

COTER-022

Brussels, 6 July 2004

OPINION
of the
Committee of the Regions
of 16 June 2004
on the
Third Report on Economic and Social Cohesion

COM(2004) 107 final

The Committee of the Regions,

- **HAVING REGARD TO** the Communication from the Commission – Third Report on Economic and Social Cohesion (COM(2004) 107 final);
- **HAVING REGARD TO** the European Commission's request of 18 February 2004 for its opinion on this subject under Article 265(1) of the Treaty establishing the European Community;
- **HAVING REGARD TO** the decision of its President of 27 January 2004, to entrust the Commission for Territorial Cohesion Policy with the task of drawing up the opinion;
- **HAVING REGARD TO** its opinion on The structure and goals of European regional policy in the context of enlargement and globalisation: opening of the debate (CdR 157/2000 fin);¹
- **HAVING REGARD TO** its opinion on the Communication from the Commission - Second Report on Economic and Social Cohesion (CdR 74/2001 fin);²
- **HAVING REGARD TO** its opinion on the Communication from the Commission – First Progress Report on Economic and Social Cohesion (CdR 101/2002 fin);³
- **HAVING REGARD TO** its opinion on the Communication from the Commission – Second Progress Report on Economic and Social Cohesion (CdR 391/2002);⁴
- **HAVING REGARD TO** its own-initiative opinion on Territorial cohesion of 10 April 2003 (CdR 388/2002 fin);⁵
- **HAVING REGARD TO** its outlook report on "Governance and simplification of the Structural Funds after 2006" (CdR 389/2002 fin);⁶
- **HAVING REGARD TO** the draft opinion (CdR 120/2004 rev.1) adopted on 5 May 2004 by its Commission for Territorial Cohesion Policy (rapporteurs: **Vito D'Ambrosio**, President of the Region of Marche (IT, PSE) and **Michael Schneider**, State Secretary, representative of the Land Saxony-Anhalt to the Federal Government (DE, EPP);

1 OJ C 148, 18.5.2001, p.25

2 OJ C 107, 03.5.2002, p.27

3 OJ C 66, 19.3.2003, p. 11

4 OJ C 256, 24.10.2003, p. 13

5 OJ C 244, 10.10.2003, p. 23

6 OJ C 256, 24.10.2003, p. 1

- **HAVING REGARD TO** the European Commission's Communication of 12 May 2004 entitled European neighbourhood policy – Strategy paper;
- **WHEREAS** the Third Cohesion Report is a further step towards drawing up proposals for the shape of European cohesion policy post 2006 in the context of EU enlargement;
- **WHEREAS** in the light of the Structural Funds regulations announced for July this year, the CoR is called upon to comment fully on the proposals of the European Commission;
- **WHEREAS** the key yardstick for the Committee's assessment continues to be the objective set out in Article 158 of the EC Treaty, i.e. strengthening economic and social cohesion in order to promote the overall harmonious development of the Community. Reducing differences in the level of development of the various regions and reducing the development shortfall of the most disadvantaged areas is also the most significant contribution to strengthening the role of regional and local authorities in the European Union;
- **WHEREAS** the draft of the EU Constitution strengthens the objective of cohesion by introducing its territorial dimension, as called for by the Committee of the Regions on several occasions;
- **WHEREAS** the European Commission's Third Cohesion Report makes clear that regional and structural policy must continue to be a joint task for Member States, local and regional authorities and the European Union;
- **WHEREAS** the efforts already made must be continued, in order to reduce Rückstände in competitiveness and to ensure more balanced territorial distribution of all the factors contributing to competitiveness

adopted the following opinion at its 55th plenary session on 16 and 17 June 2004 (meeting of 16 June).

THE COMMITTEE OF THE REGIONS

General aspects

1. **welcomes** the Third Report on Social and Economic Cohesion. This, like the Second Report, is a complete document providing detailed information above all on the policies followed by the EU;
2. **judges** as positive the results attained in recent years with cohesion and the positive impact of the regional policy of the European Union with respect to strengthening the Community's social and economic cohesion as a whole; it also reiterates that the cohesion policy endorsed by the Treaties is the most powerful and important instrument used to implement principles of solidarity and

cooperation, thus representing one of the main cornerstones of integration between the people and territories of the Union;

3. **takes account** of the fact that with EU enlargement the European Union will increase its population from 380 million (EU-15) to 454 million (EU-25) or 485 million (EU-27) inhabitants. But compared with this increase in population of around 20%, EU GNP will increase by only 5%! The average GDP per capita will decrease by 12.5%. Instead of currently 84 million inhabitants, in future 123 million EU citizens will live in regions lagging behind;
4. **welcomes** the priority given by European cohesion policy to the new Member States, confirming the commitment of the European Union to reduce the socio-economic disparities in an enlarged European Union. This approach has been supported by the Committee of the Regions from the beginning as an act of solidarity with the new Member States;
5. **takes note** of the fact that despite the progress achieved, many socio-economic problems in the regions of the former EU-15 will remain, as is clearly shown in the Third Cohesion Report. This relates inter alia to the lag in terms of GDP/per capita, high unemployment, low economic growth, lack of R&D expenditure and foreign direct investment;
6. **points out** that in a Europe of 25 or even 27 Member States the socio-economic unbalance will be even greater, making it necessary to follow a policy of territorial, social and economic cohesion that takes into account the effects of globalisation on the economy and its consequences in terms of the progressive liberalisation of international trade;
7. **affirms** that the regional dimension of cohesion policy, in terms of the harmonious development of the Union as a whole by strengthening social and economic cohesion as provided for in Article 158 of the European Community Treaty, is today more than ever valid and appropriate; Moreover, the CoR would stress the importance of making systematic allowance for the regional dimension in Community and national policymaking;
8. **supports** the proposals for strengthening partnership and cooperation between local, regional, national and Community authorities in the whole programming, implementation and evaluation process for the Structural Funds and Cohesion Fund; and calls on the Commission to encourage Member States to make use of the possibility for concluding tripartite agreements, where necessary;
9. **notes** further that the work on achieving the Lisbon strategy's objective is behind schedule;

Resources for the future cohesion policy

10. **considers** that the Commission's financial proposal to allocate 0.41 of Gross National Income (increasable to 0.46 with the inclusion of aid for rural development and fishing) and earmarking EUR 336.3 billion for financing the three Objectives (78% Convergence Objective; 18% Regional

Competitiveness and Employment Objective and 4% Territorial Cooperation) is an acceptable compromise for future cohesion policy;

11. **believes**, moreover, that if a cohesion policy matching the Union's ambitions for the Lisbon Strategy is to be achieved, no less than 0.46% of GNI may be allocated for this purpose, as occurred in 1999 with an EU of 15;
12. **agrees** with the European Commission that the budget proposed by the latter is sufficient to maintain support for the regions in the current European Union and at the same time to assist the new Member States on an equal basis if it can be guaranteed that the resources are shared out fairly and are concentrated on the most serious problems;
13. **welcomes** the fact that for the financial transfers to the new Member States an absorption ceiling of 4% of national GDP is maintained and that the resources transferred as part of the rural development policy and fisheries policy are recognised in that calculation;

Convergence Objective (1) for supporting growth and job creation in the most lagging Member States and regions

14. **welcomes** the proposal in the Cohesion Report that the new Convergence Objective should include besides regions (at NUTS II level) with a GDP/per capita below 75% of EU average (EU-25), those regions affected by the so-called statistical effect;
15. also **welcomes** the fact that the regulations for the current Objective 1 will be kept and will be applied throughout the enlarged Union;
16. **supports** the proposal for the inclusion of the Cohesion Fund in the new Convergence Objective. This applies to both the application of the 90%-criteria for selecting the Member States eligible for aid from the Cohesion Fund as well as the linking of the Objective 1 programmes with the Cohesion Fund measures in the field of infrastructure. Because the Cohesion Fund is financed from Objective 1 funds, payments from this Fund must be taken into account when sharing out the rest of the Objective 1 resources; for those Member States which will no longer be eligible in future as a result of enlargement a political solution can only be found between the Member States;
17. **demands** that the distribution of the resources in the new Objective 1 continue to be carried out by taking into account objective and transparent criteria based on the problems and needs of the assisted regions. The formulas defined in Berlin and Copenhagen for the current funding period should in principle continue to be used. However, regional wealth and unemployment should be taken into account more than now;

Statistical effect

18. **takes note** of the current data of the European Commission according to which 17 regions with around 19 million inhabitants would lose the “traditional” Objective 1 support solely because the EU average of GDP/per capita will fall as an effect of enlargement (so-called statistical effect);
19. **welcomes** the proposal of the Commission to find a solution for these regions within the new Convergence Objective;
20. **notes** the proposal of the Commission that the transitional arrangement for lagging regions affected by the statistical effect will end in 2013. The Committee would, however, stress that on grounds of equal treatment the regions affected should not be automatically excluded from possible phasing-in support under the new Competitiveness and Employment Objective in the funding period after 2013. Any future phasing-in support should be determined by the socio-economic situation of these regions at the end of the next funding period;
21. **sees** as an acceptable compromise the proposal made by **Commissioner Barnier** that these regions would be entitled at the beginning of the next funding period to 85% of the allocation for “classic” Objective 1 regions, reducing by the end of the funding period to 60% if this entails allocating adequate budgetary resources, in accordance with the Commission's proposals for the 2007-2013 financial perspective. At the same time it also endorses the Commission's intention of including in its future proposal for a regulation a provision whereby these regions might obtain 100% funding if the funds earmarked for the Objective 1 regions were not fully utilised; such unused funds would be placed on reserve which could be redistributed **within each Member State** half way through the 2007-2013 programming period;

Control of state aid

22. **takes note** of the proposal of the European Commission that those regions in the old and new Member States which fall under the new Convergence Objective will be eligible for state aid in accordance with Article 87(3)(a) of the EU-Treaty in the future too;
23. **calls for** all the regions affected by the statistical effect to fall under Article 87(3)(a) for the whole aid period;
24. **calls for** all the regions affected by natural effect (the "phasing-in" regions) to have a transition from Article 87.3(a) to Article 87.3(c) over the course of the aid period;

Regional competitiveness and Employment Objective (2)

25. **approves** the Commission's proposal to create an Objective for all the regions that do not fall under the Convergence Objective typologies and points out that special attention could be given to regions with significant socio-economic problems and major and structural adjustment

requirements, defined according to uniform criteria; it also approves the fact that this new objective is to apply to the regional level as a whole;

26. **supports** the choice of the Commission to base the intervention of the new Competitiveness and Employment Objective on an approach involving the entire regional territory and issues related to the Lisbon and Gothenburg strategies without overlooking services of general interest; however, the range of possible measures must be broad enough to accommodate the variety and diversity of European regions in an integrated approach to regional policy;
27. in pursuit of the Lisbon strategies, **calls on** the Commission to identify and apply good practice learned in previous Innovative Actions programmes as guidance for “innovation and the knowledge economy” interventions, to avoid costly and wasteful reinventing the wheel;
28. **approves** the fact that the regions no longer eligible for support under the (new Convergence Objective) because of their positive development will now be incorporated into the new Competitiveness and Employment Objective, under the heading "phasing in", The Committee asks that a procedure similar to that established in the same circumstances for the period 2000-2006 be applied to regions which naturally exceed the threshold of 75% of the average per capita GDP of the EU 15. This would allow for a more flexible use of funds, so as to consolidate the economic development achieved by regions no longer eligible owing to natural effect;
29. **approves** the link between the European employment strategy and ESF measures; affirms, in accordance with the subsidiarity principle, the need for greater and better involvement of regions and local authorities in programming and implementing ESF measures. These interventions should be consistent with the European Employment Strategy and its national component, the National Plan for Employment. They should also be consistent with other regional plans impacting on regional labour markets and include initiatives currently being implemented under the Equal programme;
30. **demands** that the resources of the new competitiveness strand be distributed among the Member States on the basis of objective and transparent social, economic and territorial criteria according to the problems and needs in the assisted regions; calls for the Member States' distribution of the resources of the competitiveness and employment strand among their regions to take account of territorial development, regional competitiveness and EU wide social and economic indicators;

Control of State aid

31. **asks** the European Commission to submit proposals urgently for the future of the state aids provided for in Article 87(3)(c) of the Treaty and to consider how territorial differentiation can be worked into the rules and regulations by using appropriate reliable indicators, because it is necessary to maintain territorial differentiation as a part of state aid policy, which allows for targeted public investment where this can correct market failure in order to achieve the territorial cohesion objective care should be taken to avoid excessive discrepancies between the permissible aid ceilings fixed for neighbouring regions;

32. **asks** for the non-convergence regions to be provided with aid rules so that these regions can also further their structural development and reduce inter-regional differences in line with the subsidiarity principle. This would require retaining the provisions of Article 87 III c) for regions with structural adjustment requirements, defined according to uniform criteria;
33. **urges** that regions with structural disadvantages arising from their geographical or demographic situation should eventually benefit from the provision under Art. 87 (3) c of the EU-Treaty;

European Territorial Cooperation Objective (3)

34. **expresses** appreciation for the creation of a specific Objective for transnational, cross-border and interregional cooperation and for the share of the appropriations proposed for territorial cooperation;
35. **supports** the recognition of the maritime borders within the framework of cross-border cooperation and considers that the regions should participate, along with the Member States, in the process of defining and selecting the maritime borders eligible for assistance;
36. **demands** that interregional cooperation continue to be supported in the EU. It is worrying that the Cohesion Report provides for support for interregional cooperation only in the framework of the regional programmes. The reference to aid possibilities under the regional programmes is of little help as the promotion of complex cooperation programmes is then dependent on the definition of internal regional policy strategies. In addition steps must be taken to ensure that cross-border cooperation can also occur at external and internal borders, including the "old" borders;
37. **requests** that, notwithstanding point 36, regions which so wish should be able to integrate the management of programmes serving the cooperation objective with their regular programmes;
38. **welcomes** the proposal to set up a "new legal instrument" for cross-border cooperation and invites the European Commission to better define its tasks and importance and also to ensure that this does not lead to any delay in launching and implementing the new programmes and that existing cooperative efforts continue;
39. **judges** as positive the creation of a "new neighbourhood instrument" and emphasises the importance of activating this new instrument rapidly in order to use it in the new programming period, based on the experience currently being garnered under the Interreg programme;
40. **calls** upon the European Commission to propose a new legal instrument to facilitate decentralised, inter-regional cooperation, decided at regional and local level;
41. **recommends** that the various territorial cooperation instruments promote the establishment and strengthening of networks of towns and the extension initiatives establishing decentralised cooperation between local authorities;

Measures for specific territorial characteristics

42. **welcomes** the fact that as in the past the European Commission proposes in accordance with Article 299(2) of the Treaty (a) the inclusion in the new Convergence Objective of a specific programme to compensate for the handicaps of all outermost regions and (b) the creation of a Grand Voisinage Action for these regions in the new "European territorial cooperation" programmes, with the objective of providing them with the economic resources needed to play their role effectively as an active EU border and thus contribute to European integration. However, invites the European Commission to make clear proposals for the coordination of such provisions with the newly proposed Grand Voisinage Initiative and the objective of territorial cooperation;
43. **expresses** appreciation for the effort made to consider urban problems within the framework of a broader regional and national strategy, but invites the European Commission to better define the criteria of urban areas eligibility, bearing in mind the role that second and third tier towns play in ensuring balanced development within regions;
44. **believes** that the urban dimension of regional policy should not only address urban regeneration but also the role of urban areas as economic drivers for the region, and the urban-rural relationship;
45. **supports** the proposals of the European Commission to step up the participation of the cities in the implementation of the urban dimension, in accordance with the principle of subsidiary;
46. **welcomes** the Commission view of the regions with structural handicaps, linked to their geographical or demographic situation, such as upland, underpopulated and island regions. The Committee would also urge that, where justified and with due regard for the seriousness of the prevailing conditions, specific measures be adopted with the aim of integrating these regions into the internal market under fair conditions. The high cost of guaranteeing essential services to the population of some regions owing to their territorial and demographic features should be taken into account as a criterion;

Links with other sector-based policies

47. **affirms** that cohesion policy must be considered as a horizontal policy in support of economic and social cohesion based on sustainable development, and plays an essential role in the process of integration between the people and territories of the Union. All Community policies must play a part in achieving this cohesion objective;
48. **notes** the European Commission's intention to integrate the Leader + initiative into the mainstream, but expresses concern for the inclusion of rural development in the second pillar of the PAC due to its modest level of regionalisation and the predominate role of agricultural production and urges the European Commission to ensure that wider rural areas are given

maximum encouragement to participate in measures under the Accessibility and Services of General Interest heading of the Competitiveness strand;

49. **thinks** that the programming must be coordinated between rural development expenditure under the second pillar of the common agricultural policy and expenditure under the new Objective 2 (regional competitiveness and employment), and that this coordination should take place at regional level;
50. **welcomes** the fact that a single instrument is to be created for developing rural and fishing areas; the Committee calls on the Commission to clarify how this instrument is to operate outside the convergence objective and believes that the instrument should give priority to measures tackling the most harmful aspects of rural areas, such as depopulation, an ageing population and the lack of potential for locally-generated development;
51. **calls** for the measures under the EU Regulation on rural development to be extended to agricultural and agriculture-related areas, including agricultural services. When resources are distributed, steps must be taken to ensure that account is also taken of convergence objectives and the need for resources to pay for the measures arising from the tasks assigned under the CAP reform;

Simplification of Structural Funds management

52. **welcomes** the proposal of the European Commission to maintain central elements of the programming and management system for future Structural Funds implementation, such as a multi-annual framework, a strategic approach within a single coherent framework and the promotion of public-private-partnerships at regional level and the strengthening of partnership between the different spheres of government: local, regional, national and European;
53. **requests** that regions be involved more closely in an effective and transparent system for monitoring the allocation, distribution and use of Structural Funds' monies;
54. **notes** that the Commission has taken on board many proposals from local and regional authorities to simplify the administration of the Funds by:
 - limiting the definition of the programmes to priority level only and therefore abandoning the programme complement;
 - in future operating the programmes only as mono-fund programmes and allowing the ERDF and ESF to finance residual activities related to human and physical capital; and
 - following a single programming system for the Cohesion Fund and for ERDF transport and infrastructure projects;

- decentralisation of financial control in the interest of simplification and in accordance with the principle of proportionality;
55. **stresses** that simplifying the programming procedure for the Commission should not lead to difficulties for regional and local authorities or for project owners. Thus the creation of single fund programmes in the new Objective 1 for example could lead to the creation of more programmes, which would not facilitate the task of the regions. It would be better for the current rules for operational programmes to be kept and only give up the requirement for integration of the Funds in the case of the priority themes and programme measures. Furthermore, operational programmes should continue to be allowed to cover neighbouring regions, including joint financial planning;
56. **urges** the Commission, in simplifying regional policy, to take account of the "user viewpoint";
57. **asks** the European Commission to clarify what role the proposed political framework document will play in relation to the programming phase at national/regional level, and what consequences the yearly drafting of national progress reports will have; the CoR assumes that the constitutional situation of the Member States will be taken into consideration and asks for assurance that the preparation of these political framework documents will be based on an equal partnership in accordance with the subsidiarity principle;
58. **considers** it sufficient for the European institutions to address priorities and results at most every two years. This examination could take place at the Spring European Summit, which is to focus on the Lisbon and Gothenburg Agenda. In this way the implementation of the programmes at regional level will not be delayed and their structure will not be changed;
59. **notes** that the European Commission has not taken on board the CoR proposal to modify the n+2 rule with an n+3 rule as it would reduce the problems linked to the implementation of large-scale projects and **calls on** the Commission to reconsider these proposals (of local and regional authorities) and provide a full explanation should it decide to reject them.

Brussels, 16 June 2004

The President
of the
Committee of the Regions

Peter Straub

The Secretary-General
of the
Committee of the Regions

Gerhard Stahl