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**COMMUNICATION FROM THE COMMISSION**

**Second progress report on economic and social cohesion**

## Synthesis and conclusions

### I. INTRODUCTION

The debate launched by the Commission following the adoption of the Second Report on Economic and Social Cohesion, on the options for future cohesion policy, has continued to engage the principal parties involved in the regions, in the present and future Member States and in the EU Institutions. This second progress report presents an update of the analysis of the situation and trends emerging in the regions, along with the main topics of the debate during 2002 on the future of cohesion policy.

### II. ANALYSIS OF THE SITUATION AND TRENDS: THE CHALLENGE OF ENLARGEMENT

The enlargement of Europe to include 25 Member States will present an unprecedented challenge for the competitiveness and internal cohesion of the Union. Several factors that will have an undoubted impact on future cohesion policy need to be considered, including:

- **An unprecedented widening of economic disparities within the Union:** the gap in per capita GDP between the 10% of the population living in the most prosperous regions and the same percentage living in the least prosperous ones will more than double compared with the situation in EU15.
- **The geographical shift in the pattern of disparities:** in EU25, 116 million people - representing some 25% of the total population - will live in regions with a per capita GDP below 75% of the EU average as against 68 million people, or 18% of the total, in EU15. Of these, four out of ten citizens will be living in regions belonging to the existing Member States while the other six will be nationals of the candidate countries.
- **A less advantageous employment situation:** three million jobs will have to be created if the average level of employment in the new Member States is to be aligned with that of the rest of the EU on account of the trend of decline in the rate of employment and a higher long-term youth unemployment rate. Within the enlarged EU, appreciable employment gaps will persist according to age, gender and the level of qualifications and skills.

On the other hand, other factors demonstrate the economic potential of an enlarged EU: the candidate countries in general have had a higher rate of economic growth than the present Member States and overall will help raise the average level of education in the Union, whereas the people with a poor level of education will continue to be concentrated among other areas in certain regions in southern Europe (Portugal, Spain, Italy and Greece).

### III. THE MAIN TOPICS OF THE DEBATE ON FUTURE COHESION POLICY

The different contributions examined in this report reveal that the debate on the future of cohesion policy has remained intense throughout the period since the

publication of the first progress report a year ago. These contributions, together with the results of the various analyses and studies by the Commission, have made it possible to confirm four major contributions of this policy:

- a redistribution function in favour of the less well-off Member States and regions (with a significant macroeconomic impact, promoting genuine convergence);
- the strengthening of economic and political integration (development of the infrastructure networks, improved access for remote regions, cooperation projects);
- a contribution to achieving the Community priorities set by the Lisbon strategy, as amplified by the Göteborg European Council, including the economic and social restructuring resulting from globalisation;
- a contribution to better governance (partnership, an evaluation culture, etc.).

The debate has also made it possible to draw up a list of key questions to which answers should be given in the third report on economic and social cohesion. These can be grouped under two headings: the priorities for future cohesion policy and the method of implementation.

### **(i) Priorities for the future policy**

#### **Action in the less developed regions**

This progress report confirms both the unprecedented increase in the disparities within the enlarged Union and the long-term nature of the efforts that will be needed to reduce them. There is a broad consensus around the need to continue to concentrate resources on the less developed regions, and especially on those in the new Member States.

On how to define the less developed regions, the contributions to the debate have not seriously put into question continued use of the present eligibility criteria based on the NUTS II geographical level and per capita GDP – which has the merit of being simple and transparent - even if some contributions have called for other criteria to be added.

#### *Special cases*

There has been a wide-ranging discussion on the place to be reserved for certain specific categories of region under future policy.

First, there was broad agreement on the need to put in place fair arrangements for the regions of the existing Member States, now eligible under Objective 1 and which, while not having completed the process of economic convergence, could become ineligible simply as a result of the decline in average per capita GDP in the enlarged Union (the statistical impact). According to the data for 2000, 18 regions with a population of 21 million could find themselves in this situation.

Secondly, there was the question of the regions that would no longer have met the eligibility criteria to be considered less developed even in the absence of enlargement, because they have achieved an income per head above 75% of the

average for the EUR15. Several contributions have expressed support for assistance in the form of a gradual phasing out of Community aid for such regions.

Lastly, there was the matter of the treatment that should be reserved for certain categories of regions. This concerns in particular the outermost regions whose social and economic difficulties are acknowledged in Article 299 of the Treaty.

Other regions that have been mentioned in this context are the least favoured islands mentioned in Article 158 and regions with an extremely low population density, notably those parts of the Nordic countries currently assimilated to Objective 1 pursuant to Protocol 6 of the Act of Accession of Austria, Finland and Sweden.

The third cohesion report will have to address the needs of these special cases on the basis of their individual merits, but also taking into account the possibilities offered under arrangements for the regions outside the less developed areas.

### **Action outside the less developed regions**

In the period 2000-06, approximately one third of the Structural Funds allocation will go to regions which are not eligible under Objective 1.

Although, by definition, the problems of economic and social cohesion outside regions lagging behind are of a lesser scale, there are several important challenges facing the Union as a whole.

In particular, the issues of competitiveness, sustainable development, and economic and social restructuring are relevant in all Member States. These challenges reflect a great diversity of potential needs and situations, in contrast with the more intense but clear-cut needs of regions lagging behind, especially in new Member States. This wide range of challenges also highlights the need to concentrate assistance, and to focus on qualitative, systemic elements in order to increase Community added value.

Initial positions in certain Member States within the debate that actions of this nature outside the Objective 1 regions should be abandoned entirely by the Union and responsibilities returned to the Member States ("renationalised") do not appear to have gained ground, and the need to have the means to achieve major European priorities has been recognised. In this respect, the Union, particularly at the European Councils in Lisbon, has set itself a strategic goal for the decade: to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion. This strategy is designed to enable the Union both to regain the conditions for full employment, growth and social cohesion, and to strengthen regional cohesion. A sustainable development strategy for the European Union was decided by the European Council in Göteborg.

A large number of contributions stress that the Member States and regions do not possess the same strengths for achieving these goals. In addition, a policy intended to meet the various challenges facing the Union, that recognises and involves the regional level, is consistent with the spirit of the Commission White Paper on Governance, and especially with the obligations arising under the Treaty on cohesion, which are to "promote its overall harmonious development" and "reducing

disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas".

These major European priorities have, to a certain extent, been tackled already during the present programming period under Objective 2 (regions undergoing restructuring), Objective 3 (human resources), Community Initiatives and Innovative Actions and actions outside Objective 1 on rural policy and fisheries.

While this is the case, current policies and instruments have not been immune to criticism on the basis of arguments that they lack sufficient added value, sometimes require an excessive administrative input in relation to the outputs achieved and fail to devolve sufficient responsibility to the Member States consistent with the principle of subsidiarity. Many say that while the region remains the appropriate level for the conception and management of assistance for the above reasons, designating eligible areas at the sub-regional level can artificially restrict the field of intervention of Community assistance, and is difficult to reconcile with an approach emphasising the new factors of competitiveness.

Other contributions have emphasised the territorial dimension, citing variously urban areas, industrial and rural areas in difficulties, areas depending on fishing or areas with natural handicaps. It needs to be pointed out that the territorial dimension can be entirely compatible with an approach based on the pursuit of thematic Union priorities.

In sum, policy priorities and instruments outside regions lagging behind would need to be reformulated, in order both to address the present shortcomings and to construct a new policy capable of making a greater contribution to economic and social cohesion.

## **Cooperation**

There is also a broad acknowledgement concerning the need to continue actions to promote cooperation across frontiers and within regions. This is in recognition that the successful implementation of such actions, which are particularly important for European territorial integration, requires organisation at supranational level. The current period has demonstrated the difficulties inherent in organising coherent programmes involving authorities from different national administrative and legal traditions. The Commission has been asked to look into the possibility of drawing up a legal instrument for cooperation across frontiers which could facilitate the design and implementation of the European programmes.

### **(ii) Implementation: simplifying management**

Discussions on how to simplify management during the current period and within the current regulatory framework applicable until the end of 2006 have underlined the main difficulties that have to be resolved with a view to the next programming period.

The work regarding the current period culminated in a meeting of Ministers on 7 October 2002. The majority of the delegations attending the meeting said that the lessons to be learned from the 2000-06 period show that changes to the method of management will have to be considered for future cohesion policy.

In essence, Member States will wish to see simplification and a much greater decentralisation of responsibilities as regards all aspects of financial management and control of European programmes once the broad strategic aspects have been agreed with the Commission. In this context, there is a general agreement that management systems subject to very detailed rules and based on "one-size-fits-all" are inappropriate, given the vast differences in needs, types of assistance and resources made available, and that the principle of proportionality should apply. The Commission is conscious of the criticism and of the difficulties presented by the multifund approach.

Based on past experience, it is widely recognised that a successful strategic framework for setting the policy priorities depends on the efficiency of the systems to deliver it. As a result of the current implementing procedures, the efforts of Member States and of the Commission have in some cases had more of an impact on the administrative management of programmes and less on their content and strategic priorities. With enlargement, changes to the current delivery system are needed, taking into consideration the need to reinforce the administrative capacity of the new Member States.

There is also wide recognition that enlargement will aggravate the tension between the need for a more decentralised delivery system, on the one hand, and the need for effective control by the Commission over funding on the other.

Commission representatives have on a number of occasions emphasised that modifications to the management system proposed by the Member States need to be assessed in the light of Article 274 of the Treaty which places responsibility for implementation of the budget on the Commission. Thus, further decentralisation would need to be accompanied by a clearer definition of responsibilities giving the necessary assurances on the use of European resources.

An avenue to be explored in the third cohesion report is the kind of contractual approach required between the Commission and the national authorities (and the regional authorities in the framework of any tripartite arrangements) identifying the results to be achieved through the use of Community resources, while respecting the constitutional situation of the Member States.

### **(iii) Other aspects**

#### **Financial resources**

The Commission recommended in the second cohesion report that the debate on the future of European cohesion policy should focus on content rather than on financial resources. In this way, contributors to the debate were encouraged to reflect on what the Member States of the Union should seek to achieve together in this field with the support of Community policy. To a large extent this has been the case, although proposals such as those regarding the renationalisation of the policy tend to be motivated by budgetary considerations.

When establishing the future budgetary allocations for economic and social cohesion, the Union will need to take into account the unprecedented scale of economic and social disparities in an enlarged Union highlighted in this progress report, and the intensive, long-term nature of the effort required to reduce them. The Commission

will put forward its proposals on the new financial perspective in due course. As indicated in the first progress report, many contributions to the debate, especially at regional level, regard a figure equivalent to 0.45% of EU GDP as a minimum level for the resources to be allocated to cohesion policy for the period after 2006, a position which was endorsed notably by the European Parliament in November 2002 in its opinion on that report.

### **The contribution of other policies**

On the matter of the consistency between Community policies, in the course of the governance exercise now underway questions for further consideration have already been raised which the Commission has undertaken to explore in preparing future policies. The content of these policies should also take greater account of the broad diversity and greater territorial imbalances of the enlarged Union. It should also include, in a more explicit way, a contribution to economic and social cohesion.

A particular point has frequently been raised in the course of the debate: the status under competition policy of regions that will suffer from "the statistical impact" as a result of enlargement; it is being asked that they continue to qualify for an equivalent level of aid to that for regions covered by Article 87(3)(a) of the Treaty.

## **IV. FUTURE DEADLINES**

As the Commission announced in the first progress report, the third report on economic and social cohesion will have to be adopted in the last quarter of 2003 in order to create the conditions for 'the effective implementation of the new generation of programmes to commence at the beginning of the new programming period'. This report will present 'concrete proposals for the future of cohesion policy'.<sup>1</sup>

Wide-ranging consultations will take place in 2003, including a major event (in March 2003) in the form of a seminar on "The future management of the Structural Funds: how are responsibilities to be shared?". There are also plans to arrange consultations on the proposals for the third report at the start of 2004 as part of a Forum on cohesion.

The Commission will present, in good time, its overall proposals for all policies, and a draft financial perspective, for the period after 2006.

The Commission would like the legislative instruments to be adopted before the end of 2005. This would mean that 2006 could be devoted to the negotiations with the Member States and the regions on the programming for 2007-13.

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<sup>1</sup> COM(2002) 46.

## COMMUNICATION FROM THE COMMISSION

### Second progress report on economic and social cohesion

This second progress report on economic and social cohesion is presented in the context of the preparation of the Commission's proposals for the future of cohesion policy after 2006. The report updates the analysis of cohesion set out in the Second Report on Cohesion<sup>2</sup> and in the first progress report<sup>3</sup> and describes the state of discussions on future cohesion policy.<sup>4</sup>

In this progress report, the Commission will first update the data on regional disparities in the economic and social fields, i.e. the figures for regional GDP in 2000 and those for employment and unemployment in 2001.

The first progress report gave figures for per capita GDP in purchasing power standards (PPS) calculated on the basis of the average for a Union of 25 Member States, in accordance with the conclusions of the Laeken Council (December 2001). The Brussels European Council has confirmed the accession of ten new Member States in 2004. As a result, the data on regional GDP for the two countries whose accession is expected after 2006 (Bulgaria and Romania) are given in the report but do not form part of the calculation of average per capita GDP in the enlarged Union.

The summary of discussions given in the second part of this report demonstrates the importance of debating the content of the future cohesion policy.

The final part reflects the results of the accession negotiations with the ten countries in the Laeken group and sets out the figures on the eligibility of their regions for the period up to the end of 2006.

#### 1. SITUATION AND TRENDS

The figures on regional GDP for 2000 confirm the main trends as regards convergence in the Union as at present constituted<sup>5</sup>. At national level, the cohesion countries have continued to make up their shortfall to some extent. Disparities between regions in different countries have continued to fall but have grown within Member States. This demonstrates the need to continue a strategy of balanced regional development throughout the Union.

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<sup>2</sup> Second Report on Economic and Social Cohesion, COM (2001) 24 final of 31 January 2001.

<sup>3</sup> First progress report on economic and social cohesion, COM (2002) 46 final of 30 January 2002.

<sup>4</sup> At the Council meeting of 11 June 2001 and following discussions on the Second Report on Economic and Social Cohesion, the Commission stated that it would 'report regularly to the Council' on progress in preparing the Third Report on Cohesion and the proposals required for the continuation of cohesion policy after 2006.

<sup>5</sup> The figures for regional GDP in 2000 all comply with the new system of national accounts, SEC 95. These figures, which are now complete for 1995 on, give a uniform picture of changes in GDP for the period 1995-2000. However, the change of system makes an analysis from 1988 more difficult.



## 1.1. Slowdown in economic growth

2001 witnessed a significant slowdown in economic growth in the EU. GDP grew by just 1.5%<sup>6</sup> for the EU15 as a whole over the year, compared to a rate of 3.5% in 2000. Growth exceeded 2% only in Ireland, Greece and Spain. The autumn forecasts for 2002 and 2003 for the EU15 are no better in aggregate: 1% and 2% respectively.

The cohesion countries continued to converge towards the EU15 income level<sup>7</sup> (Table 1: GDP and population growth in cohesion countries, 1988-2003). Although Greece has had a real growth rate above the EU average since 1996, the reduction in its income gap on a per capita basis has been lower, partly due to relatively strong population growth, as shown by the provisional results of the 2001 census. Relatively strong growth in Ireland pushed GDP per capita in PPS to 118% of the EU average in 2001, up from 115% in 2000 (having been at only 64% in 1988)<sup>8</sup>.

Figures on GDP at regional level are available up to 2000, so failing to reflect the recent slowdown in economic growth. (Map 1: GDP per head by region (PPS), 2000 and Map 2: Change in GDP/head (PPS), 1995-2000). Historically, a slowdown has tended to have a negative impact on the weakest regions of the EU in particular. Between 1991 and 1993, GDP fell by around 0.2% in the 184 regions where data are available; in regions with income per head below 75% of the EU average (in PPS terms), income fell by almost 0.9%, compared to only 0.1% among the other regions.

Regional disparities increased slightly in most Member States over the year 2000 (Table 2: Disparities in GDP per head in PPS by region within Member States, 1990-2000; graph 2 GDP/head (PPS) by country and regional extremes, 2000). Greater increases in regional disparities were observed between 1995 and 2000; the spread of regional incomes per head around the average increased by five percentage points or more in Finland, Sweden and Ireland. Nevertheless, because there was convergence in the average income levels of Member States, overall disparities between EU regions as a whole were practically unchanged between 1995 and 2000.

Income per head in Objective 1 regions was just over 71% of the EU15 average in 2000, almost unchanged from the previous year. (Table 3: GDP per head (in PPS) in Objective 1 regions (1994-99), 1995-2000). Catching up is more marked for the five-year period 1995 to 2000, the income gap falling by 1.5 percentage points. The gap closed by two percentage points among the regions which have been eligible for Objective 1 support since 1989, reflecting the positive impact of the Structural Funds, especially over the long run.

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<sup>6</sup> European Economy No. 5/2002, Autumn Economic Forecasts

[http://europa.eu.int/comm/economy\\_finance/publications/european\\_economy/2002/ee502en.pdf](http://europa.eu.int/comm/economy_finance/publications/european_economy/2002/ee502en.pdf)

<sup>7</sup> In 2001 the EU budget continued to generate major financial transfers to Greece, Portugal, Spain and Ireland, the four countries receiving cohesion funds. Measured in relative terms, net transfers thus stood at 3.50% of Greek GDP and 1.5% of Portuguese GDP. The corresponding figures for Spain and Ireland are 1.2% and 1.1% respectively.

The report on "Allocation of 2001 EU operating expenditure by Member State" can be downloaded on [http://europa.eu.int/comm/budget/agenda2000/reports\\_en.htm](http://europa.eu.int/comm/budget/agenda2000/reports_en.htm)

<sup>8</sup> It should be noted that some of the per capita GDP data reported in the first progress report have been updated by Eurostat. As a consequence a direct comparison of the figures given in the first and second progress reports is not possible.

Three groups of countries can be distinguished in an enlarged Union (Graph 1: GDP per capita (PPS), 2001):

- The first group includes the 8 accession countries (21% of the EU25 population) with the lowest income per head, averaging 42% of the EU25 average and ranging from 65% in CZ to 37% in LV (for comparison in BG and RO figures are 27% and 26% respectively).
- In the second group income per head (13% of the EU25 population) ranges from 71% of the EU average in Greece to 92% in Spain; it includes the two remaining accession countries, SI and CY, as well as Portugal.
- The third group includes the remaining current Member States, with income at least 11% above the EU25 average (115% for the group as a whole), and accounts for almost 66% of the EU25 population.

## **1.2. Increased regional disparities after enlargement**

Regional income disparities in the EU are also set to increase markedly upon enlargement; the ratio of income per head in the top and bottom 10% of regions<sup>9</sup> in 2000 was 2.6 in the EU15, while for EU25 it is 4.4, and 6 for an E27 (Table 4: The most and least prosperous regions in the Union, 1990-2000, Table 5(a/b): GDP/head (PPS) in the richest/poorest regions, EU-25, 2000).

In 2000, 48 regions from current Member States, accounting for 18% of EU15 population (68 million), had income below 75% of the EU15 average per capita (in PPS) – the current eligibility threshold for objective 1 support (Table 6: Summary statistics for regions falling below the 75% threshold). In an enlarged Union of 25, a total of 67 regions will fall below the 75% threshold, representing 26% of total population (116 million). From current Member States only 30 regions will have income below the 75% threshold when compared to the average income for the EU25 (which is 13% lower), accounting for 12% of the current EU15 population (47 million). In an enlarged EU27 (where average income is 18% lower than for the EU15), only 18 regions from the current Member States would qualify, representing 6% of EU15 population (24 million).

## **1.3. Employment and social cohesion**

So far, the impact of the global economic slowdown seems to have been less than might have been expected in the past. This may be due in part to Structural Fund support and also to reforms in EU labour markets which have been implemented as part of the European Employment Strategy since 1997, strengthening the ability of the European labour market to resist cyclical shocks.

### *1.3.1. Slowdown in employment growth in the EU*

Following the slowdown in economic growth since the second half of 2000, the rate of net job creation declined in the second quarter of 2001 and the following months.

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<sup>9</sup> The top and bottom 10% (or 25%) of regions refers to regions accounting for 10% (or 25%) of population.

In total, employment grew by 1.3% in 2001, equivalent to a net increase of 2.2 million jobs.<sup>10</sup> Between 1996 and 2001, 10 million jobs were created.

In the EU as a whole, 64% of the working age population was in employment in 2001 with rates of over 70% registered in Denmark, the Netherlands, Portugal, Sweden and the UK, while in Italy and Greece employment rates were far below 60% (Map3–Employment rate, 2001). Within the Member States, employment gaps persist according to gender, age or level of qualifications and skills. The gaps tend to be more marked where overall the employment rate is relatively low.

Accompanying the changes in employment, the unemployment rate increased slightly in the first half of 2002, reaching 7.7% in August from 7.4% a year earlier. Unemployment remains particularly high in Italy, Greece and Spain, especially for women and young people (Map 4(a/b/c) Total, female and youth unemployment, 2001). Long-term unemployment also continued to decline but still affects 3.3% of the labour force.

### *1.3.2. Regional convergence in employment rates*

At the regional level, disparities in terms of employment rates decreased further but remain substantial. In 2001, the employment rate in the top 10% of regions (defined as those with the highest rates accounting for 10% of the population) averaged 78.1%, whereas the employment rate in the bottom 10% (defined in an equivalent way) averaged 48.6% (Table 7(a/b): Regions with lowest/highest employment rates (ages 15-64), EU15, 2001). Amongst the latter group, predominantly regions with a relatively low income, there was only slight convergence towards the employment rate of other regions. Regions performing best in terms of employment, on the other hand, were characterised by high income levels, a relatively low share of employment in agriculture, a high level of employment in the service sector and a highly qualified population of working age.

Regional disparities in unemployment remain pronounced. While unemployment in regions where rates were lowest averaged a mere 2.3%, it averaged 19.7% in those where rates were highest. Both groups of regions continued to benefit from substantial employment growth in 2001. Regional differences remain wide within some Member States. Differences between regions in 2001 were greatest in France, if the outermost regions are taken into consideration, and Italy, where the difference between the highest unemployment rate (in Calabria) and the lowest (Trentino-Alto-Adige), exceeds 21 percentage points (Graph 3 - Unemployment rate by country and regional extremes, 2001).

### *1.3.3. Social cohesion: slow progress*

Recent data suggest that the distribution of income in the Union has become more equal over time. For example, the ratio of total income received by the top 20% of income earners compared to that received by the lowest 20% fell from 5.1 in 1995 to 4.6 in 1999. A similar decline can be observed for the poverty rate, defined as the percentage of people with an income of 60% or less of the median income in the country in which they live. Some 15% of EU citizens had an income below the

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<sup>10</sup> See Employment in Europe 2002 – Recent trends and prospects, July 2002.

poverty level in 1999, down from 17% in 1995. Relative poverty would, however, have affected 24% of the EU population if social transfers other than old-age pensions had not been counted as part of income. Persistent poverty in the EU is slightly more than half the figure for a single year, 9% of the people affected between 1997 and 1999 having an income below 60% of the median in each of these three years, as opposed to 15% in 1999 (Graph 4 Population at risk/persistently at risk of poverty, 1999).

#### *1.3.4. Worsening employment situation in candidate countries*

All candidate countries were affected by the international economic downturn in 2001. Across the region, the employment rate decreased for the fifth year in a row. Although employment in services has grown substantially, this did not offset the job losses caused by the adjustments in the industrial and agricultural sectors.

In 2001, the employment rate for the candidate countries was almost 6 percentage points lower than that of the EU 15. Only Cyprus and Slovenia registered a higher employment rate than the EU average. In most candidate countries, the employment rate for women developed more favourably than for men, either falling more slowly or rising faster.

Regional disparities in employment are lower than in the EU, but remain significant. Regional disparities in the employment rate are greatest in Slovakia and Bulgaria and to a lesser extent in Hungary. Countries with large disparities in employment rates also registered substantial variations in unemployment rates.

Unemployment has been growing in the candidate countries over the past years and has exceeded EU levels, reaching 13.0% on average in 2001 for the area as a whole. Nevertheless, unemployment rates of more than 16% were registered in Lithuania, Poland, Slovakia and Bulgaria. A particular concern is the high level of youth unemployment across the area (28.6%), which increased further in 2001 to almost twice the EU level. Simultaneously labour force participation has been falling, which has to some extent limited the increase in the official unemployment rate.

Regional disparities in unemployment continued to rise in 2001. In the top 10% of regions in terms of population, the unemployment rate averaged 3.6%, whereas it averaged 24.3% in the bottom 10% of regions. In almost half of the regions in the candidate countries, the unemployment rate was more than twice that of the EU.

#### *1.3.5. Disparities in employment and social cohesion will increase in an enlarged EU*

On the basis of latest data available, inclusion of candidate countries would have the effect of reducing average EU employment rate and increase EU unemployment rate. Enlargement will also have a stronger impact on the sectoral composition of employment of an enlarged EU. Agriculture accounts for a much higher share of employment in the candidate countries as compared to the EU 15 – 13,2% for the ten acceding countries, 20,8% if data from BG and RO is added. Enlargement would increase the share of employment in agriculture from 4,1% in EU 15 to 5,5% in EU 25 (and 7,6% in EU 27), while the share in the service sector would decrease and that of the industrial sector would stay the same. The agricultural sector of most candidate countries is expected to undergo a significant restructuring process in the

coming years (with or without enlargement) leading to structural pressures on rural areas in these countries.

Disparities in employment and unemployment would rise as well. While the unemployment rate in the top 10% of regions of an enlarged EU would average 2.4%, it would average 22.6% in those where rates were highest (Table 8 (a/b)-Regions least and worst affected by unemployment, EU27, 2001). The top group of regions would almost exclusively consist of regions located in the current Member States, whereas the majority of regions in the bottom group would be located in the candidate countries.

#### **1.4. New data on factors determining real convergence**

The results of a study on the expected economic impact of Objective 1 assistance for the period 2000-06 (which uses an input-output model for these estimates) have become available<sup>11</sup>. These results are encouraging. According to the study, total GDP in Portugal over the period 2000-06 will be 3.5% higher than it would have been without Community support; for Greece the figure is 2.2%, while in the Mezzogiorno it is 1.7%, in eastern Germany 1.6%, and in Spain 1.1%. In Ireland the estimated impact is marginal – expenditure here is concentrated on intangible investments, notably education, which the input-output model finds more difficult to pick up. In terms of investment, Community support (Structural Funds and the Cohesion Fund) will account for over 8% of total investment (public and private) in Portugal and Greece between 2000 and 2006, and over 6.5% in the Mezzogiorno. In Ireland, eastern Germany and Spain the impact is a little lower (4.9%, 4.2% and 3.2% respectively).

The overall impact of Objective 1 expenditure upon regional GDP substantially exceeds the original expenditure in all these areas. It averages 133% of the Objective 1 assistance in all six areas combined (i.e. each euro spent increases local GDP by 1.33 euros), exceeding 140% in the Mezzogiorno, eastern Germany and Portugal. However, there is also a marked effect upon areas outside those actually receiving funding. It is an indication of the strength of the single market that almost one quarter of the original expenditure will be spent in other areas of the EU, and under one tenth outside the EU.

The first progress report noted the considerable disparities that exist across the EU in terms of factors determining the competitiveness of regions. Particular attention was paid to demographic changes, levels of education, employment by sector and knowledge society. The report also confirmed the points regarding productivity made in the Second Cohesion Report.

In the statistical annex to this second progress report, updated maps are presented showing education levels of the population aged 25 to 59 (Map 5: Educational level, 2001), employment in sectors by region (Map 6: Employment by sector, 2001) and productivity (Map 7: GDP per person employed (€), 1999). All of these are important factors explaining disparities among the regions.

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<sup>11</sup> [http://europa.eu.int/comm/regional\\_policy/sources/docgener/studies/pdf/objective1/final\\_report.pdf](http://europa.eu.int/comm/regional_policy/sources/docgener/studies/pdf/objective1/final_report.pdf)

New data on indicators of technological advance confirm a picture of lower activity relating to technological innovation and the growth of the knowledge economy in the southern Member States, compared to the northern Member States<sup>12</sup>.

### Patent applications

In Finland, Sweden and Germany the number of patent applications (Table 9- Patent applications per million people, 1998-2000) registered per million inhabitants is around twice, or more, the EU average. The figure for the Netherlands and Luxembourg is also above the EU average of 309, while it is close to this in France, Belgium, Denmark, Austria. The UK falls well below the EU average, and it is only half of this level in Italy and Ireland. There is a large gap between these and the remaining Southern Member States, where the figure is as low as 7 per million inhabitants in Portugal and 16 in Greece. Performance in the accession countries is similar to that in Portugal and Greece - only Slovenia (21) and Hungary (14) register much more than 10 patents per million inhabitants.

Disparities are more marked at the **regional level**, partly reflecting the registration of patents at company headquarters, so increasing their regional concentration. All of the 34 regions with fewer than 10 patents per million population are located in Southern Europe and outermost regions. (Map 8a High technology - Patent applications to the EPO, 1998 to 2000). In 33 regions, including 18 of the 40 regions in Germany, there were over 200 patents per million population. Of the remaining 15 regions, four are in Sweden, three in Finland and two each in France, the UK and Belgium. In most Member States, one or two regions stand out as having clearly the highest figure – these include Stockholm, Oberbayern and Brabant Wallon.

### High tech sectors

Innovative capacity is seen by many as more appropriately reflected in high tech sectors; high-technology employment in a limited number of sectors is<sup>13</sup> estimated to account for just over 11% of total employment in the E15; Western Germany accounts for 8 of the 10 regions with the highest shares (all above 18%), and for Germany as a whole the share is 14%. (Map 8c High technology – High-tech patents 1998 to 2000). By contrast, in 15 regions the share of high tech employment is less than 5% of total; these regions are in Portugal (5.5%), Greece (4%) and Spain, as well as Luxembourg, and Cornwall in the UK.

Patents registered in high tech sectors also show important differences between Member States<sup>14</sup>, as well as between the regions. Finland and Sweden lead the rest of the EU by a greater margin, with 119 and 80 such patents per million persons,

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<sup>12</sup> See 2002 Innovation Scoreboard at <http://trendchart.cordis.lu/reports/Documents/report3.pdf>

<sup>13</sup> High tech industries include the following (NACE2) activities: High tech manufacturing: Manufacturing of office machinery, computers, radio, television, communication equipment, medical precision and optical instruments, watches and clocks; Medium-high tech manufacturing: Manufacture of chemicals, machinery and equipment n.e.c., electrical machinery and apparatus n.e.c., transport equipment; High tech services: Post and telecommunications, computer and related activities, research and development.

<sup>14</sup> Patents in the following areas are seen as high tech: Computer and automated business equipment, Micro-organism and genetic engineering, Aviation, Communication technology, Semiconductors and Lasers

respectively, compared to the EU15 average of 23. Germany (36) notably falls behind these two, as well as behind the Netherlands (48); only 13% of patents in Germany are high tech, a similar proportion as in Portugal and Spain. This compares to 40% in Finland, and around 25% in Sweden, the Netherlands and Ireland. Thus in Portugal and Greece there is less than one high tech patent per million population.

Disparities are more stark at the regional level<sup>15</sup>; there are fewer than 10 high tech patents per million population in 108 regions, and under 2 in 32 regions. Of these 32 regions, all but five are in the southern Member States. At the top end, in 17 regions the figure is at least twice the EU15 average; these regions broadly coincide with those where total patents registered were also around twice the EU15 average. Regional rankings according to total patents and high tech patents are similar, confirmed by a correlation coefficient of 0.86.

### R&D expenditure

Similar disparities exist with regard to R&D expenditure (Table 10 R&D expenditure, composition and as % of GDP, 1999). In 1999, such expenditure averaged 1.9% of GDP. The highest figures were in Sweden (3.8% of GDP) and in Finland (3.2% of GDP) while they were below 1% in Spain, Portugal and Greece. In the accession countries, the figure was also below 1% of GDP in all except Slovenia and the Czech Republic (1.5% and 1.2% respectively). Within the Member States too there were large divergences; the ratio between the highest and lowest regional R&D levels was above 4 in all, and considerably higher in most.

Of the 176 regions where data is available, in 17 R&D expenditure exceeds 3% of GDP; 10 of these regions are located in Germany, two in Finland, Sweden as a whole is included (national data only available), two in France, and one each in the UK and Austria (Map 9. Research and development expenditure, 1999). At the bottom end of the scale, R&D expenditure is less than 1% of GDP in 86 regions, and even below 0.5% in 27 regions. The latter regions are concentrated in the Southern Member States.

The composition of gross domestic R&D expenditure (GERD) can be identified at the national level; where the level of R&D is highest, the business sector appears to play a greater role, where it is lowest, the role of the higher education system tends to be larger (Table 10. R&D expenditure, composition and as % of GDP, 1999). R&D activities performed by the business sector (BERD that includes government subsidies and the like) represent just under two thirds of total R&D activities being performed in the EU (this contrasts with the actual amount of R&D activities being financed by the business sector which still stands at 56.3% of the total financed EU level), while higher education accounts for one fifth and government for the remaining 14%. In Greece and Portugal the business sector provides around one quarter of total R&D expenditure, and around half in Italy and Spain. In all four of these, the role of the higher education sector largely compensates (almost half of the total in Greece), as well as government and private not-for-profit organisations in Portugal. Sweden has both the highest total, and the highest share accounted for by business expenditure (75%); the share is also high in Finland and Germany (high total R&D expenditure), but also in Belgium (around the average) as well as Ireland.

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<sup>15</sup> 189 NUTS 2 regions have data on high tech patents.

In candidate countries the government sector plays a larger role (29% of total), mainly compensated by a smaller role for the business sector, only 46%. In several countries, the business sector is more important, but does not appear to be linked to the overall level of R&D expenditure. The business sector accounts for over two thirds of total R&D in the Slovak Republic, as well Romania, but only around one fifth of total in Cyprus, Estonia and Lithuania, as well as Bulgaria. In Slovenia and the Czech Republic, where total R&D expenditure is highest, the business sector accounts for a relatively large share, over half, which is largely compensated by lower shares in the higher education sector.

## **1.5. Studies on the territorial component of cohesion**

Considerable work began during 2002, in particular the launch of the ESPON programme adopted by the Commission on 3 June 2002.

The first nine studies<sup>16</sup> began in September. Seven new studies, covering the territorial impact of the Structural Funds, the territorial implications of enlargement, the environment, energy and demography, will begin shortly<sup>17</sup>. A study on mountain areas was also begun with the aim of securing a Community definition of such areas and examining their present situation in the EU and the future Member States.

The study on island regions, announced in the first progress report, is about to be completed. The first results from this study are presented below.

Ten million people live in the 286 islands of the Union, as defined using criteria laid down by Eurostat. 95% of this population is to be found in the Mediterranean, with five island regions (Sicily, Sardinia, the Balearics, Crete and Corsica) accounting for 85% of the total island population. The GDP per capita of the Union's island territories in 2000 may stand at 72% of the Community average but that conceals a wide variety of situations.

The socio-economic development of certain islands may be impeded by one or more of the following handicaps:

- The most important is their small size. The development of islands with a population of less than 5 000 people is handicapped by out-migration and ageing, a low level of infrastructure for education and health and difficulties in accessing public services.
- The most distant islands suffer from difficulties of access and mountainous terrain and/or the extra travel problems created by an archipelago.

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<sup>16</sup> The role, specific situation and potential of urban areas as nodes in a polycentric development; Urban-rural relations in Europe; Transport services and networks: territorial trends and basic supply of infrastructure for territorial cohesion; Telecommunications services and networks: territorial trends and basic supply of infrastructure for territorial cohesion; Territorial impact of EU transport and TEN policies; Territorial impact of EU Research and development policy; The territorial impact of CAP and rural development policy; Territorial effects of structural funds in urban areas; Integrated tools for European spatial development.

<sup>17</sup> A research project on the "Impact of cohesion policies on sustainable regional development" is also due to be funded under the 6<sup>th</sup> Framework Research Programme.



- An economy centred on one or two main activities, in particular agriculture, fisheries or tourism, is more vulnerable.
- In small areas, any development of economic activities may exert pressure on a fragile ecosystem.

To cope with these handicaps, some island territories are adopting an innovative development approach, in order to diversify their economy (creation of technology centres (Crete, Åland) and centres to support small firms (Majorca)) or to take better account of environmental constraints (promotion of renewable energies (Samsoe)). Today, 87% of the EU island population is covered by Objective 1 and 11% by Objective 2. Furthermore, 97% benefits from the derogations under Articles 87(3)(a) and (c) of the Treaty on State aids, of which 14% is at aid rates exceeding 40%.

A study on ‘European Human Capital and the Regions - an empirical contribution to the debate on human capital and regional development in the EU Member states and accession countries’ was conducted. The aim of the study was to analyse the structure and patterns of human capital vertically (EU, national and regional levels) and horizontally (socio-economic contexts, skill levels, age, gender, and sectors).

A study on ‘Human capital in a global and knowledge-based economy’ examines the rationale for putting investment in human capital at the forefront of policies aimed at promoting economic growth and social cohesion. It underlines that investment in human capital contributes significantly to productivity growth, technological change and diffusion, and that policies that raise the quantity and quality of the stock of human capital increase social cohesion.

## **2. DISCUSSIONS ON THE FUTURE OF COHESION POLICY**

### **2.1. Discussions within the Institutions and in the seminars organised by the Commission**

#### *2.1.1. Council*

The Commission presented the first progress report to the General Affairs Council on 18 February 2002. Coreper asked the Structural Actions Group to look at its content and its report was adopted by the General Affairs Council on 17 June.

Delegations welcomed the first progress report but stressed that their positions on the future of cohesion policy could only be considered provisional at this stage in the debate. Some noted that no discussion could take place until the Commission had presented its proposals while others referred to discussions at the Namur informal Council on 13 and 14 July 2001 and welcomed the opportunity to give their views following publication of the Second Report on Cohesion in January 2001.

The delegations felt that the least developed regions should remain the priority for cohesion policy. One delegation proposed that the relative share of the funds allocated to these regions should be increased while another suggested that the eligibility criterion should be defined at national level, the richest countries taking responsibility for the development of their backward regions with no Community contribution. Some delegations wanted the Commission to put forward this suggestion as one of the options for the future. Others regarded a national approach

as difficult to reconcile with the Treaty and supported the regional approach presented by the Commission which, in their view, would allow recourse to an enlarged partnership, able to respond better to local needs.

Most delegations wanted per capita GDP to remain the eligibility criterion for defining lagging regions. Some delegations wanted to add other criteria (rate of unemployment or employment, peripheral nature or population density, etc.). As regards the statistical effect (the fall in average per capita GDP in the Community following enlargement), some delegations argued for setting an eligibility threshold above 75%. Others favoured more generous transitional arrangements for the regions adversely affected by this impact.

Most delegations regarded Community assistance as necessary for the regions other than those considered to be lagging behind. Such assistance should seek to make the regions more competitive and concentrate on measures offering high Community value added. Several delegations stressed the need for effective assistance which was not too widely dispersed.

Turning to the financial effort required after 2006, the Spanish Presidency stated that it regarded the threshold of 0.45% of Community GDP as a good reference point in view of the challenges which cohesion policy would have to deal with after enlargement. Other delegations thought it too early to take a decision.

The simplification of procedures for implementing the Structural Funds was mentioned on several occasions. Following the Namur ministerial meeting in July 2001 and at the suggestion of Commissioner Barnier, the Ministers responsible for regional policy met in Brussels on 7 October to look at the Commission proposals on the simplification of management in 2000-06 period. The Commission presented a series of proposals to simplify, clarify, coordinate and introduce more flexibility into management under the Regulation in force. Specifically, these proposals concerned the amendment of programmes, financial management and the coherence of inspections. The representatives of the Member States welcomed the proposals and many made further suggestions consistent with the rules in force.

There was broad agreement on the fact that in future, after 2006, it would be necessary to look in greater depth at the arrangements for implementing the Structural Funds. There should be discussion to clarify the role of the Commission in implementing cohesion policy, with particular regard to Article 274 of the Treaty. To that end the Commission is organising a seminar on 3 and 4 March 2003.

### *2.1.2. European Parliament*

On 6 November 2002 the **European Parliament** adopted Ms Schroedter's report on the first progress report. As well as the Committee on Regional Policy, Transport and Tourism, the Committees on Agriculture and Foreign Affairs contributed their opinions.

The Schroedter report supported the Commission on several points: the need to maintain a cohesion policy based on strength, solidarity and partnership to cope with enlargement and persistent inequalities within the Union; not to drop below 0.45% of Union GDP so as not to call into question the credibility of cohesion policy; the need to adapt cohesion policy to the conditions which will prevail in an enlarged Union;

the need to promote sustainable development, territorial cohesion in Europe and improve the polycentric, harmonious and balanced development of the Union, in accordance with the guidelines of the ESDP; support for areas with specific handicaps (with a special mention of the outermost regions); greater cross-border cooperation; opposition to any renationalisation of cohesion policy; the importance of partnership and the need to reflect on tripartite contracts with the regions and the Member States.

The report also reflects other concerns: taking account of indicators other than GDP to determine eligibility under the Structural Funds; making environmental policy, employment policy, the common agricultural policy, transport policy and economic policy more consistent with the aim of sustainable regional development; increasing the administrative capacity of the candidate countries; defining more flexible arrangements for implementation to achieve a gradual decentralisation of the management of the Funds, subject to effective and rigorous checks on how they are used; increased aid for regional competitiveness; enabling the regions to implement their own development strategies; introducing the principle of 'one programme – one Fund' and giving the regions more responsibility for implementation.

It asks the Commission, prior to the third report:

- to propose a time-frame to ensure that programming for the period 2007-13 can be implemented from 1 January 2007;
- to make proposals to improve the coherence of EU policies which have an impact on economic and social cohesion;
- to make proposals on the future of the Community Initiatives and Objective 2.

### *2.1.3. The European Economic and Social Committee and the Committee of the Regions*

The **European Economic and Social Committee** issued two opinions, one on the strategy for economic and social cohesion and the other on the future of cohesion policy in the context of enlargement and the transition to a learning society.

In its first opinion, the Committee identified the challenges facing the Union (enlargement, globalisation, a growing dynamic between the centre and the periphery, macro-economic stability, etc.) and the consequences to be drawn; maintaining aid under Objective 1 beyond 2006; overcoming the negative statistical impact of enlargement on average per capita GDP; raising the ceiling set at 0.45% of GDP for the Structural Funds; creating a resource to stabilise regional income in the event of an unexpected economic shock; consolidating the programme of Community Initiatives; adopting an open method of coordination to deal with the problems of economic and social cohesion which the Objective 2 regions are experiencing, and giving priority to investment in the less-favoured regions.

In its supplementary opinion on the Second Report on Economic and Social Cohesion, adopted on 25 April 2001, the Committee came out in favour of a thorough reform of the principles, general conditions, definition and arrangements for cohesion policy in the context of the enlargement of the Union. To simplify procedures, the Committee advocated establishing a single Fund, with adequate flexibility, which would contribute to greater simplicity and enhanced visibility.

The **Committee of the Regions** adopted its opinion on the first progress report on 10 October 2002. It welcomed the positive impact of the regional policy followed in recent years and noted that the Commission regarded the threshold of 0.45% of Community GDP allocated to the cohesion policy as a minimum. It also stated that assistance to regions whose development is lagging behind should be the priority and that eligibility should be defined on the basis of per capita GDP, plus the unemployment rate or level of productivity. The regions affected by the statistical effect should receive appropriate transitional support. Those which exceeded the eligibility threshold because of their own economic development should become eligible under Objective 2, whose purpose should be the ironing out of territorial imbalances.

The opinion asked the Commission to simplify the procedures for granting regional aid and to clarify the roles of the Commission, the Member States and the regions, while complying with the principle of subsidiarity. The opinion called for better coordination of all Community policies and financial instruments with the policy on economic and social cohesion.

#### *2.1.4. The seminar of 27/28 May 2002 on the Union's regional priorities*

This seminar was attended by almost 600 people from the Member States and the candidate countries<sup>18</sup>. There were three workshops: regions whose development is lagging behind, regions undergoing structural conversion or facing specific problems and cooperation and integration among the regions of Europe.

The starting point for discussions was the question of Community value added and the effectiveness of structural assistance looked at from several points of view:

- its effectiveness from the aspect of convergence between the regions of the Community;
- its contribution to the aims pursued by the other Community policies;
- its role as a means of economic integration and stability in the context of monetary union;
- its visibility to the public, showing them the Community in action;
- its contribution to better governance through arrangements for evaluation, management and partnership.

The seminar identified several areas of agreement on future cohesion policy and points to be explored further. The areas of agreement included the importance of cohesion policy for successful integration in the enlarged Union, the priority to be given to regions whose development is lagging behind, the need to continue a regional policy with substantial Community assistance outside those regions, the need for greater simplification in the method of implementation, including an end to the present system of zoning, the possibility of a single source of finance and a contingency reserve and continuing European cooperation between the regions of the Union, including on the future external frontiers (east and south).

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[http://europa.eu.int/comm/regional\\_policy/debate/semcom\\_en.htm](http://europa.eu.int/comm/regional_policy/debate/semcom_en.htm)

In all these areas, all those present regarded the Commission's role as vital as a partner for the states and the regions.

The points to be explored further were:

- clarification of the Commission's responsibility with regard to Article 274 of the Treaty, particularly in the event of further decentralisation of the implementation of cohesion policy;
- the criteria for defining the areas and horizontal priority topics which will be eligible outside the regions whose development is lagging behind;
- consistency with the other Community policies;
- the need to ensure greater coherence between the second pillar of the CAP<sup>19</sup> and regional development policy despite broad agreement on the need to strengthen Community support for rural development;
- synergies among the Structural Funds;
- the form and content of tripartite contracts between the Commission, Member States and regions, which most of those present supported;
- the introduction of a principle of proportionality for the implementing arrangements which would depend on the amount of finance allocated;
- greater coherence between the internal and external aspects of cross-border cooperation.

*2.1.5. The seminar on priorities relating to employment and social cohesion (30 September 2002)*

This seminar addressed the priorities relating to employment and social cohesion policies as defined in the Second Cohesion Report: more and better jobs, knowledge society, social inclusion and equal opportunities. A point of reference for the seminar was the Lisbon strategy as the policy framework for addressing the employment and social dimension of cohesion.

The seminar identified a role for investment in human capital training in improving the employment intensity of growth and contributing to reducing unemployment. The involvement of the Union was held to be important as a visible contribution to the integration process. At the same time, the added value of the actions could be increased via a more selective focus on critical issues such as lifelong learning. Since it was argued that structural challenges were common to all countries and regions, a broad agreed framework of response was required.

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<sup>19</sup> See General Conclusions of the Seminar.

#### 2.1.5.1. More and better jobs

On this issue, certain delegates pointed to the fact that the four pillars of the Employment Strategy and the policy fields of the ESF do not overlap, and a better match between them should be aimed at in the future.

Several participants said that investment in human capital would play a crucial role in promoting economic and social cohesion and adapting successfully to economic and social change. Measures needed to be linked to increasing productivity and competitiveness, on the one hand, and social inclusion on the other.

There was also support for the maintenance of the integrated approach combining investment in human capital and investment in physical capital, not only in the regions lagging behind but also in other regions.

In the more prosperous regions, it was said that economic and labour market change is still required and intra-regional variations mean the existence of serious human capital weaknesses as a result of market and institutional failures and under-investment in skills. Policy should seek to tackle mismatches that result in skill shortages and skill gaps. Generic skills were also identified as important, as was the local/regional identification of appropriate skills needs.

In terms of processes, it was stressed that cohesion policy will be successful only if it involves all actors in an active partnership to identify challenges and define strategies. This is particularly true at local and regional level, where the problems and challenges are well understood and appropriate strategies developed.

#### 2.1.5.2. Social inclusion

Delegates pointed to the fact that only some of the measures defined by the strategy to combat social exclusion are currently eligible for Structural Fund support, whereas this was an area where these Funds could be called upon increasingly.

An approach linking measures to the labour market may not be sufficient; many of the challenges of social exclusion are not directly related to the labour market, but to wider social issues. Furthermore, not all of those who are excluded, or threatened with exclusion, can have access to the labour market, which suggests that a new and wider definition of employability might be needed.

The Union, via the ESF, could play a major, even predominant, role in promoting partnership, particularly in the light of the fact that the success of the social inclusion strategy depends crucially on the cooperation and the mobilisation of all those involved. It was suggested that existing instruments should be reviewed to see what changes might be needed, including simplification and the introduction of greater flexibility.

#### 2.1.5.3. Equal opportunities

In the workshop on equal opportunities, it was said that investment in human capital has a major role to play in promoting equality between men and women. It was stressed that the principle of equality relates to all types of discrimination, such as on the basis of race or disability. Discrimination on the basis of gender is specific because of the extent of the problem.

It was suggested that policy priorities should focus on the effective implementation of the principle of “gender mainstreaming”, because this allows two objectives to be pursued: specific actions on equality and the inclusion of a gender perspective in all other policies and actions. Priority could be given to actions which help to change attitudes, behaviour and stereotypes of women and men. Actions could be targeted on men, on employers and on social partners in order to achieve a better sharing of family responsibilities. A recommendation was made to fully integrate investment in childcare infrastructure into regional and local development policies and strategies, and not just make it a complement to measures promoting the employment of women.

#### 2.1.6. *The seminar on urban areas (8 and 9 July 2002)*

Over 600 people involved in Urban programmes, including several mayors and their deputies, came to London to discuss the lessons to be learned from experience of the Urban programmes and the future of cohesion policy in its urban form. The mayors and representatives of the cities noted the important contribution of the Urban Community Initiative to urban development and the substantial multiplier effect on assistance from national sources, both public and private. Speeches referred to Community value added in a number of fields:

- assistance which is closer to people and their problems, offering an integrated approach to economic, social and environmental questions;
- effective and highly visible operations dealing with matters of importance to the Community;
- a high degree of partnership embracing not only the local authorities responsible for programme management but also other public and private parties, including those most concerned, the local inhabitants;
- an on-going learning process allowing the testing of innovative approaches and networking to exchange experiences.

A number of speakers noted the need to continue and step up Community assistance to cities. The objectives to be achieved include making cities more powerful motors of regional development, preserving or restoring social cohesion in cities and improving the urban environment through an integrated approach. For the preparation of a new urban policy, the Union was asked to provide assistance for:

- a study of whether, subject to certain conditions, the Structural Funds could contribute to housing in the context of urban regeneration;
- making cities the main partners discussing with the Commission the programmes and measures which concern them, as well as programming and management;
- making the assistance for which the cities are responsible consistent with other measures programmed at a wider territorial level;
- developing cooperation and exchanges of experience between cities and all those involved in urban policies.

### 2.1.7. *The seminar on mountain areas (17 and 18 October 2002)*

The seminar on 'Community policies and the mountain areas' held on 17 and 18 October 2002 was attended by over 500 participants from the Member States, the candidate countries and elsewhere. This event, to mark the international year of the mountain in 2002, gave the Community institutions and the people and associations involved on the spot a unique opportunity for dialogue. The following requests were made:

- specific projects providing better answers to the problems of mountain areas and making better use of their advantages should be supported. These could include the maintenance of services of general interest in these areas to which access is difficult, greater stress on quality products, particularly in agriculture, through the creation of specific promotional instruments (labels, etc.) and diversification of activities to check the flight from the land;
- inter-regional and cross-border cooperation, such as that under the Interreg Community Initiative, is very visible in territories such as mountain areas and Community value added is clear. It provides a vital pivot for the exchange of experiences and dissemination of know-how;
- the consistency of Community policies with implications for the mountain areas (agriculture, rural development, regional policy, the environment and transport) should be improved.

## 2.2. **The issues most widely discussed**

There have been several initiatives in the Member States and the regions on the future of cohesion policy. Many Member States and several candidate countries have held seminars, with or without the participation of the Commission.

The issues most widely discussed have been the objectives of cohesion policy (the regions whose development is lagging behind, the other regions and cooperation) and the contribution of the other Community policies to cohesion.

### 2.2.1. *Priority to the least developed regions*

Virtually all the positions notified to the Commission favour retaining the priority of cohesion policy for the regions whose development is lagging behind. They stress the dominant position which the candidate countries will occupy in this Objective<sup>20</sup>.

As regards the eligibility criteria to be used for the regions whose development is lagging behind, most positions favoured the present criterion, applied since 1989, of 75% of average per capita GDP in purchasing power parities.

Nevertheless, the suggestion has been raised that the GDP criteria be complemented by other criteria, such as the employment or unemployment rate, productivity,

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<sup>20</sup> To meet the specific needs of the regions in the candidate countries better, the Commission has proposed giving the Cohesion Fund greater weight within the Funds as a whole. In the areas eligible under the Structural Funds in these regions (infrastructure, human resources and support for productive investment), the Commission has proposed to add institutional capacity building.



peripherality, population decline, or the level of financial execution<sup>21</sup>. Furthermore, representatives from the ultra-peripheral regions<sup>22</sup> and island regions<sup>23</sup> hope that these will be included among the lagging regions, even where their income exceeds the threshold level for eligibility.

### **Box: CONTRIBUTION OF THE OUTERMOST REGIONS**

3.8 million people live in the outermost regions (the Canary Islands, Guadeloupe, French Guyana, Martinique, Réunion, the Azores and Madeira), with the Canary Islands accounting for 40% of that number. The main features of these areas are their great isolation and unfavourable natural conditions due to relief and the extent of natural hazards. They have a very young population but demographic pressure and a lack of job prospects results in substantial out-migration (Azores, Madeira) and/or rising social tensions because of unemployment (Guadeloupe, Réunion) and the problems of integration (French Guyana).

A large number of road, port and airport infrastructure projects which contribute to the development of these regions receive substantial support from Community aid. All the outermost regions are currently eligible under Objective 1 and also enjoy the derogations provided for in Article 87(3)(a) and (c) of the Treaty on state aid at relatively high levels (50% in the Canary Islands, 62% in the Azores and Madeira and 65% in the French overseas departments).

The EU policy on cohesion together with a policy of budget transfers from the states<sup>24</sup> to which they belong has enabled them to draw somewhat closer to the Community average over recent years. In 2000, their GDP stood at 66% of the Union average; by way of comparison, the ten poorest regions in the present Union have a GDP of 47 %. However, work must continue, particularly with regard to employment and training, in order to prevent the active population from leaving<sup>25</sup>. Accordingly, the level of facilities for education and vocational training could be improved. The most important thing, however, is to support all initiatives which generate jobs and create wealth in order to cope with the problems caused by demographic pressures.

As regards the statistical impact of enlargement (the 13% fall in average per capita GDP in the Community as a result of the accession of ten new Member States), the Commission noted in the first progress report that only two of the four options mentioned in the Second Report on Cohesion had received substantial support:

- retaining an eligibility threshold of 75% of the Community average with differentiated transitional arrangements: one for the regions which, because of

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<sup>21</sup> See notably the Coreper report on the first progress report (Council document 8026/02)

<sup>22</sup> First contribution from the UPR on the future of economic and social cohesion (3 February 2002) and common UPR position on the study of island regions in the European Union (October 2002).

<sup>23</sup> CPRM's Commission for Islands

<sup>24</sup> The total annual contribution of the Structural Funds ranges from 15% (Réunion, Canary Islands) to 44% (Azores) of fiscal receipts for these regions.

<sup>25</sup> To define the criteria for the competitiveness of firms in the outermost regions better, a study supplementing the one on the islands will be carried out and the comments and criticisms of their representatives will be taken into account. This will provide the Commission with objective information on which to make fair proposals appropriate to the situation of each region.

their convergence, could no longer be considered to be lagging behind in the Union of 15 and another, more generous, for the regions which suffer as a result of the statistical effect;

- fixing an eligibility threshold above 75% in order to reduce or negate the consequences of this statistical impact.

In the discussions during 2002, most contributors supported the first option.

### 2.2.2. *Measures outside the regions whose development is lagging behind*

Virtually all contributions stressed the need to retain a policy for economic and social cohesion outside the regions whose development is lagging behind, while further simplifying and decentralising its implementation.

Here the Commission has noted that promoting the competitiveness of the regions, as required by the policy objectives of the Union defined at the Lisbon European Council and supplemented by the sustainable development dimension at the Göteborg Council, was very often mentioned as the objective to support. That objective could be reflected through stress on the factors contributing to competitiveness such as access, the diversification of the productive structure, the knowledge society, innovation, R&D, the environment, employment, social integration and education and lifelong training, particularly in a context of economic and social restructuring stemming from the globalisation of the economy.

The economic, social or territorial priorities for the future cohesion policy that are mentioned in the second Cohesion report, were acknowledged to be important. Doubts were however expressed about whether the Union could provide a response to the problems being experienced by all the areas identified as priorities. Some people also felt that geographical handicaps should not be considered in isolation, without taking account of the socio-economic difficulties. Within this, broad agreement emerged in favour of concentrating community financial contributions.

The northern dimension (geographical handicap, depopulation, ageing of the population, remoteness), remote location and depopulation were listed as new criteria for eligibility.<sup>26</sup>

Several contributions emphasised the particular interest that should be accorded to towns, acting as engines of regional growth and dynamic economic forces. Others asked for a reinforcement of support for urban areas in difficulty and the social dimension of cohesion. Other contributions pointed to the importance of factors of competitiveness: the sectoral distribution of employment, innovation capacity and the links between firms, research and universities, education levels, accessibility, the impact of globalisation on the economy, peripherality or depopulation. Other contributions highlighted the importance of continued Community intervention in rural areas, which should address the wider rural economy and area, not only the agricultural sector.

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<sup>26</sup> Virtually all the regions and regional associations in Finland and Sweden. Scotland: Scottish Parliament's European Committee (4 July, 2002). CPMR: Technical note from the General Secretariat 'Towards a balanced competitiveness of the European territory' (February 2002).

The current instruments of cohesion policy outside the lagging regions should be substantially modified. Many say that while the region remains the appropriate level for the conception and management of assistance, designating eligible areas at the sub-regional level can artificially restrict the field of intervention of Community assistance, and it is difficult to reconcile with an approach emphasising the new factors of competitiveness. Some contributions requested the introduction of a safety net and a phasing-out<sup>27</sup>, as well as greater flexibility of the instruments of structural policy in order to allow the anticipation and response to economic shocks resulting from globalisation<sup>28</sup>. In any case, should there be a zoning, the eligibility criteria would essentially be established by the Member States and the regions.

### 2.2.3. *Cooperation*

The high level of value added by the Union to measures concerning cooperation, the exchange of experiences and good practices and the role played by the Community Initiative programmes was widely acknowledged. Strengthening the instruments for transnational, cross-border and interregional cooperation and assistance on the external frontiers of the Union were the aspects most often mentioned<sup>29</sup>

The strategic role of transnational cooperation could be increased. In this connection, some contributors to the seminars of 27/28 May and 30 September pointed out the need to go further in this direction by establishing a genuine strategic approach and increased financial resources. However, the management of this policy should be simplified.<sup>30</sup>

### 2.2.4. *Relations with the other Community policies*

The need for the other Community policies to contribute more to economic and social cohesion was mentioned frequently in 2002. Many people mentioned the need for better links between the second pillar of the common agricultural policy and cohesion policy<sup>31</sup>. Similar requests were made with regard to the common fisheries policy. Many people believed that the Commission should ensure greater coherence with competition policy, particularly state aids for regional purposes<sup>32</sup>.

Some representatives of the regions undergoing conversion were concerned by the possible end to the designation of Objective 2 areas and the implications for state aids. Others, however, thought that the policy on state aids for regional purposes should be modernised to take account of new challenges, e.g. the promotion of the

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<sup>27</sup> Dutch provinces : Outline of position on the EU's cohesion policy after enlargement (November 2002)

<sup>28</sup> ESC, Christie Opinion. EURADA: Update of EURADA memoranda (6 June 2002)

<sup>29</sup> EP: Report by Ms Schroedter. AER: Towards a joint regional draft for a new Cohesion Policy: building on the experience of the Regions to define new strategies for sustainable development in an enlarged Europe (Pecs, Baranya, 14-15 November 2002). Association of Swedish municipalities. Provinces of southern Finland: The position of the alliance of the provinces of southern Finland on the next programming period of the EU's Structural Funds (6 February 2002).

<sup>30</sup> CoR: Opinion by Mr d'Ambrosio. Association of municipalities and Federation of regional councils of Sweden: Report on cohesion in the EU – Points of departure (11 May 2001) Finland: Finnish contribution to the EU Cohesion Seminar, 27-28 May 2002.

<sup>31</sup> Regions of Finland, Position of the CPMR on links between regional policy and rural development policy (August 2002) and on the mid-term review of the CAP (July 2002), Position of the European Countryside Movement on 'Spatial cohesion within the European Union: which acknowledgement and which tools for rural areas?' (April 2002).

<sup>32</sup> CPMR, CNADT (France) and German advisory Council on planning, Scotland.

new technologies, maintenance of services of general interest and the rehabilitation of industrial waste land in cities. Concerns were also expressed by the regions whose development is lagging behind in the 15 Member States which might no longer be supported by the regional policy as they are at present because of the statistical impact of enlargement (risk of losing twice over).

The transport policy was mentioned frequently, chiefly in connection with the islands and the remote and outermost regions. Views were also expressed on the creation of a European research and development area. The prevention of risk and the promotion of good practice in sustainable regional development were also cited in several position papers<sup>33</sup>.

### **3. PREPARING FOR ENLARGEMENT UP TO THE END OF 2006**

Accession negotiations with Estonia, Latvia, Lithuania, Slovakia, Slovenia, Hungary, the Czech Republic, Cyprus, Malta and Poland were completed at the Copenhagen European Council. Thus the main task is the finalisation of the programmes for these countries and preparations for the implementation of the Structural Funds and the Cohesion Fund from the day of accession.

The regular CEEC reports for October 2002 noted the continuance of certain problems for the implementation of structural measures after accession:

- inadequate interministry coordination, which is indispensable for the preparation of integrated regional development programmes under Objective 1; delays in the definition and allocation of duties among the bodies responsible for the future management of programmes at the various levels of the administration;
- weaknesses in the administrative and budgetary procedures required to mobilise part-financing and ensure programme management;
- uneven capacity of the control services.

Because of the lack of experience of the candidate countries in using Community funds (as demonstrated by the slow take-up of appropriations under Phare and, to a lesser degree, the other pre-accession instruments introduced since 2000, SAPARD and ISPA), the Commission and the Member States considered it necessary to secure firm commitments from the candidate countries as regards the establishment and improvement of administrative structures and monitoring and control procedures which are vital for the sound and effective management of the Funds. All the candidate countries gave these assurances and undertook to make the adjustments required before the end of 2003. In the case of SAPARD, which operates with decentralised management, experience shows that once the process of approving the implementing agencies has been completed, the uptake of funds over time develops at an increasingly rapid rate.

In the strategy document it adopted on 9 October 2002, the Commission analysed the progress made towards accession by each of the candidate countries. It also indicated

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<sup>33</sup> Assembly of European Regions, see footnote 29

its intention to present a fresh overall evaluation of the state of readiness of each candidate country six months before the date of accession. Furthermore, in July 2003, it would make a specific report on the action taken in response to the commitments given by the candidate countries during the negotiation of the regional policy and coordination of the Structural Funds chapter. Implementation of these commitments is essential if the Commission is to grant Community finance as provided for in the Regulations.

After a period of negotiation, the Council accepted the method of allocating appropriations proposed by the Commission based on a strict application of the *acquis communautaire*. The Copenhagen Council finally opted for an envelope of almost €21.7 billion for the Structural Funds and the Cohesion Fund for the period 2004-06.

In 2006 that amount will result in total aid of €117 per person, compared with €143 per person that was granted for Objective 1 in the first programming period, 1989-93, which rose to an average of €217 per person for objective 1 regions in the 15 Member States in 2000-06.

One third of the allocation will go to the Cohesion Fund. This concentration of resources is justified by the experience acquired by the candidate countries in preparing and implementing environment and infrastructure projects financed by ISPA and the need to meet the substantial investment needs in those two sectors.

Aid from the Structural Funds will be concentrated chiefly on Objective 1 (Map 10 Eligible areas in accession countries, Structural Funds 2004-2006). The regions eligible under Objectives 2 and 3 (Prague, Bratislava and Cyprus if there is no political settlement) will enjoy a per capita aid intensity identical to that of the 15. The Community Initiatives will be reduced to two (*Interreg and Equal*) while the measures eligible under the other Initiatives (*Leader and Urban*) could be incorporated into Objectives 1 and 2. (Table 11: Copenhagen: Distribution of Cohesion Fund and Structural Fund commitment appropriations for the 10 new Member States)

Implementation of the Structural Funds in the new Member States constitutes a major challenge both for the European Union and for the beneficiaries:

- the Union must find the resources needed to ensure effective cohesion policies in the regions of the new Member States.
- the candidate countries will have to meet the challenge of integrating very quickly (three years instead of seven) into a system which was not designed for them but which offers them a substantial prospect of speeding up their development

(p.m. Table 12 – Main regional indicators)

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