibility for EU support would depend on the priorities and criteria for support outside the least developed regions.
- the same approach, but where all regions above this threshold but currently eligible under Objective 1 should receive temporary support (phasing-out), the level being higher the closer their GDP to the eligibility threshold. Two levels of temporary support could be envisaged, one for regions which, because of the extent of their convergence at the end of the 2000-2006 period, would no longer be regarded as having lagging development in an EU15, the other, set at a higher level, for those which would have been below the 75% threshold without enlargement;
- the setting of a GDP per head threshold higher than 75% of the average, at a level which would reduce or even eliminate the automatic effect of excluding those regions in the EU15 simply because of the reduction in the average EU GDP per head after enlargement. It should also, however, be set at a level which excludes those regions which would no longer qualify at the end of the current programming period in an EU15 without enlargement;
- the fixing of two thresholds of eligibility, one for the regions in EU15 and one for the candidate countries, and leading de facto to two categories of lagging region. This could have a similar result to the previous solution in financial terms in a situation where the aid intensity per head from Union funds is related to regional prosperity.

A further consideration relates to cofinancing rates (the ratio of Community to national support). After enlargement, the prosperity gap within the group of regions defined as least developed would be so large that a special maximum co-financing rate might be needed to be set (relatively high) level to reflect the lower prosperity, and national budgetary capacity, of the very poorest Member States concerned.

A distribution of finance according to objective criteria

In the light of the needs, it would be difficult to sustain the case for a reduction in the resources allocated to the lagging regions – including any temporary support – as a share of the total funds available.

The essential question is that of how to ensure that the distribution of financial resources is as objective as possible according to needs. The decisions in this field under Agenda 2000 reflect considerable progress with regard to the use of objective criteria applied across the Community, at least as far as the least developed regions are concerned. This was one of the more significant outcomes of the implementation of Agenda 2000. This way of proceeding should be maintained in the future, as a major element of the cohesion 'acquis.'

But a number of questions need to be addressed, including the following:

- Should the existing criteria which have been used - population, regional and national prosperity and unemployment - be extended in the next round to include the employment rate, given the present prospects for the labour market and the conclusions of the Lisbon European Council on this? This is a question to consider in the light of the way the level of structural unemployment develops in Objective 1 regions over the next few years. At present, many of these regions still have a very high rate of unemployment.
- Should the structural gaps between the regions and the Community average become part of the criteria for allocating funds?
- Should the performance reserve become a more significant part of the Structure Funds? It would almost certainly be desirable to strengthen the conditionality attached to this instrument to achieve the expected results, including in relation to the pursuit of good financial management.

Maintaining the momentum in favour of an objective methodology depends heavily on the joint efforts of the Commission's statistical office, Eurostat, and national statistical offices to improve the quality of the harmonised data at the Community level. The extension of data series to cover the candidate countries, and to make available data on purchasing power standards at regional level, are major priorities for the success of future exercises to determine the next list of regions in which development is lagging.

For the rest of the territory: indirect zoning?

Lagging regions are not the only ones with structural problems. Cohesion policy also needs to continue providing support to other parts of the Union to encourage actions of common interest. But in the light of the greater limitations on resources compared to the least developed regions, an appropriate means of targeting is essential.

In the light of the problems that have emerged in the direct zoning of aid under Objective 2 for the period 2000-06, it would seem that the process of concentration could be more satisfactorily achieved by opting for an indirect zoning method. Here, the defining feature is that the concentration of resources is an integral part of the programming process (see Box). The Commission would no longer set rigid eligibility criteria, only a lower limit on the level of overall public financial support - from Community and national sources - in order to ensure that the resources mobilised achieve the critical mass to have a real impact (as under the URBAN Initiative).

In such circumstances, the programming of the different priority domains would need to be undertaken on the basis of an allocation of resources by Member State. There are a number of ways in which this could be done, but the simplest would probably consist of a national allocation according to population (outside the least developed regions) adjusted by an appropriate indicator, or indicators, of socio-economic conditions. On the basis of the national allocation the Member States would programme actions at national and regional level, drawing from a limited number of the priority areas of the sort illustrated above. A strategic vision of the priorities and opportunities drawn up by the Commission with regard to the subjects of Community interest would play an important role in setting the efforts in each Member State in a Community context.

Consideration also needs to be given to the national and/or transnational methods of programming, focusing especially on the role of the Member States and the Commission, on the conduct of partnership, on the techniques required for territorial analysis and on the criteria for guiding Community action.

Particular cases

The present **border regions** in the Union have in general reached much the same level of development as the rest of the Union, as shown in Part I of this report. This fact demonstrates the value of past Community intervention in this area. There is therefore a case for including cross-border cooperation programmes in the general programming of the Structural Funds ("mainstreaming").

Border regions with lagging development would, of course, be eligible for support in the same way as any other region if they comply with the general criteria adopted.

The **outermost regions** of the Union have particular handicaps as result of their distance from the rest of the Union and their special position is reflected in the Treaty. Article 299(2), as a policy instrument, allows the European Union to maintain and reinforce actions to promote the integration of the outermost regions into the Community, taking account of their unique character. To this end, in March 2000 the Commission established a strategy for sustainable development in the outermost regions. It has already introduced new initiatives in the fields of State Aids, agriculture, the Structural Funds, tax and customs policy, as well as promoting the co-ordination of the Structural Funds and the European Development Fund in the areas containing these regions. The Commission has undertaken to consider how their needs should be best reflected in future cohesion policies.

The particular challenge of enlargement in the current period

Since the reform of the Structural Funds in 1988, the management of Community cohesion policy in terms of monitoring, evaluation and control has been steadily reinforced.

This is the context in which the candidate countries are preparing to join the Union. At present, the pre-accession instruments are assisting their preparations, while the PHARE programme will in the future devote a large part of its resources to Objective 1 type programmes, within a medium-term planning framework, which although 'indicative' will prepare the way for the overall strategic programming of future Community support from the Structural Funds.

The Commission must take all necessary steps to ensure that, as in the case of the EU15, programmes take account of the situation and the specific difficulties in the new Member States. It should aim to help the authorities concerned to define their programmes in the light of Community priorities.

The question of the administrative capacity of the candidate countries

The implementation of regional development policy is a new task for the authorities in the candidate countries, which have limited funds at their disposal. Indeed, there is no tradition of such a policy, and the decentralisation which it implies, in countries used to centralised planning arrangements.

The process of administrative construction (or 'institutional building') is therefore very important, especially as compared with previous occasions of Union enlargement, when all that was required was the simple adaptation of policies and national legislation to the need to implement the Structural Funds.

The first objective is to create a policy at the national level. This was the subject of a special assistance programme (SPP) enabling the candidate countries to prepare, with the support of PHARE, for the implementation of the Structural Funds by establishing a competent authority and the necessary procedures, particularly for coordination between Ministries. Budgetary procedures also need to be put in place to enable them to co-finance programmes and to manage and control the use of Community resources.

There is a need, in addition, to support decentralisation, which is related to the general effort to achieve three major objectives – the consolidation of democracy, the development of partnership and an increase in economic efficiency.

The second aspect is the definition of an intervention strategy aimed at ensuring the effective use of Structural Fund resources and at reducing development disparities in global terms and within countries to avoid the risk of excessive concentration.

The candidate countries also have to build the administrative capacity to define strategies, prepare programmes and manage the corresponding budgets, particularly the funds which come from the Community budget, under the same conditions as the present Member States. During the accession negotiations, the Commission will examine very closely the ability of the candidate countries to meet all the conditions required for them to be able to receive financial transfers.

The financial resources up to the end of 2006

Given that there will be a number of new Member States during the current planning period 2000-06, there are certain matters to be considered in relation to finance during this period. The first relates to the financial perspectives until 2006 decided by the Member States at the European Council in Berlin, including a package to support both interventions in EU15 as well as in the candidate countries for the period before and after accession. After the European Council in Nice in December 2000, it seems likely that the first accessions will take place in 2003-2004. This enlargement scenario differs from that which was the basis of the Berlin decision. It will therefore be necessary to take account of the effective date of accession of new Member States. A phasing-in system may be necessary for the assisted regions in the future Member States, where Structural Funds would be progressively increased over time, in line with their capacity to absorb aid, as was indeed the case during the two previous planning periods.

A second matter concerns the distribution of resources between the Cohesion Fund and the Structural Funds. These funds will, in effect, succeed ISPA, in the first case, and PHARE and SAPARD, in the second (with a ratio at present of one-third and two-thirds, respectively, in terms of their financial weight). Allocating a higher proportion, say one-third, to the Cohesion Fund seems to be justified by the needs of the countries concerned in respect of transport infrastructure and the environment.

Two other considerations argue for a larger weight being accorded initially to the Cohesion Fund in the candidate countries in relation to the proportion allocated to the present Member States. First, a management-by-project approach might prove to be more suited to the

authorities who still lack programming experience; secondly, the high rate of co-financing and the fact that the principle of additionality does not apply to the Cohesion Fund would facilitate the absorption of Community funding.

The distribution of Structural and Cohesion Fund resources between the new Member States will be determined according to the same principles, methods and objective criteria as applied to the present Member States.

Cohesion policy in an enlarged Union after 2006, including certain financial aspects.

As the report explains, important modifications to the different aspects of the management of cohesion policy were made during the adoption of Agenda 2000. These were aimed at increasing decentralisation, promoting partnerships and integrating evaluation more effectively into the decision-making process. More rigorous financial management and control, based on a clearer and more meaningful division of responsibilities between the Member States and the Commission, was also introduced. On this last point, the objective is to reduce significantly the incidence of fraud, but above all of irregularities which represent the overwhelming majority of the cases brought to the attention of the Commission.

The new system is only now beginning to be applied. The next Cohesion Report will contain a first assessment of results of the changes, but certain elements can already be outlined, which need to be further examined in the context of the preparation of the new planning period after 2006.

In relation to **partnership**, there has been a growing tendency to decentralise decision-making as regards national and Community policies. There is undoubtedly a need to strengthen the role of regional and local authorities and of those on the ground by, for example, programming at the local level when appropriate. In addition, if in the future indirect zoning is the method retained for targeting resources, it would be essential that it is accompanied by guarantees regarding the involvement of regional and local authorities.

Programming of actions could operate in two phases. In a first step, the Commission could set out a global strategy comprising the different economic, social and territorial dimensions in partnership with the Member States at national level and transnational level with a view to identifying priorities including those of particular Community interest. This would help to determine how finance is allocated by priority. Afterwards, programming would be decentralised to the appropriate level, for example at regional, urban or transnational level.

For lagging regions, integrated programming remains a major means of obtaining positive results in terms of their economic, social and territorial development.

It may be possible to make use of a call for tender procedure for the implementation of some programmes, enabling the best proposals to be selected completely transparently. The selection could be made at different levels (regional, national or transnational and in cooperation with the Commission) which would strengthen the links between the results achieved and the finance allocated.

The principle of **additionality** (requiring Community funds to add to, rather than substitute for, national funds) was simplified considerably for the period 2000-06. Experience will confirm if it has become more effective as a way of contributing to the added value of Community cohesion policy. At the same time, it remains a highly aggregate figure in the

sense that it does not apply to individual programmes, but to all programmes under a single Objective in a given Member State.

It is therefore lacking in transparency, and it might be worth considering the possibility of calculating additionality at the programme level rather than (as at present) at the Member State level especially for programmes aimed at the less developed regions. At the same time, it is important not to underestimate the difficulties in terms of the availability of data that this would imply, a traditional constraint on attempts at improvement in this field. The methodology will be evaluated in the light of the experiences in the implementation of the additionality principle which will take place in 2003 and 2005.

Evaluation has now been firmly established definitively as an integral part of programming procedures. The 'performance reserve' is one of the important innovations brought about by Agenda 2000. As already discussed, the link between the finance allocated and the results achieved needs to be strengthened.

Improving the coherence between the Cohesion Fund and the Structural Funds

The Cohesion Fund, which was established by the Treaty is targeted on Member States in which GNP per head is less than 90% of the Community average and which have established a programme for macro-economic convergence. As a complement to the Structural Funds, it has proved a useful instrument for promoting investment and in helping the cohesion countries to catch up.

Matters for consideration for the future concern the amount of financial resources which should be allocated to the Fund in absolute terms and to strengthen the coordination of the support provided with that provided by the Structural Funds.

The Treaty limits the Cohesion Fund to the financing of investment projects in transport networks and the environment. While the Cohesion Fund applies at national level, there would be clear advantages in selecting projects so as not to increase regional disparities and to avoid excessive concentration in the more prosperous capital cities and surrounding regions.

At present, the share of the Cohesion Fund in total expenditure on structural policies in the Member States concerned is around 18%. Whether the same balance between the Cohesion Fund and the Structural Funds is appropriate to the new Member States is a matter for further consideration, possibly after a transition period.

The allocation of the resources of the Cohesion Fund between recipient countries should be decided on the basis of purely objective criteria as in the case of the Structural Funds at present. The need for objectivity will become more important for all Member States after the accession of new countries.

In order to strengthen the coordination between actions supported by the Cohesion Fund and those supported by the Structural Funds, the two should be made part of a unique framework. For cohesion countries, the Cohesion Fund should become the only instrument for financing large transport and environmental projects in lagging regions.

The financial aspects of cohesion policy in an enlarged Union after 2006

The evidence presented in the report on national, regional and social disparities demonstrate that there is an increased need for cohesion policy in an enlarged Union. The analysis in Part I of the main report shows that economic and social disparities within the Union will widen

considerably with enlargement. The challenge of maintaining economic and social cohesion will therefore increase.

Inevitably the bulk of the financial effort would be addressed to the new Member States. In a real sense, the size of the global financial package will determine the level of ambition on the part of the Union in tackling problems which persist in the EU15, especially in its lagging regions. It is within this framework that discussion on the budget for cohesion policy has to be set.

While it is premature to put forward budgetary proposals for cohesion policy after 2006 - which in any event would have to be considered as part of a global discussion on future Community policies - it is appropriate to recall a few figures and to give a few reference points to assist debate.

Between the 1988 reform and 1999, the Union strengthened its cohesion policy in terms of the financial resources devoted to it in absolute terms and relative to the Community budget as a whole. Under Agenda 2000, the Commission initial proposal was to maintain the level of financial support reached in 1999 for the EU15 (0.46% of GDP) throughout the 2000-2006 period.

In the event, the European Council in Berlin allocated € 213 billion to structural measures in the 15 Member States for the 2000-2006 period, an average of € 30 billion a year. The resources given as pre-accession aid (€ 3 billion) and the sums reserved for the countries which join between 2002 and 2006 form an additional part of the overall package for cohesion policy. In addition, cohesion policy for new Member States after accession was set at a progressively increasing figure reaching € 12 billion in 2006. These decisions together set the total amount in effect at 0.45% of the GDP in the enlarged Union of 21 Member States in 2006, virtually the same as at the beginning of the period for EU15.

The same percentage needs not necessarily be taken as a reference point for future cohesion funding but it must be clear that, in order to remain credible, regional and cohesion policy needs to deploy resources commensurate with needs in the circumstances which prevail.

Enlargement and the ceiling on transfers

Under the current rules for the period 2000-06, transfers from the Structural and Cohesion Funds are limited up to a maximum of 4% of national GDP a year in all Member States. As a figure determined in relation to the situation in the present Member States, in an effort to keep the transfer from the Union to levels that can be managed by the recipient administrations, it is a ceiling that will have important consequences for some of the least prosperous candidate countries when they join the Union.

In the new context, the following constraints must therefore be reconciled:

- Addressing the cohesion objective, especially the enormous development needs of the candidate countries;
- Taking proper account of the absorption capacity of these countries in economic, financial and administrative terms.

Taking full account of the relative prosperity of the countries concerned would give rise to significant risks as regards their absorption capacity and the balance of public expenditure. Consequently, addressing the question of the ceiling would only be relevant in exceptional

circumstances, such as in the case of projects financed by the Cohesion Fund which represent a particular Community interest.

Continuing pre-accession for other candidate countries

Assistance for pre-accession, modified if necessary, should continue to apply to the candidate countries which have not yet joined the Union on the 1st January, 2007. The amount of finance required should be the subject of an objective evaluation in relation to needs, the capacity for absorption and the number of countries in receipt of the support.

Increasing the contribution of other policies

Community policies have their own objectives and their effect on cohesion is difficult to assess in a number of cases, but it is necessary, as a complement to a stronger geographical and thematic concentration of the Funds, to reinforce synergies and the complementarity between cohesion and other community policies.

Certain community policies contribute indirectly to economic and social cohesion by helping to create more favourable conditions for development in less prosperous Member States and regions.

This is true of Economic and Monetary Union which helps to achieve macroeconomic stability in the cohesion countries in particular which, because it is favourable for investment and economic growth, is a necessary, though not a sufficient, condition for real convergence.

The same is true of the internal market, which, together with structural reforms, has an important influence on social cohesion across regions. The Union is undertaking a major effort to reform product, capital and labour markets. The reduction of the disparities between regions requires investment aimed at increasing the economic potential of the less developed regions.

Faster growth does not automatically lead to closer regional integration and reduced income inequalities. Accordingly, further reforms, a reduction in barriers to competition in some markets, especially in services, and the support of cohesion policy are needed to reap the full benefits from the catch-up process in some Member States and to reduce existing inequalities between regions.

EMU like the internal market needs to be complemented by accompanying policies so that all Member States and regions can benefit fully from economic and monetary integration. In this respect, maintaining structural spending which complements the Structural Funds, particularly in the fields of education, training and employment, as well as research and technological development, is essential for the overall effectiveness of cohesion policy.

Competition and cohesion policies are complementary, since the ceiling imposed on regional State Aids benefits the less prosperous countries most of all. This thrust of policy needs to be pushed further to establish more equitable conditions for competition, while taking account of the role played by services of general interest in territorial cohesion.

The European Employment Strategy, is necessary for cohesion. It should, however, be adapted to different regional and local circumstances in order to respond better to the very different performances of labour markets. This objective has already been taken into account in the measures supported by the Structural Funds for the period 2000 to 2006. But national

budgets do not identify clearly the way in which strategic objectives are translated into financial commitments, which makes it difficult to detect such a move.

Other Community policies have a major effect on the territorial structure of the Union

The Common Agricultural Policy has largely achieved the objectives set, which focus on improving the competitiveness of European agriculture. The change in the CAP means that it benefits some cohesion countries today more than before, but its contribution to territorial cohesion remains very variable and depends on regional systems of agricultural production. The second pillar of the CAP, rural development policy, needs to be on a quite different scale, especially in areas which are affected most by the continuing changes in agricultural policy.

In some small coastal areas, fisheries accounts for a significant share of employment. For the Common Fisheries Policy, the challenge is to restore a sustainable balance between fish stocks and fishing. Since activities linked to fishing are concentrated in less favoured areas, accompanying social and economic policies are required to enable diversification to take place.

The trans-European transport networks are an instrument of territorial development and can have a significant effect on regional disparities as highlighted by the European Spatial Development Perspective (ESDP). There needs, however, to be greater complementarity between the policy on large networks and Structural Fund programmes and when the guidelines for trans-European networks are revised, more account should be taken of the cohesion objective.

All the analysis carried out in the Cohesion Report shows the importance of research and innovation for competitiveness. Despite some progress under the 5th Framework Programme, research and development (RTD) is still concentrated in the most central and competitive regions. To make the European Research Area a concrete reality, the emphasis needs to be put on the regional dimension of RTD through networking and improving the coordination with the Structural Funds. The challenge here is to ensure that lagging regions become full partners in this area.

Environmental policy, with economic and social cohesion, is one of three pillars of sustainable development. The design of this policy should give more consideration to territorial disparities and specific features as well as to the financial effect on regions of the measures envisaged.

The Community budgetary system and cohesion

As regards the overall Union Budget, a balance between contributions and the distribution of expenditure for each Member State is not an objective in itself. Individual Member State contributions are, however, becoming more proportional to GNP. Union expenditure reflects the content and priorities of Community policies, only cohesion spending being inversely related to regional GDP per head.

Strengthening the contribution of other policies to the cohesion effort

With enlargement, the globalisation of the economy and the development of the knowledge society, the Union is facing unprecedented economic and social changes. It is, therefore, necessary for other Community policies to increase their contribution to economic and social cohesion, as foreseen in the Treaty.

It is important to consider the response to the greater need for coherence, complementarity and efficiency of Community policies and the instruments necessary to make this happen. This consideration forms part of the work initiated by the *White Paper on Governance*.

10 QUESTIONS for PUBLIC DEBATE on the FUTURE of COHESION POLICY

- 1) What will be the role of cohesion policy in an enlarged Union of nearly 30 Member States in a context of rapid economic and social change? How is it possible to further economic convergence and preserve the European model of society?
- 2) How should Community policies be made more coherent? How should the contribution of other Community policies to the pursuit of cohesion be improved?
- 3) How should cohesion policy be modified in preparation for an unprecedented expansion of the Union? Should cohesion policy also address territorial cohesion in order to take better account of the major spatial imbalances in the Union?
- 4) How can cohesion policy be focussed on measures which have a high Community added value ?
- 5) What should be the priorities to bring about balanced and sustainable territorial development in the Union?
- 6) How should the economic convergence of lagging regions of the Union be encouraged?
- 7) What kind of Community intervention is required for other regions?
- 8) What methods should be used to determine the division of funds between Member States and between regions?
- 9) What principles should govern the implementation of Community intervention?
- 10) What should be the response to increased needs with regard to the economic, social and territorial dimensions of cohesion?