



European Economic and Social Committee

ECO/104
Second progress report on
economic and social cohesion

Brussels, 16 July 2003

OPINION

of the European Economic and Social Committee

on the

Second progress report on economic and social cohesion

(COM(2003) 34 final)

On 30 January 2003 the Commission decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the

Second progress report on economic and social cohesion
COM(2003) 34 final.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 23 June 2003. The rapporteur was **Mr Barros Vale**.

At its 401st plenary session on 16 July 2003, the European Economic and Social Committee adopted the following opinion by 114 votes to one, with three abstentions.

1. **Introduction**

1.1 **General comments**

1.1.1 On 30 January last, the Commission published the *Second progress report on economic and social cohesion* containing an extensive and interesting set of statistics that provide an overview of the situation in Europe, particularly in respect of the relevant indicators for analysing this important subject.

1.1.2 The report is part of preparations for the Commission's proposals for the future of cohesion policy after 2006. The first part of it contains an update of the analysis of the cohesion situation set out in the Second Report on Economic and Social Cohesion and in the First Progress Report; the second part summarises the debate to date in the EU on the future of cohesion policy.

1.1.3 In addition to the data compiled and processed for this second report and set out in an appendix thereto, the Commission has taken a look at the current developments in the debate on cohesion now and in the future; this is particularly important at the moment, in the run-up to the post-2006 regional policy reform.

1.1.4 Recently a whole raft of contributions have been made by a variety of parties on ways to put together this regional policy of the future; these include papers from the Council, Parliament, European Economic and Social Committee and the Committee of the Regions. There have also been seminars on the Union's regional priorities, priorities relating to employment and social cohesion, mountain areas and urban areas.

1.2 **Economic and social cohesion: current situation and trends in an enlarged Europe**

1.2.1 Despite the progress achieved towards greater cohesion over the last few years, the report notes that the disparities between Member States and, essentially, between regions remain considerable and that these will markedly deteriorate in an enlarged Europe of 25 Member States.

1.2.2 The data provided in the report indicate that the disparities in income levels between the most and least prosperous regions will double. In fact, the ratio between the per capita income of the richest 10% of regions (defined as those with a higher income, accounting for 10% of the population) and that of the poorest 10% of regions (defined as those with a lower income, accounting for 10% of the population) stands at 2.6 in the EU of 15, rising to 4.4 in an EU of 25 and to 6 in an EU of 27.

1.2.3 According to the report, 48 regions in the current Member States (accounting for 18% of the EU's population) have a per capita income (in PPS) below the threshold of 75% of the EU 15 average (data for 2000). Once Europe is enlarged to 25 Member States, a total of 67 regions (accounting for 26% of the population) will have a per capita income level below the 75% threshold, and only 30 regions in the current Member States (12% of the current EU 15's population) will be eligible for Objective 1 support.

1.2.4 In an enlarged Europe, the regional disparities in employment will also worsen. The average unemployment rate will be 2.4% for the 10% of the population living in the richest regions and 22.6% for the 10% living in the poorest regions.

1.2.5 The fact that the population is ageing in some European countries will introduce even more changes in the new circumstances generated by an enlarged Europe.

1.2.6 Incorporating the acceding countries into the EU will have the effect of depressing the EU's employment rate and will have a significant impact on the sectoral composition of employment. The relative size of agricultural employment will climb from 4.4% in the EU of 15 to 5.5% in an EU of 25 (7.6% in an EU of 27), while the relative size of the services sector will fall and that of the industrial sector will remain the same.

1.2.7 The report also notes the persistent divergences between countries and regions in terms of various factors determining real convergence and it shows up the markedly disadvantageous situation of the current cohesion countries.

1.2.8 Thus a lower per capita income is linked to lower levels of education and training and fewer research, development and innovation activities. Data on the number of patents, applications for patents in high tech sectors and the level of R&D expenditure reveal huge disparities between the various Member States, to the detriment of the southern European countries, for which the indicators are lower in a variety of areas; the disparities are even more marked at regional level.

1.2.9 On the other hand, the report highlights the economic potential of an enlarged Europe, due to the fact that the acceding countries generally have a higher growth rate than current Member States and overall will help raise the average level of education in the Union.

1.3 The debate on the future of cohesion policy

1.3.1 The summary of the discussions in the second part of the report highlights the importance of the debate on the future of cohesion policy.

1.3.2 The discussions have mainly dealt with the objectives of cohesion policy and the contribution of other Community policies to cohesion.

1.3.3 There seems at present to be general agreement that priority should be given to helping the less developed regions by earmarking most of the financial resources available under this policy for them. This priority is all the more important given that after enlargement, a large majority of the new regions will fall within the category of "regions whose development is lagging behind". According to the current criteria (in place since 1989) which most parties seem to want to retain, to qualify for this category these regions' per capita GDP must be below 75% of the EU average, calculated on the basis of purchasing power parity. In the meantime, a number of suggestions and ideas have been put forward aimed at supplementing those criteria with others relating to the employment situation, how quickly population levels are falling, productivity and the actual level of financial implementation, as well as the peripheral nature of the region in question.

1.3.4 Nevertheless, the general view is that implementing this priority should not mean dropping the actions the EU has been carrying out to date in non-lagging regions. There has been much talk in these regions about the need to focus efforts on problem areas such as crisis-hit urban areas, certain more depressed rural areas and other areas requiring help because of inadequate employment, innovation, education, training or research, among other factors.

1.3.5 The EESC feels that continuity of support for the regions receiving non-Objective 1 support, in addition to being fair in terms of actually ensuring cohesion, constitutes a key political objective for sharing out resources between the various countries, whether or not they are net beneficiaries under the Community's budget.

1.3.6 The report notes that only two¹ of the four options mentioned in the Second Report on Cohesion, proposing different solutions for the difficulties which will crop up after enlargement, met with any substantial support; in the course of the debate in 2002, most support went to the first option.

1.3.7 According to the Commission, the representatives of the outermost, mountain and island regions in the EU feel that these regions should continue to be included in the category of less developed regions, even if their income levels exceed the eligibility threshold. Account must,

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The first option involves retaining the current threshold of 75% of the average per capita GDP in an enlarged EU, backed up by transitional differentiated arrangements for those regions which, as a result of convergence, will no longer be able to be considered to be less developed in an EU of 25, and other more generous arrangements for most of the regions falling foul of the statistical effect. The second option involves stipulating an eligibility threshold above 75% so as to mitigate or eliminate the consequences of the statistical effect.

however, be taken of the fact that in some circumstances (e.g. when offshore businesses are based in such regions) the wealth generated is more apparent than real.

1.3.8 There is support from some quarters for the idea of maintaining support for non-lagging regions, either because there are persistent restructuring and economic development problems in many areas or because the Structural Funds represent a vital instrument of support for regional development potential throughout the EU. Some proposals advocate more decentralisation of current cohesion policy instruments.

1.3.9 The sharing of knowledge through cooperation and exchange of experiences has been described as a key element in improving the implementation of cohesion policy at all levels and above all as a way of ensuring that good practices and solutions spread; these, being most diverse, have been developed throughout Europe.

1.3.10 One fundamental issue concerns the financial resources available, particularly in view of enlargement. There already seems to be broad consensus about targeting 0.45% of the Community's GDP for the regional policy budget, as a basis for the new requirements, that is, as a minimum level.

1.3.11 In terms of the Union's general political aims, there also seems to be ample support for the idea that cohesion policy should itself tie in with all aspects of the Lisbon strategy, as part of a common ambition to further the development of European society.

1.3.12 Lastly, the report stresses the need to simplify the management of European programmes, respecting the principles of responsibility, efficiency and good financial management, to pursue action aimed at cross-border and inter-regional cooperation targeting more balanced development throughout the EU and also to step up the contribution of other Community policies to achieving economic and social cohesion.

1.3.13 The aim seems to be to achieve greater coherence with other Community policies and to try to set up genuine convergence between different actions and instruments, targeting the same objective. Farming, fisheries, competition and research policy are, for example, still far from being perfectly tied in with cohesion policy, although there have been calls for such a link-up for some time now.

2. The EESC's comments

2.1 The EESC welcomes the way the report has been drafted and structured, allowing it to be easily read and analysed. It is objective, concise and clear. It also recognises that the Commission has endeavoured to put together a document with high technical and statistical standards.

2.2 The EESC is positive in its assessment of the results achieved in promoting economic and social cohesion in the EU over the last few years.

2.3 In fact, the statistics presented in the report clearly show that the Community's cohesion policy has played a key role; it highlights the substantial economic benefits gained in the three least prosperous Member States (Portugal, Greece and Spain), where average per capita income rose from 67.8% of the Community average in 1988 to 78.1% in 2001.

2.4 Ireland provides another example of the success of Community cohesion policy, having achieved what is by any standards a remarkable improvement, in particular as regards the rise in its GDP relative to the Community average.

2.5 Despite the progress achieved, the EESC is concerned about the significant regional disparities persisting within the EU and, above all, about the fact that these disparities will worsen once the EU is enlarged.

2.6 It would seem sensible, when allocating resources in the future under each of the cohesion objectives, to give preference to those regions with the highest unemployment rates.

2.7 The EESC also deems it important that significant funds be earmarked for productive and production-generating areas, so as to boost sustained economic growth by supporting key economic activities.

2.8 Lastly, the EESC agrees that there is a need to step up cross-border, trans-national and inter-regional cooperation in order to promote more balanced development throughout Europe, to boost synergies between cohesion policy and other Community policies and to ensure that each operates in a complementary fashion to the other so that all policies contribute to the aim of economic and social cohesion, while still, of course, pursuing the main objectives for which they were devised.

2.9 The EESC feels that the data on national and regional disparities cited in the report clearly show the need to step up efforts to boost cohesion in an enlarged EU; the EESC therefore supports the Commission's proposal that cohesion policy should continue to give priority to less developed regions.

2.10 The EESC advocates a cohesion policy which meets the specific needs of the most disadvantaged regions in the acceding countries and which at the same time takes account of the continuing economic development requirements in the less favoured regions of the current EU 15, even though they might appear less serious in relative terms. The EESC also recommends that, as part of the future cohesion policy, account be taken of the specific circumstances of regions which suffer from permanent geographic disadvantages.

2.11 Thus the EESC is pleased that the options advanced in the 2002 debate on the eligibility criteria for obtaining Objective 1 status favoured retaining the current eligibility criterion while introducing special arrangements for those regions which, due to the statistical effect of enlargement (because of the arrival of countries whose GDP is lower than the current Community average), would no longer qualify for Objective 1 support, despite continuing to suffer significant economic development disadvantages.

2.12 The EESC considers that the discussion about the need to supplement the current eligibility criteria, in order to take specific circumstances into account, is worthy of consideration, especially in view of the objectives traced out at the Lisbon summit and the current labour market prospects, in particular the way that the unemployment rate in some of the current Objective 1 regions has been rising and will continue to do so over the next few years.

2.13 Irrespective of the matter of the Objective 1 eligibility threshold, the EESC considers that the 0.45% of Community GDP earmarked for cohesion policy funding may be inadequate to cope with the needs of the acceding countries and of the existing Member States which have still not achieved high levels of development.

2.14 In fact, a mere €80 billion more have been allocated for meeting the needs of ten new countries. In spite of the fact that some of the current regions will no longer be eligible, the EESC feels that €340 billion (compared to €260 billion for the 2000 – 2006 period) will probably not be enough to achieve the objective of improving economic and social cohesion policy for all the regions concerned, both current and future.

2.15 The EESC therefore advocates increasing the volume of funding to a level equal to or higher than the current 0.45% of Community GDP, in order to avoid the risk of there being a sharp drop in Community support for the most disadvantaged regions as of 2007.

2.16 In fact, should the minimum share of Community GDP earmarked for cohesion policy be maintained at 0.45%, at a time when more financial resources will be needed to cope with the increase in regional disparities after enlargement, it may well be the most disadvantaged regions of the EU 15 which will bear the full cost of enlargement in cohesion policy terms, as a result of the drop in Community support allocated to them.

2.17 Indeed, a significant share of support funds for the weaker regions are already passed on to the richer regions, since goods and services for carrying out projects are often purchased from abroad, namely from the richer countries and regions (which are net contributors to the Structural Funds). Although on the one hand the richer countries put money into the structural funds, on the other, when the beneficiaries of these funds are carrying out the projects concerned, the richer countries get part of this money back by providing the relevant goods and services.

2.18 It is the EESC's view that this situation cannot be sustained from either a political or economic point of view, because it goes completely against any principle of fairness in distributing the costs of enlargement.

2.19 In fact, under the first and second Delors packages, funds doubled without there being any enlargement. Given the fact that the EU is now being enlarged, the Commission's stance appears rather modest.

2.20 Nevertheless, the need for economic growth should not be forgotten, since only thus can the minimum objective of 0.45% of GDP be achieved. The EESC feels that particular attention should be paid to this matter, by creating the right conditions for boosting economic growth in the near future.

2.21 In short, it will be one of the EU's greatest challenges in the near future to pursue an economic, social and territorial cohesion policy which fulfils not only the specific needs of the most disadvantaged regions in the acceding countries, but also the requirements for economic development which will continue to exist in the least favoured regions in the current EU of 15, even though these regions will see their prosperity increase in statistical terms in an enlarged Europe.

2.22 Although the report does highlight some fundamental points, the EESC considers that the debate on the future of cohesion policy is still far from over. Since cohesion policy is a key pillar for the integration of the EU's peoples and territories, it is clear that this policy needs to have adequate financial resources available so that it can cope with the requirements flowing from the new context of enlargement, thus ensuring its credibility.

2.23 The EESC considers it vital that, in matters pertaining to cohesion, special attention be paid to the economic and social partners' involvement in implementing this important policy. This is an area where little progress has been made and where much remains to be done, all the more so since organisations representing civil society are best placed to bring decision-making into line with the actual situations that they are endeavouring to improve.

2.24 The importance of such partnership has, moreover, been acknowledged by the Commission itself, which has already asked the EESC to draft an exploratory opinion on how the partnership actually works in implementing the Structural Funds.

2.25 The EESC's work in this field could also explore the functionality, simplification and transparency of the processes involved. In addition it should include an unprecedented analysis of the likely challenges arising from enlargement, as well as outlining trends in the factors determining genuine convergence, notably the so-called "dynamic competitiveness factors", and ways to stimulate them.

2.26 Lastly, the EESC considers it vitally important for the Commission to give serious thought to the possibility that there might not be enough funds to maintain the Community's cohesion policy at current levels, which could mean a need to keep up cohesion policy efforts for much longer, entailing higher costs and poorer results for which public opinion might have much less understanding.

Brussels, 16 July 2003.

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of the
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