

II.2.1. Financial management of programmes: compatibility between national (including regional) and Community financial systems

Simplification could be achieved by creating a single legal framework and setting up a single regional fund to provide Community financial assistance that would no longer pass via the budget of the Member State. This solution is being put into practice in certain countries, but it is too early to assess whether it is really effective.

Payment application procedures should also be harmonised and made more flexible.

II.2.2. Financial management of programmes: Community financing methods

The N+2 rule should be amended, since its application may hamper the implementation of large-scale projects, is time-consuming and induces management authorities to favour less structured projects that absorb the available funding more rapidly. An N+36 months rule, dating from approval of the programming document, would overcome these problems while maintaining the restrictive nature of the rule.

By analogy, the rule on repayment of the payment on account must be adapted on the basis of an N+30 months formula.

Brussels, 2 July 2003.

*The President*

*of the Committee of the Regions*

Albert BORE

**Opinion of the Committee of the Regions on the ‘Communication from the Commission “Second progress report on economic and social cohesion”**

(2003/C 256/02)

THE COMMITTEE OF THE REGIONS,

having regard to the Communication from the Commission — Second progress report on economic and social cohesion (COM(2003) 34 final);

having regard to the European Commission of 30 January 2003 to request its opinion on this subject under Article 265(1) of the Treaty establishing the European Community;

having regard to its Bureau’s decision of 11 February 2003, to entrust the Commission for Territorial Cohesion Policy with the task of drawing up the relevant 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)<sup>(1)</sup>;

having regard to its opinion on the Communication from the Commission — Second Report on Economic and Social Cohesion (CdR 74/2001 fin)<sup>(2)</sup>;

having regard to its opinion on the Communication from the Commission — First Progress Report on Economic and Social Cohesion (CdR 101/2002 fin)<sup>(3)</sup>;

<sup>(1)</sup> OJ C 148, 18.5.2001, p. 25.

<sup>(2)</sup> OJ C 107, 3.5.2002, p. 27.

<sup>(3)</sup> OJ C 66, 19.3.2003, p. 11.

having regard to the draft opinion (CdR 391/2002 rev.) adopted on 30 April 2003 by its Commission for Territorial Cohesion Policy (rapporteur: Mr Michael Schneider, State Secretary (DE-EPP));

whereas:

- 1) the Second Progress Report on economic and social cohesion is a further step towards drawing up proposals for the shape of European cohesion policy post 2006 in the context of EU enlargement;
- 2) the report provides an updated analysis of the situation and trends in the Member States and regions and of the major topics of discussion on the future of cohesion policy;
- 3) in the light of the findings of the Second Progress Report, the CoR is called upon to review the proposals made in past opinions, to develop them further and to adapt them to current thinking;
- 4) 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;
- 5) the European Commission's Second Progress Report provides up-to-date data on socio-economic trends in both the present Member States and regions and the accession countries. It is clear from the figures given that regional and structural policy must continue to be a joint task for Member States, local and regional authorities and the European Union. The renationalisation of this policy should therefore be rejected, as is suggested in the European Commission's second progress report. It is also essential that European regional policy be continued for less developed regions and that a new regional policy be established for other regions.

unanimously adopted the following opinion at its 50th plenary session on 2 and 3 July 2003 (meeting of 2 July).

The Committee of the Regions

## 1. Analysis of the situation and trends

1.1. points out that the unprecedented widening of economic disparities within the Union that enlargement will cause will be the key challenge for European cohesion policy post 2006. In particular, this will involve ensuring that the increasing number of EU citizens who live in regions with a per capita income far below the Community average are keyed into the overall development of the Union, irrespective of whether they live in an 'old' or a 'new' Member State;

1.2. notes that the disparities between Member States in the EU have decreased, but at the same time regional differences within Member States have continued to grow. For the CoR, this means once more having to call for regional and local authorities to be fully involved in the conception and implementation of cohesion policy, which must take into

account, in particular, the recommendations laid down in the European Spatial Development Perspective (ESDP), adopted in Potsdam in May 1999;

1.3. concludes that the economic slowdown which began in 2000 is expected to hit harder in the weakest regions of the EU. This underscores the additional importance of European cohesion policy for strengthening the competitiveness of these regions, particularly in economically difficult times, enabling the Community to develop in a more polycentric way and boosting economic, social and territorial cohesion in the European Union;

1.4. regards it as one of the successes of European cohesion policy that the impact of the economic slowdown on employment has been reduced, also thanks to Structural Fund interventions, and that regional differences in unemployment rates have continued to decrease in the present EU. Nevertheless, this cannot obscure the fact that unemployment levels in many regions and localities of the EU remain unacceptably high and that additional efforts must also be made in the new Member States to raise the employment rate and to cushion the effects of inevitable structural change;

1.5. therefore feels that the views it has expressed to date on European cohesion policy have been confirmed by the findings of the study on the effect of cohesion policy. This is borne out particularly in the fact that significant growth has been achieved through Structural Fund interventions, especially through Objective 1 support, and that, since 1989, the difference in income between Objective 1 areas and the EU average has decreased by three percentage points;

1.6. recognises that, at the same time, it is apparent that, in the regions facing the greatest problems, the factors which determine the competitiveness of regions are particularly poorly developed. Consequently, there must be more emphasis on training, innovation and productivity in future cohesion policy, in addition to urgently needed investment in non-monetary capital and infrastructure. The Committee underscores the importance for all sectoral policies with a strong regional impact to contribute to the objective of cohesion;

1.7. calls for appropriate transitional arrangements to be provided for, depending on the way that the aid objectives are organised in the future, in the case of all those areas which, up till now, have been deemed to have structural problems, but which, in the next programming period, will no longer be regarded as such;

1.8. confirms that, in order to be credible, regional and cohesion policy must have sufficient financial resources, and therefore considers that the proposal that 0,45 % of Community GDP be earmarked for this policy is an acceptable basis for discussion.

## 2. Priorities for future policy

feels that, at the present stage of the debate as presented by the Commission, four main areas for action may be identified:

- action in the less developed regions or in regions with structural problems;
- action outside the less developed regions;
- promoting cooperation across frontiers and between regions;
- simplifying management.

### 2.1. *Less developed regions*

2.1.1. points out that, according to the Commission, the opinions it has received have been almost unanimous in endorsing continued support for less developed regions. Most suggest retaining the 75 % criterion for determining which areas receive support (75 % of per capita GDP in purchasing power parities at NUTS II level), as long as the so-called

statistical effect is neutralised, while the structural disadvantages of the outermost and extremely sparsely populated regions are to continue to be taken into account irrespective of their GDP. At the same time, the own-resources ceiling of the EU budget must be borne in mind;

2.1.2. assumes that the configuration of Objective 1 already provides enough flexibility to encompass Community priorities like the Lisbon and Gothenburg process for employment, economic reform, social cohesion and sustainable development. Care must therefore be taken to ensure that the future configuration of competition law does not limit this flexibility;

2.1.3. therefore expressly calls for the future Objective 1 to encompass the following areas:

2.1.4. regions with a per capita GDP of up to 75 % of the EU average (EU-25), regions hit by the so-called statistical effect and regions with particular handicaps, extremely sparsely populated and outermost regions irrespective of their GDP.

Transitional arrangements for regions which, thanks to favourable development, have gone over the 75 % (EU-15) threshold (phasing out).

Substantial transitional and degressive support should also be provided by the Cohesion Fund to those countries which exceed 90 % of the Community average as a result of the statistical effect.

2.1.5. makes it very clear that this position takes into account the challenges arising from enlargement of the EU. Appropriate solutions must be found both for the accession countries and for the problems which continue to exist in the regions of the present EU. The future configuration of cohesion policy must not put the regions facing the most problems in the present Member States at a disadvantage. In particular, cohesion policy in the new Member States must not be funded solely at the expense of current support areas which are not able to cope with structural change without outside assistance;

2.1.6. also points out that the so-called statistical impact is a particular problem for less developed regions. According to the latest information from the Commission, 18 of the current Objective 1 regions, comprising 21 million inhabitants, would only lose eligibility for Objective 1 support because the EU average GDP will go down with enlargement. These 18 regions include regions in Belgium, the United Kingdom, Finland, Italy, Austria, Portugal and Spain, as well as virtually all the east German Objective 1 areas. The people in these regions could get the impression that enlargement is to be funded at their cost;

2.1.7. supports the European Commission, which refers to this specific problem, saying that it favours a fair solution. For reasons of aid legality and equality of treatment a solution should be found within the future Objective 1 and the associated legal provisions on aid. In the case of Objective 1, regions with specific problems are given special consideration in the existing Structural Fund regulations even in the current programming period. Therefore, the regulations post 2007 should contain a provision to the effect that regions which only go above the 75 % limit because of the lower EU average should continue to retain their Objective 1 status. Regional prosperity would be the criterion for the distribution of Objective 1 resources to support areas as it is now and would help to ensure a differentiated yet fair distribution of resources without compromising the ceilings decided at the highest political level. Steps should also be taken to ensure that these regions retain their status as areas eligible for support under Article 87(3)(a) of the EC Treaty and thus continue to be subject to the support regime laid down in this same article.

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

2.2.1. endorses the Commission's view on the need for action outside the less developed regions and strongly recommends that the present instruments be improved, particularly with a view to securing effective and efficient administrative procedures and financial control, so as to simplify and decentralize implementation. It therefore calls for the launch as of 2007 of a new Objective 2 for all regions ineligible under Objective 1;

2.2.2. account should also be taken of the particular situation of border regions which are adjacent to a new Objective 1 area and which may lose their assistance as Objective 2 or Objective 3 areas. At least in respect of the first programming period post 2006, special consideration should be given to these border regions in the context of the new support objectives or under the Interreg programme;

2.2.3. maintains that the key concern of Community intervention in this area is to reinforce the competitiveness of the regions in accordance with the Union's political objectives as defined in the decisions of the Lisbon and Gothenburg European Councils. It will only be possible to tackle decisively the necessary structural reforms for more competition, innovation, flexibility and growth envisaged in the Lisbon strategy with effective input by the Union designed to give European added value;

2.2.4. points out by way of clarification that two basic options are being discussed for the future orientation of EU structural policy:

2.2.5. on the one hand, there is the view that the regional level remains the level most appropriate for the planning and management of interventions. This option would have the advantages of providing a high degree of continuity of support, taking account of the territorial dimensions and ensuring compatibility with European competition law and national structural policy instruments;

2.2.6. on the other hand, there is another option under discussion which involves deriving separate, Community-wide thematic support priorities from the factors affecting competitiveness, such as transport links, diversification of the production structure, knowledge-based society, innovation, research and development, the environment, employment, social inclusion and lifelong education and training. This would have the advantage that the Union could react in a flexible way to socio-economic problems outside the less developed regions where doing so is not allowed under the subsidiarity principle yet produces the greatest European added value. However, for this approach to be used, problems regarding the legality of aid would have to be clarified first and care taken to ensure coherence with the Member States' structural policy effort. EU-wide support goals should be limited as far as possible to defining objectives, so as to leave the regions enough scope to set their own structural policy priorities;

2.2.7. takes the view that a more thematic approach does not rule out the regional level if the regional level plays a central part in the definition of priorities and implementation of Objective 2 programmes, and if these priorities are based on territorial and thematic criteria clearly defined at Community level. The selection of regions which would receive Objective 2 aid should — differently from Objective 1 — not be selected on the basis of a GDP indicator, but other criteria should be used like, for example, demographic trends, low population density, the unemployment rate, level of education and training, regional competitiveness (e.g. climate for starting businesses and SMEs), innovation, diversity of economic activities and industrial density.

2.2.8. asks the European Commission to examine in more detail the different options for the future configuration of cohesion policy outside the less developed regions in the Third Cohesion Report. The new Objective 2 should also be given adequate funding. The Committee points out in this context that particular attention must be paid to regions with specific disadvantages (upland areas, islands, rural areas which are not readily accessible and areas of low population density);

2.2.9. points out in this context that the issue of cities is of great importance for economic and social cohesion in Europe and reiterates what the European Commission observed in its second cohesion report, namely that cities are at the heart of economic, social and territorial change;

2.2.10. therefore expects measures in urban areas also to be eligible for Structural Fund support. This includes measures under the Lisbon process, measures aimed at greater convergence in urban areas and measures to improve social cohesion;

2.2.11. takes the view that a similar effort is also needed in rural areas, especially those with special natural disadvantages, as in the case of upland regions, as well as measures to preserve functional links between urban and rural areas, preventing urban and infrastructure pressure from triggering processes which isolate and marginalise rural areas. This requires close coordination of the future guidelines for EU structural policy on the one hand and of the guidelines for a number of policies with a significant territorial impact (agriculture and forestry, transport, urban planning, research and innovation, employment and training, competition, etc.) on the other.

### 2.3. *Cross-border and inter-regional cooperation*

2.3.1. has already highlighted the considerable European added value of cross-border, transnational and inter-regional cooperation measures in a number of opinions, and this view is borne out in the Second Progress Report. Nevertheless, there is an urgent need to simplify the management of programmes and projects in this area so as not to allow delays to recur as in the current programming period;

2.3.2. supports the Commission in developing a strategic approach comprising all aspects of the Europe-wide networking of regions, localities and businesses to provide opportunities for carrying out joint projects and learning from one another. Europe-wide networking should be developed further as a top priority;

2.3.3. hopes that Community Initiatives will still be available as an instrument for specific objectives of European significance. However, they should only be used for matters which cannot be covered in targeted programmes, where a high degree of European added value can be demonstrated and a Europe-wide approach is called for, e.g. Interreg, an initiative

which has demonstrated its efficacy and should therefore receive adequate funding.

### 3. **Simplifying management**

3.1. called for the procedure for granting regional assistance to be simplified and for the respective roles of the Commission, Member States and regions to be clarified in compliance with the subsidiarity principle in its opinion of 10 October 2002 (CdR 101/2002 fin<sup>(1)</sup>). It reiterates the need to integrate the various existing intervention instruments (Objective 2, Objective 3, etc.), whilst maintaining operation on a regional basis. Community policies and funding instruments are also to be better coordinated with economic and social cohesion policy. Concrete proposals on this subject may be found in the outlook report on simplifying the Structural Funds after 2006.

### 4. **Procedure to be followed**

4.1. is called upon to continue to play an active role in the debate on the shape of European cohesion policy post 2006. This being so, the Committee should organise some initiatives vis-à-vis the Commission, Parliament and Council to disseminate the findings of the outlook report on simplifying management and the mandatory opinion on the Second Progress Report, thereby winning over more allies at an early stage for regional and local interests in this key area of policy;

4.2. calls on the Commission to continue the wide-ranging discussion on future cohesion policy, to consolidate it with the Third Cohesion Report at the end of 2003 and to submit concrete proposals for regulations shaping future cohesion policy by the end of 2004 at the latest. The negotiations in the Council and the Parliament should be completed in time to leave enough time in 2006 to draw up and approve plans and programmes so as not to allow delays to recur at the start of the new programming period.

<sup>(1)</sup> OJ C 66, 19.3.2003, p. 11.

Brussels, 2 July 2003.

*The President*  
*of the Committee of the Regions*  
Albert BORE