NEW AMBITIONS FOR POST-2013 EUROPEAN COHESION POLICY

1 February 2011

French Senate European Affairs Committee

Although cohesion policy is little known among Europeans, it plays a central role in European integration. More than a simple equalization fund for European regions to reduce their development gaps, it also develops a shared approach to development for the entire European Union for the benefit of all Europeans.

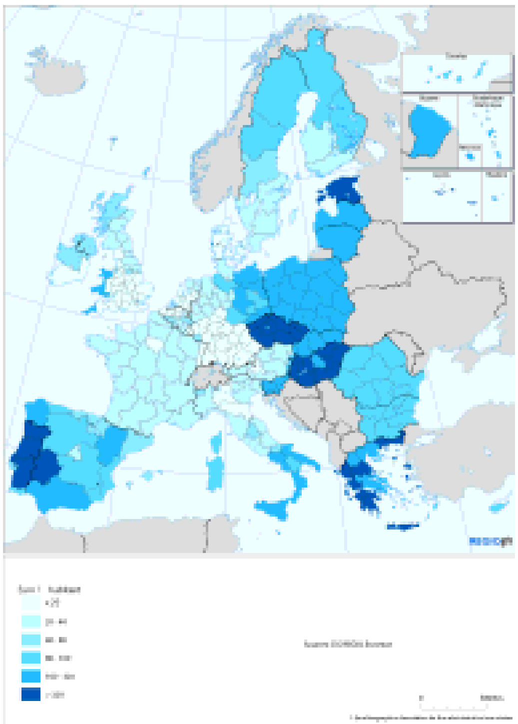
I. Cohesion policy is possible and needed for all European regions, despite budgetary constraints

1. Determining the European Union cohesion policy budget

The European Union, limited by a stagnant budget yet determined to finance new ambitions, could be tempted to cut the € 350 billion budget for cohesion policy.

- **The added value of this policy is well recognized**. It has yielded significant results: creating 1.4 million jobs, supporting 38,000 research projects, building 4,000 kilometres of rail and 2,000 of roads, and connecting 23 million people to wastewater treatment systems for the period 2000-2006 (source: European Commission). European regional policy is based on a specific approach that creates its added value compared to European Union sectoral policies: by encouraging a decentralized and partner-based approach, it has crafted integrated regional development strategies focused on common goals of the entire Union within a stable seven-year financial framework and in addition to national public investment. It thus ensures 25 % of overall public investment at regional level in French metropolitan regions. Therefore, all attempts to renationalize cohesion policy should be thwarted.

- **Financial realities however require that existing rules for cohesion policy evolve.** As a result of enlargement in 2004 then 2007, the average GDP per capita fell by over 10 % in the Union, shifting the centre of gravity of cohesion policy eastwards, as can be seen on the map below indicating the intensity of regional spending:



In 2014, some 16 of 84 regions presently covered by the Convergence Objective will no longer benefit from this objective because their GDP per capita will exceed 75 % of the European average, thus generating an economy with an estimated worth of nearly € 50 billion. However existing rules may produce an opposite effect. In 2006, a ceiling was established capping transfers at a certain percentage of GDP (3 to 4 %) to keep them within the limits of the absorption capacity of new Member States. Since the GDPs of these Member States have considerably grown, keeping the current ceiling would make them eligible for more funds, which could mean an additional € 75 billion for cohesion policy. It is therefore crucial to balance out the policy to the benefit of net contributor Member States (which pay more into the European Union budget than they receive) so that cohesion policy remains sustainable financially and politically. It makes sense to lower the ceiling because a number of new Member States are using funds at a low rate. It likewise makes sense to increase the intensity of aid in regions that are not covered by the Convergence Objective.

2. Balancing France's budget

- France is the second leading net contributor to the European budget after Germany. Its negative net balance increased 13-fold in ten years. It stands at € 5 billion today and could grow to € 7 or € 8 billion in 2013 with the application of the Common Agricultural Policy (CAP) to new Member States. **It is therefore vital to prevent this net balance from falling further.** Moreover, as its leading net beneficiary, it is only natural that France considers defending the CAP to be a priority, especially since the future of Europe's food supply is at stake. However it must be pointed out that after 2013, France will probably no longer be a net CAP beneficiary. France's position in negotiations on post-2013 financial perspectives thus cannot be summed up by the principle that any cut affecting agriculture would affect France's balance. This is all the more true since the European Commission has plans to refocus the cohesion policy budget on the Competitiveness Objective, for which France is a net beneficiary.

- **Defending cohesion policy is therefore compatible with defending the CAP**. It is in fact a consequence of it because the second CAP pillar provides for the implementation of cohesion policy in the countryside. Today's debate on cohesion policy does not seem to address the rural problem, whereas development of predominantly rural regions (50 % of Europe and 20 % of the population) is a vital issue. That is why the French Government should work to maintain a substantial budget for the non-agricultural component of the European Agricultural Fund for Rural Development (EAFRD), where a limited amount of funds has a decisive territorial impact. The territorial dimension of cohesion enshrined in the Lisbon Treaty needs to be given concrete expression.

France's net balance from 1998 to 2008 in billions of euros and in share of GNP
(using the British rebate method)

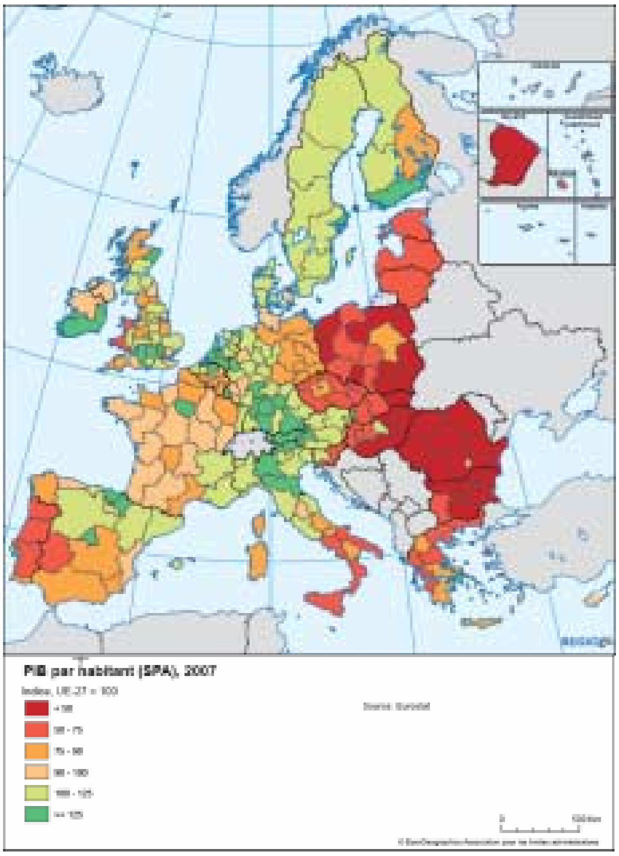
Source: Annex to the 2011 budget bill

II. Cohesion policy reform should be based on three principles: fairness, effectiveness and simplicity

1. Fairness

- **The current architecture of cohesion policy splits Europe in two**: regions are placed into categories above or below the threshold of 75 % of the European Union average of GDP per capita. Below this threshold, they are covered by the Convergence Objective, which receives 82 % of cohesion funds. Above the 75 %, they are covered by the Competitiveness Objective, which receives 16 % of funds. There is a **one-to-ten ratio** between the intensity of the funds granted for Convergence and for Competitiveness. To absorb the impact of moving from one category to another, phasing in and phasing out systems have been established. As a result, a region with a GDP that is slightly higher than 75 % of the Community average can find itself in three different situations. It could be part of the Competitiveness category as it was before enlargement. It could remain in the Convergence category but be subject to specific phasing out procedures if it exceeds the 75 % threshold due to a statistical effect of an enlarged European Union. Or if its increased wealth bumps it from the Convergence category, it could move to the Competitiveness category, but receive specific phasing in aid to cushion the impact of the abrupt drop in European funds. For a same level of wealth there are three possible intensity levels for European aid. This unfair response to threshold effects needs to be reviewed.

- **Concern for fairness is reason to support Commissioner Hahn's proposal to create a new category for transition regions**, i.e. those regions whose GDP exceeds 75 % of the Community average but remains under this average. All regions with the same level of wealth in this intermediate category would thereby receive the same amount of aid, regardless of their background. This is an essential and real step forward for European cohesion. This new, more targeted financial envelope would improve support to French regions that need it. Other than Martinique, which will no longer fulfill the criteria for benefiting from the Convergence Objective in 2013, they include seven metropolitan regions, namely Corsica, Languedoc-Roussillon, Picardie, Limousin, Nord-Pas-de-Calais, Basse-Normandie and Lorraine. This is an opportunity for our metropolitan regions, benefiting seven of them in particular (in dark orange on the map below) without decreasing support to the 15 others.



- **Moreover, consideration must be given to regions with strong geographical restrictions, i.e. outermost regions (OMR)**, whose specific nature was established in the Treaty of Lisbon. As OMRs, our four overseas departments are the only French regions covered by the Convergence Objective. They also receive an additional allocation from the European Regional Development Fund (ERDF), which accounts for 15 % of aid that they receive from

Europe. The French Government must therefore work to ensure that this allocation continues and that overall, the specific nature of overseas departments is better acknowledged in Brussels, including in trade policy matters.

2. Effectiveness

- **To make the most of the cohesion budget, the Commission intends to subject allocations to new requirements.** Considering that sound macroeconomic policy has a bearing on the effectiveness of structural funds, the Commission has proposed that funds be cancelled for States that do not comply with the Stability Pact. Regions cannot be sanctioned for a government deficit they are not responsible for. What's more, sanctions would push regions that are struggling financially even further down. Any new requirements should be precise, justified and directly related to cohesion policy. It would be a better idea to introduce some type of incentives system, such as the performance reserve that the Commission intends to establish to award regions making the most efforts to spend structural funds effectively.

- **Stimulating the use of funds by focusing on territories** is likewise required. Success of a strategy as ambitious as the Europe 2020 Strategy depends on its ownership in the field. That's why cohesion policy action would be more effective if it focused on a few objectives so as not to be spread too thinly. But the "menu" from which Member States choose their priorities for action should remain sufficiently open (no priority should be mandatory) and there should still be a certain amount of freedom so that cohesion policy can be adjusted to the specific features of every region. Stimulating the use of funds also means promoting a development method that is more regionally minded. This could mean getting local leaders more involved in defining national objectives and priorities; rallying support of local stakeholders for projects using a partnership-based, integrated development approach with its roots in the field, along the lines of Leader rural development programmes; and diversifying possible scales for local action, for example river or sea basins and mountain ranges.

3. Simplicity

Although national administration is partly responsible for the complexity of cohesion policy, the European Union could simplify it by:

- **Harmonizing management rules for the different funds**. The Commission has plans to work out a common strategic framework for the different funds contributing to cohesion (Cohesion Fund, ERDF, European Social Fund, EAFRD, European Fisheries Fund). It will coordinate the different financial instruments. It is also expected to align the EAFRD management rules with the more flexible ERDF ones, as the two funds often work in the same areas.

- **Revising certain rules** (to give revenue-generating projects a chance to work in the event of local financial difficulties) and monitoring projects in proportion to their size.

- **Simplifying new financial instruments** that combine subsidies and loans and have more leverage than traditional subsidies.

To find out more:

French Senate Information Report (2010-2011) No. 266 submitted by Yann Gaillard and Simon Sutour on behalf of the European Affairs Committee:

http://www.senat.fr/notice-rapport/2010/r10-266-notice.html (in French)