



FUTURE EUROPEAN COHESION POLICY

11 January 2010

Economic Development

EXECUTIVE SUMMARY:

Today's global financial and economic turbulence adds a high degree of unpredictability about the future of the world economy. In this context, it is even more important to examine the extent to which European Community policies are adapted to future challenges that member regions will face in the coming years and what the role of European Community Policies should be in responding to these challenges. The reflection process on the future of cohesion policy takes place in the context of the budget review, and the Fifth Progress Report on Economic and Social Cohesion and aims to determine how Structural Funds will be shared between the Regions of the European Union post 2013.

With the last data available from Eurostat (corresponding to 2006) at least 17 regions (excluding Malta) including Cornwall would exceed 75% of the Community average GDP per capita and therefore will fall out of the present Convergence Programme in the future period. This would result in a significant decrease in economic development funding for Cornwall.

This position paper has been prepared to ensure that Cornwall and the Isles of Scilly take their place in ensuring that the County continues to receive the EU funding which has been so instrumental in regenerating the economy of Cornwall. Future Cohesion Policy will be influenced by a number of factors including EU budget negotiations and the impact of the financial crisis, and it is far from agreed that Cornwall will receive future European funding. What is essential is that Cornwall continues on its path of economic regeneration and ensures its position as a key player in the development of future regional development policy in Europe and works closely with other regions across Europe facing a similar scenario.

SUMMARY OF RECOMMENDATIONS:

Recommendation 1:

Cornwall supports maintaining an EU-level approach to Cohesion Policy, however Cornwall Council needs to establish the UK Government position on future Cohesion Policy and encourage them to respond to the call from Cornish stakeholders to take a leading role in the debate and make a commitment to ensuring the availability of future funding for Cornwall.

Recommendation 2:

Cornwall identifies the partners and networks it wishes to work with for future policy lobbying and develops a workplan with them.

Recommendation 3:

Cornwall Council recognises the benefits of additional categories as a permanent feature of Cohesion policy. Cornwall needs to reach a decision on the number of regional categories between the extremes of Convergence and Competitiveness that would be of greatest benefit under the next funding programme. This should then form the basis of Cornwall's campaign to ensure transition arrangements be made available for existing beneficiary regions. Specific discussions about GDP thresholds for new categories of transition regions should be left for a late stage, once concrete Commission proposals are on the table.

Recommendation 4:

Cornwall Council should undertake research to understand what the implications of a broader set of indicators are with regards to future funding.

Recommendation 5:

Consultation with stakeholders in Cornwall needs to be undertaken to establish whether it is felt that regional programmes post 2013 should be an integrated ERDF/ESF/rural programme rather than individual programmes and with other EU transition regions to ascertain their support for this approach.

Recommendation 6:

Given the commitment of the EU to the Lisbon agenda, it is suggested that the 2014-2021 programme have its priority focus as the Lisbon agenda again, however Cornwall would need to consider lobbying for the amendment of rules given the current economic climate and to ensure the maximum benefit for Cornwall.

With regards to a wider focus, priorities should address the current and future challenges facing Europe's regions and ensure that whilst they respond to the issues post economic crisis, they are also relevant for strategic development in the longer term.

Resources for co-operation programmes which bring EU regions together to address specific challenges should be increased alongside a focus towards delivering tangible outputs contributing to a regional strategy.

Recommendation 7:

Cornwall should prepare an evidence base to include the above elements.

BACKGROUND:

Cornwall and the Isles of Scilly have been a longstanding recipient of European investment. In 1994, Cornwall's economic challenges were recognised under the South West Objective 5b programme. The programme focused on promoting Cornwall's characteristic small and medium sized enterprises, assisting diversification in the region's declining industries and conserving the quality of the environment as a key resource.

The Objective 5b grants were highly constructive, yet did not offer the fundamental help that the region desperately needed. The emergence of Objective One was recognition that distinct regions like Cornwall and the Isles of Scilly on the periphery of the European Union needed assistance to overcome disadvantages. Key to our progress towards achieving Objective One status was acceptance of Cornwall's case for recognition as a distinct region at Nomenclature of Territorial Units for Statistics (NUTS) level 2, statistically separated from Devon. Gross Domestic Product (GDP) in the county at the time was only 68% of the EU average, and the wider South West of England. Gross Domestic Product (GDP) in the county at the time was only 68% of the EU average, the lowest in the UK. Throughout Objective One Cornwall was recognised across Europe as an exemplar region both in terms of project delivery and programme management.

In total, 875 projects received funding from Objective One in Cornwall, a total investment from the Programme of over £350m. Ground breaking projects such as the Eden Project near St Austell, the actnow project making Cornwall the first rural area to get broadband coverage, the Cornwall Campus of the Peninsula Medical School and the Combined Universities in Cornwall are just some of the more well known projects that have benefited from European funds. Other more modest marine,

transportation, education, social and environmental projects supported growth, revitalised tourism and added value to local agricultural produce. Latest GDP figures from 2006 show that Cornwall's economy has grown to 77.6% of the EU 27 average and the good implementation of European funds has allowed Cornwall to exceed the target of 75% of the EU average GDP.

Cornwall's Convergence Programme from 2007-13 continues to build on the work undertaken previously in order to secure to build a stronger more diverse economy in line with the EU's Lisbon priority. Key areas of activity are supporting businesses, aiding transition to a low-carbon economy and helping people into employment and those in work gain new and up to date skills. This includes work with higher education to promote business focused research and innovation, however the current economic climate and new reflections on European funding both demand a need and present an opportunity for Cornwall to influence the future of Cohesion Policy. A drastic reduction, or indeed a complete absence of funds for the next Programming period could result in serious damage to the economy of the Region as well as jeopardise the investments made until now. In other words, a dramatic cut could result in a step back in the progress made to date.

PROGRESS TO DATE:

A number of documents have launched the debate on the future of the regional policy, for example the present revision process of the EU budget, the publication of the Fifth progress report on economic and social cohesion by the European Commission, the launching of the Green Paper on territorial cohesion and the very recent orientation paper for post 2013 by the Regional Policy European Commissioner Mr. Samecki. Cornwall has followed the debate to date and participated in activities to ensure our views are put forward to the European Commission.

- An early position paper was developed in March by Cornwall County Council's Economy and Europe Unit to launch discussions and reflection in Cornwall on the future of European funding. This paper provided the basis for work to begin on seeking relevant partners and identifying regions in a similar situation.
- Also in March 2009, Cornwall County Council welcomed Graham Meadows, former Director General of Regional Policy for the European Commission and Eleni Marianou, former Director of the South West UK Brussels Office to Cornwall to discuss views on Cornwall's position with regards to future European funding.
- In May 2009, Cornwall Council gave evidence to the National Assembly for Wales European and External Affairs Committee enquiry on the Future of Cohesion Policy. Participating in a session alongside Graham Meadows, former Director General of Regional Policy, Cornwall explained its case to the Committee and reinforced the wish for Cornwall and Wales to collaborate in their activities to influence the future of regional development policy.
- In September 2009 Cornwall Council joined the Partnership of Transition Regions in Europe as part of the 2009 European Week of Regions and Cities in October 2009. Alongside 8 other regions¹, a Joint Working Paper was developed

¹ Saxony-Anhalt, Germany (Lead Partner), Wales, United Kingdom (Deputy lead partner), Principality of Asturias, Spain, Brandenburg, Germany, Central Bohemia Region, Czech Republic, Cornwall, United Kingdom, Mazovia, Poland, Murcia, Spain, Saxony, Germany.

to provide a basis for the discussions at the Open Days in Brussels led by the Saxony Anhalt region of Germany.

- In October 2009, Economy Cabinet Member Carolyn Rule presented at the “specific situation of Transition Regions in Europe and the current role of cohesion policy” seminar on ‘Innovation as a key challenge for Transition Regions’ as part of the Regional Partnership on Transition Regions in Europe Consortium for Open Days. This seminar also included a meeting with relevant stakeholders attended by Graham Meadows and the following participants:
 - Chair: Gerhard Stahl, Secretary General of the Committee of the Regions
 - Speakers: Alvarez Areces Vicente, President of the Principado de Asturias
 - Gerd Harms, State Secretary for Federal and European Affairs, Brandenburg
 - Derek Vaughan, Member of the European Parliament
 - Ramon Luis Valcarcel Siso, President of the Region of Murcia
 - Nicola de Michelis, Head of Unit, DG Regio
 - Dr. Michael Schneider, President of the COTER Commission in the Committee of the Regions
- November 2010 saw the leak to the EU specialised media of a controversial draft paper on the EU budget from the Secretariat General of the European Commission which suggested renationalisation of Cohesion Policy and no transitional status. Through the South West UK Brussels Office, Cornwall’s viewpoint and opinion was put forward.
- In December 2009, the Committee of the Regions agreed Cornwall’s participation in the CoR Hearing on Transition Regions.

ISSUES:

The Brussels Debate – Ensuring Cornwall’s voice is heard

2010 will be a key year in the debate for Regional Policy. The new European Commission will prepare its position that will pave the way for Regional Policy post 2013. This position will be closely aligned with wider debates on the European budget, priorities of the Barroso II Presidency and future Lisbon and Gothenburg strategies. The UK will be a key player in these negotiations and the result of the forthcoming UK Government elections could impact on this. It is vital to Cornwall’s case that the UK Government commit to providing support for the County to receive support post 2013. Clarification is required as to what alternative support in the place of an EU level policy the UK Government would provide if renationalisation of Cohesion Policy were to occur and whether the ‘Treasury Guarantee’ put in place during the previous round of negotiations (2004/05) would still stand.

The UK Government line favouring a policy based on Cohesion Funding supporting the poorer central and eastern European states and renationalisation of the Competitiveness objective is seen as a negative change to current policy by many stakeholders including Cornwall. EU programmes have additional value over national programmes as they provide stable seven year funding, bring in additional public and private sector match-funding, build partnerships between regional and local public and private sectors; and facilitate joint working with other EU regions. These features are essential for addressing modern, global, challenges, like demographic change, climate change and regional competitiveness. Cornwall’s continued support for Cohesion

policy and the development of an approach to national self-sufficiency are not seen as contradictory. The danger, however, of moving to nationalise cohesion policy at a stroke may be counter-productive as it could 'freeze' transition regions at current levels of GDP thus disabling them from providing further contribution to the growth of national economies and the widening of the gap between poorer, rural, peripheral regions and areas where the economy is booming.

Cornwall Council recognises the need for exchange of experience and joint activities with other European regions to ensure the development of policy. In the case of Future cohesion Policy, it is vital that Cornwall identifies and works with other European regions that will find themselves in similar positions after 2013 to form both formal and informal networks. Cornwall's activity to date such as Open Days 2009 with Transition Regions, work via the South West UK Brussels Office led informal network ROTOPI (Cornwall participated at the Round Table with DG Regio on November 2008 on governance and simplification) and participation in the Committee of the Regions public hearing in January 2010 must be built upon and future activity structured to Cornwall's benefit.

Recommendation 1:

Cornwall supports maintaining an EU-level approach to Cohesion Policy, however Cornwall Council needs to establish the UK Government position on future Cohesion Policy and encourage them to respond to the call from Cornish stakeholders to take a leading role in the debate and make a commitment to ensuring the availability of future funding for Cornwall.

Recommendation 2:

Cornwall identifies the partners and networks it wishes to work with for future policy lobbying and develops a workplan with them. This includes discussions with relevant regional and national stakeholders including CLG, GOSW, SWRDA and DWP.

Future architecture:

With the last data available from Eurostat (corresponding to 2006) at least 17 regions, including Cornwall, would exceed 75% of the Community average GDP per capita and therefore will fall out the present Convergence objective in the future period. This would result in a significant decrease in economic development funding. The Fifth Progress Report on Cohesion (5th Progress Report) provided a specific reference to 'Transition Regions', referring to areas which are situated between 'Convergence Regions' and 'Competitiveness and Employment Regions'. This appears to be a first attempt to deal separately with these regions that are now scattered as 'phasing in' or 'phasing out' regions between the two Objectives. Although Cornwall agrees that future Cohesion Policy should give priority to the poorest regions of Europe, it also strongly supports the European Parliament position on the need for the Commission to devise a gradual transitional assistance mechanism for regions which are between the 75% and 100% EU GDP average. The provision of a tiered system of Structural Funding would ensure the continued ability of regions such as Cornwall to accelerate economic regeneration and support existing initiatives developed under the Objective One and Convergence programmes.

The present binary classification system is harsh for those regions which are above, but close to, 75 per cent of the EU average income. This harshness is likely to be increased if the present system is retained to cover economic conditions like those we are currently experiencing. Creating additional categories would help to mitigate

against these effects in that no region would face the sudden transition from the high intensity of funding for a Convergence region to the low intensity of Competitiveness. As one example, over the 2007-13 period, Cornwall will receive around €610 million made up of 75% European Regional Development Funds (ERDF) with the balance coming from UK match funding. The Competitiveness Programme is worth around €250 million to the whole of the rest of the South West, made up of 50% ERDF and 50% match funding from the UK government. The existing arrangements for transition regions are confusing and scattered between the two objectives as 'phasing in' or 'phasing out' regions.

Several programme structures have been proposed including a Transitional Regions Objective to sit in between Convergence and Competitiveness as proposed by the Transition Regions Consortium led by Saxony Anhalt based on a category of regions with GDP falling between 75% and 90% of the EU average, or a series of Economic Development 'gears' as suggested by Graham Meadows with potentially three or four new and permanent categories of regions using GDP as the eligibility determinant. The gears system would ensure that as regions move through the systems as their economies grow, they would be able to predict their economic future and where they would stand with regard to funding.

There are arguments for the creation of a "transitional regions" category.

Since 1988, the ERDF has considered the threshold of 75% of the GDP Community average as the reference for regions receiving the highest amount of aid. Twenty years later, in fact more than 25 years later, in 2013, even if that threshold is still justified further to the successive EU enlargements, it would need to be revised in order to take into account the situation of regions having a GDP slightly higher than the mythical 75%. Those regions would benefit from lower aids than the poorest regions but from higher aid than the rich regions. Adding a category of transitional regions would have the following advantages :

- *Higher aid to regions which do not succeed to take off;*
- *All Member States would have at least one eligible region, the argument of the high financial transfer to the poor Member States to the detriment of richer Member States would disappear. (Source: Eurada 2009).*

Using GDP per capita data for 2006 and a grouping of 75%-100%, a list of transitional regions can be produced, grouped according to their position in terms of GDP. In total there are 79 regions or 82 if Malta, Cyprus and Slovenia are included. This adds an additional 0.6 million to the total.

Estimated GDP per capita 2006		
GDP	No of regions	Population
75-80	10	11.342
80-85	17	31.705
85-90	14	23.156
90-95	15	15.258
95-100	23	42.067
Total	79	123.529

Recommendation 3:

Cornwall Council recognises the benefits of additional categories as a permanent feature of Cohesion policy. Cornwall needs to reach a decision on the number of regional categories between the extremes of Convergence and Competitiveness that would be of greatest benefit under the next funding programme. This should then form the basis of Cornwall's campaign to ensure transition arrangements be made available for existing beneficiary regions. Specific discussions about GDP thresholds for new categories of transition regions should be left for a late stage, once concrete Commission proposals are on the table.

Eligibility:

Current eligibility for Structural Fund programmes is determined through Gross Domestic Product (GDP) per head in comparison with the Community average. Measurement of GDP has many advantages, including consensus about the methodology used in collecting and interpreting data as well as allowing comparisons across countries and over a long span of time. However, it is limited in reflecting different aspects of wellbeing.

Given the increasing territorial disparities in Member States which have arisen while GDP per capita has been the only eligibility criterion under the convergence objective for structural funding, the possibility of developing new reliable indicators for receiving financial assistance from the Structural Funds, such as unemployment rates, environmental data (CO2 emissions), access to services, access time to big cities and transport hubs, information society indicators, polycentrism, population density, and the GDP difference with neighbouring territories has been raised. This idea would need further development and research to determine added value. However, it is felt that this issue warrants further investigation, particularly in the light of the financial and economic crisis on Europe's regions which will be used to determine future maps of eligibility.

Recommendation 4:

Cornwall Council should undertake research to understand what the implications of a broader set of indicators are with regards to future funding.

Integrated local programmes:

The current Convergence programme is managed by more than one organisation. This leads to difficulty in ensuring the integration of the programmes for ERDF, ESF, EFF and EAFRD. Cornwall Council would support the development of fewer programmes which are easier to access. This might see the wide range of funds consolidated into a smaller number, or even a single programme, based on a series of high level outputs for each territory. Cornwall Council would also support a more devolved delivery mechanism through local strategy. All EU funding programmes should be devolved to address issues at the sub-regional level in a way that benefits from local authority's existing local knowledge, partnerships and tools. For example, in England, EU priorities can be better delivered if interventions are delivered through a local strategic mechanism.

Recommendation 5:

Consultation with stakeholders in Cornwall needs to be undertaken to establish whether it is felt that regional programmes post 2013 should be an integrated ERDF/ESF/rural programme rather than individual programmes and with other EU transition regions to ascertain their support for this approach and then communicate this view to the European Commission.

Future Cohesion Policy priorities:

Co-funded projects currently focus on creating sustainable jobs and growth through support for Lisbon Strategy priorities such as modern infrastructure networks, access to broadband, backing for small businesses, innovation, environment issues, human resources and training. At a European level, there is a high degree of consensus in terms of the challenges and issues that need to be addressed in the future and many of these are also applicable locally including climate change, sustainable economic development and the green economy, investment in the knowledge economy, innovation, lifelong learning and skills, tackling unemployment and demographic change.

In addition to thematic priorities, the issue of future Territorial Co-operation programmes under Cohesion Policy is also up for discussion. Cornwall Council recognises the merits of the INTERREG programmes and their added value. Cornwall Council has also contributed to the regional response to the EU 2020 Consultation.

Recommendation 6:

Given the commitment of the EU to the Lisbon agenda, it is suggested that the 2014-2021 programme have its priority focus as the Lisbon agenda again, however Cornwall would need to consider lobbying for the amendment of rules given the current economic climate and to ensure the maximum benefit for Cornwall.

With regards to a wider focus, priorities should address the current and future challenges facing Europe's regions and ensure that whilst they respond to the issues post economic crisis, they are also relevant for strategic development in the longer term.

Resources for co-operation programmes which bring EU regions together to address specific challenges, should be increased alongside a focus towards delivering tangible outputs contributing to a regional strategy.

RESEARCH:

The reference period to assess economic eligibility for European Structural funds is currently taken on a three year average. Due to the time lag in availability of statistics, data to assess Cornwall's eligibility for post 2013 funding will be taken from the years 2007, 2008 and 2009. In other words, the confused times we have witnessed over the past two years and are now experiencing will be the reference period for 2014-2020. Similar time lags existed for past phases of the Policy's implementation but the reference periods on those occasions did not have to represent such contrasts in economic performance. Member State and regional economies may have been growing at different rates, but they were almost all growing. A brief is required for Cornwall Council's Economic Intelligence section to undertake necessary research and Economic profiling to develop a firm evidence base for influencing policy in this area.

- Which/how many NUTSII regions will fall into the 75-90/100 category. How many were previously Convergence regions?
- Future economic profiling of predicted GDP data for 2007, 2008 and 2009 to attempt to predict approximate positioning of Cornwall in relation to other NUTSII regions regionally, nationally and European.
- Evidence of Objective One and Convergence successes – e.g. impact of major projects based on financial input and economic impact. CUC for example - £200m input – 7500 students in 2010 from 2500 in 2000. What is the economic gain?
- A comparison of those regions under Objective One who at an equivalent point in the previous programming period were at a level similar to that of Cornwall. Evidence of this could be used to support the use of transitional funding to take us to their current level.
- Research is required to provide an economic basis for the clear inclusion of low carbon in future programmes. This includes quantifying the investment required by transition regions in the immediate future to mitigate against the high costs of mitigation and adaptation.

Recommendation 7:

Cornwall should prepare an evidence base to include the above elements.

NEXT STEPS:

Cornwall Council needs to consider the issues questioned in this paper and continue to increase its role and influence in Post 2013 policy and strategy, whilst raising consultation in Cornwall to ensure future funding is available to Cornwall Post 2013. This should be done with the assistance of the South West UK Brussels Office and will require completion of the research and statistical analysis of future economic forecasting.

It is important that Cornwall continues to collaborate with other regions that will find themselves in a similar situation.