



INSTYTUT SPRAW PUBLICZNYCH
THE INSTITUTE OF PUBLIC AFFAIRS

Analyses & Opinions

number 10

6/2003

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Debate on the New EU Cohesion Policy: Recommendations for the Polish Position

- *Basic assumptions of the New European Union Cohesion Policy for the Years 2007-2013 will be ready by the end of 2003. Key decisions in the matter of this policy will be taken by the current EU members before Poland joins the Union. However, the voice of Poland – the largest country among the new members of enlarged Union – should be clearly heard during the decision-making process. In addition to its significance in shaping our national interests, it can also have a positive effect on Poland's image among the current member-states.*
- *We believe that Poland should promote a further decentralization of the EU cohesion policy - particularly in terms of delegating the main competencies to the regions.*
- *Poland should oppose the proposal to renationalize the cohesion policy because it may be motivated by the desire to gradually curtail or even eliminate the policy and, consequently, it threatens Polish interests.*
- *Poland should support the proposition to link up the New Cohesion Policy with the objectives of the Lisbon strategy, particularly as concerns associating regional policy with the development of an economy based on knowledge and advanced technologies, as well as development of human resources necessary to creating well paid jobs that stimulate this type of economy.*
- *Polish politicians should object to the application of different cohesion policy criteria to "old" and "new" EU member-states, particularly to attempts at introducing different statistical principles of granting assistance to individual members, because that will lead to membership categorization.*
- *Poland should consistently support all initiatives aimed at improving the management of the cohesion policy. That policy should focus more on results and less on procedural compliance.*

There is a lively debate going on in the European Union on how the organization will function after enlargement. A special place in that debate is occupied by the problem of the reform of the current regional policy. Preparations of the so-called New European Union Cohesion Policy, i.e. a policy aimed at leveling out economic and social discrepancies inside the Union, are in full swing. The debate has heated up as a result of the new EU budget cycle (starting in 2007) and expansion of the EU by 10 new countries with the economic development level drastically lower than the EU average.

Regional policy in the years 2000 – 2006

Under the 2000-2006 EU regional policy, 213 billion EUR (in 1999 prices), i.e. approximately one third of the entire EU budget, have been set aside for distribution. This amount approximates 0.35% of the gross European product and averages 3.2% of the GDP of the regions receiving structural assistance. The cohesion policy (also known as the regional policy) of the European Union constitutes a long-term effort by various levels of public administration to stimulate economic and social growth in the regions. Its main objective is to reduce developmental disparities between particular areas of the European Union. It also aims at increasing regional economic competition and solving social and economic problems that stand in its way. The policy is financed mainly out of the EU budget, four structural funds and the Cohesion Fund. EU member-states, territorial self-government units and private entities also contribute to its financing.

At present, the policy has three priority objectives. Objective 1 – assisting areas whose economic and social development is lagging behind – is of fundamental significance. Only areas with a per capita gross domestic product lower than 75% of the Community average are eligible for assistance under Objective 1. Near 70% of all structural funds have been put into the achievement of that particular objective. Activities within the framework of Objective 2 concentrate on supporting a thorough economic and social conversion of areas experiencing structural difficulties in industry, agriculture, etc. Objective 3 puts a stress on modernizing education, training and employment systems.

The second report of the European Commission on the progress of economic and social cohesion clearly shows a fundamental change in regional policy due to the EU enlargement. The gross national product of almost all candidate countries is lower than 50% of the

Community average. In Poland, it is only 42%. According to the report, 48 EU regions qualified in 2000 for assistance under Objective 1 since their income was lower than 75% of the Community average. Whereas according to preliminary estimates the number of such regions after enlargement will grow to at least 67. At the same time, if the current rules of the European regional policy are maintained, several current beneficiaries will lose their right to assistance under Objective 1 because the average GNP will be lowered in enlarged Union. This is why this problem is referred to by the countries which it will affect as the "statistical effect". The European Commission calculates that as many as 18 regions that currently use European assistance may find themselves in this predicament. Economic disparities between individual areas of united Europe will also grow dramatically, including those measured by the rate of unemployment.

Main themes of the European debate on the new cohesion policy

These disparities exceed financial possibilities of the current EU regional policy. An attempt to apply current structural-assistance criteria would most certainly result in a destruction of the policy's budgetary framework. The situation gets complicated further by the fact that countries which to the largest degree finance European Union expenditures, such as Germany, are requesting a spending freeze. Economic recession in the largest European countries does not promote their generosity when it comes to paying into the Community coffer.

Proposed re-nationalization of the EU regional policy

Great Britain has recently come forward with a proposal to re-nationalize the regional policy. According to the British proposal, those countries whose GNP exceeds 90% of the EU average should use national instruments of regional policy rather than European assistance. In practical terms, they would be allowed to keep the corresponding portion of their EU membership fee. It would also mean that EU regional development expenditures would be reduced and that problems associated with leveling out development opportunities of the poorest regions would be handed down to the member-states. Both the European Commission and the European Parliament have come out against these proposals.

It should be noted that the debate on a partial re-nationalization of the regional policy reflects the principal dilemmas associated with the future model of the European Union. The existence

of a rich regional policy promotes European integration processes and reinforces Community institutions. On the other hand, a reduced dimension of regional policy promotes the development of a model of Europe made up of national states and clearly weakens federalist trends.

Higher budget, two regional policies or transition periods?

Another group of countries represented in the debate consists of current European assistance beneficiaries, such as Spain, which fear dramatic cuts in the EU spending on their regions. Consequently, proposals brought forward by these countries aim at ensuring that assistance is continued as long as possible and at a rate approximating the current level. For example, Spain favors an increase of the regional policy budget to 0.45% of the gross EU product, i.e. 350 billion EUR. Greece is even proposing raising that budget above 0.45% of the gross EU product and, at the same time, postulates maintaining the principle of not transferring to any single country more than 4% of its GNP in assistance funds. There is also talk about lowering the 75% GNP average in the EU for regions receiving assistance under Objective 1. Other proposals advanced by this group of countries stipulate various transition periods for current beneficiaries, particularly for areas that will lose the opportunity to get EU assistance after enlargement. Another version of this proposal points to the need for operating two separate European regional policy systems, at least during a transition period. One would operate on terms similar to those applied today and would be directed to current member-states. The other would be composed of a totally new set of instruments applied exclusively to new member-states. The candidate countries have objected to these proposals unequivocally.

Proposal to concentrate spending on the weakest regions

The idea of concentrating spending on regions that are economically the weakest is among the most frequently mentioned proposals concerning changes in the current regional policy. This is precisely why the new policy is commonly referred to as the policy of cohesion. Indeed, its main goal would lie in leveling out regional disparities in Europe. Consequently, one can expect Objective 1 to continue dominating in the New Cohesion Policy. Other issues touched upon during the debate include widening the current criteria of qualifying for assistance by factors such as unemployment rate, productivity, geographical remoteness and low population density.

Will the cohesion policy be de-centralized?

In addition, there is a proposal to de-centralize the policy. This primarily means shifting a larger number of decisions as to how the funds should be used to the national and regional level. With a view to improving the effectiveness of regional policy, there is a proposal to introduce a system whereby three parties, i.e. the EU administration, national government and regional or local authorities would enter into contracts. The assumption is that such system would reinforce the role of regional and local self-governments in the policy implementation process.

Role of the European Commission in the New Cohesion Policy

The European Commission (EC), which currently manages many aspects of the policy, would be relegated to setting the main directions and criteria of using European funds. In addition, it would control and monitor the correctness of the application of European procedures. At the same time, there is talk about the need to make cohesion policy procedures more flexible, which would include simplifying certain policy regulations and documentation required by Brussels.

It should be noted that while EC generally supports these proposals it nevertheless keenly protects its regional policy shaping role against any major tampering, because that would be tantamount to reducing its political significance within the structure of the European Union. This is why EC officials object particularly strongly to the reduction of the so-called Community Initiatives, which are financial instruments separate from the structural funds and which they control. Moreover, there is an obvious contradiction between the discussed proposals. On one hand, there is much talk about simplifying bureaucratic procedures and reducing the influence of the EU administration. On the other, however, there are many voices (including, of course, that of the European Commission itself) which advocate raising the quality of control for the sake of effectiveness and better use of the European funds.

Will the results be what matters the most?

An important aspect of the debate on the New Cohesion Policy is the stated need to focus on results rather than on procedural compliance, which in the opinion of certain experts is a major shortcoming of the current system. In addition to the proposed simplification of the inflated bureaucracy, some also suggest to include the history of spending EU assistance funds as a

criterion in granting new assistance. This would be a bonus for regions that are more effectively organized and better at investing. However, since there is a great discrepancy in the spending experience between the regions of enlarged Union, this idea will probably not be accepted by new member-states.

Attempt to combine the regional policy with other EU policies

In turn, other proposals aim at linking closer the New Cohesion Policy with the Community's other policies. This refers primarily to the common agricultural policy or, to be more precise, to that part thereof which deals with rural development, and to the policies on fishing and competition. A growing number of commentators raise the issue of the need for a wider presence of elements of the Lisbon strategy in the cohesion policy. This means more action directed at building an economy based on knowledge and advanced technologies, support for the development of human resources, promotion of sustainable (i.e. environmentally friendly) development, etc. An overwhelming majority of propositions aim at bringing into relief the necessity to improve regional economic competitiveness rather than just reducing developmental disparities in various areas of the European Union.

Conclusion: which proposals will be accepted?

Basic assumptions of the New Cohesion Policy for the years 2007-2013 will be probably worked out by the end of 2003. Based on the current debate, one may assume that they will not contain any breakthrough changes. Corrections to the existing system might include introduction of transition periods for regions which for statistical reasons will no longer be eligible for structural assistance. Also, the cohesion policy will probably proceed in two principal directions. One will primarily encompass assistance to regions whose economy is lagging behind with a view to achieving a greater cohesion on the territory of the European Union. The other will be increasingly involved with the implementation of the Lisbon strategy, particularly with the development of knowledge-based economy and achievement of the so-called sustainable development. It is highly probable that the cohesion policy will be somewhat decentralized in favor of individual countries and regions.

Recommendations for the Polish position

Key decisions in this area will be taken by present member-states before Poland joins the European Union. Still, since Poland is the largest country among new members of enlarged EU, its voice would certainly be heard during the decision-making process. We should bear in mind that the new regional policy will be operating to a large extent precisely to serve our country's developmental needs. This is why it is extremely important for the Polish government to join the debate on the shape of the New Cohesion Policy for the years 2007-2013.

We should be supporting de-centralization

We believe that Poland should be supporting a further de-centralization of the EU cohesion policy, particularly with respect to relegating main competencies to the regions. It seems that too many decisions associated with substantive regional-development activities are taken by administrations on the European and national level. Their functions should be limited to controlling and monitoring these activities rather planning and managing the implementation of European assistance. In this context, Minister Jerzy Hausner's statement at a recent conference in Leipzig, in which he voiced a strong support for the reinforcement of the role played by the regions in the European cohesion policy, deserves praise.¹ His declaration should be reflected in a de-centralization of Polish public finances and establishment of 16 regional-development operation programs to accommodate the European funds in the years 2007-2013.

At the same time, the proposal to introduce tripartite contracts between the European Commission, national governments and regional/local authorities should be thoroughly examined. In general, this idea aims at widening the competencies of the EU administration. A wholesale application of the contract system to a great number of specific decisions that should be left to regional self-governments is apt to complicate the procedure and lead to the weakening of regional competencies. This is why the idea should be examined both in the context of a wider regional participation in the cohesion policy and from the viewpoint of simplifying the policy's entire organizational system. And that should include restricting unnecessary bureaucracy and excessive European Commission decisional powers.

'No' to the idea of re-nationalizing the cohesion policy

Minister Hausner was right to oppose in Leipzig the proposal to re-nationalize the cohesion policy because it may be motivated by the desire to gradually curtail or even eliminate it and, consequently, it threatens Polish interests. Indeed, it should be remembered that our country will soon be one of the main beneficiaries of that policy. Still, British proposals and similar German suggestions must be thoroughly examined.

Lisbon strategy goals must be taken into consideration

Poland should support the suggestion that a closer link ought to be established between the New Cohesion Policy and the goals of the Lisbon strategy. In particular, regional policy should be closer connected to the development of an economy based on knowledge and advanced technologies, as well as development of human resources that would create well paid jobs necessary to stimulate such economy. Directly linked to that is the creation of regional networks between academic, scientific and business communities. Moreover, support should be given to the establishment of closer links between the cohesion policy, competition policy and common agricultural policy, mainly in developing rural areas. It should be expected that in the first phase of the implementation of the New Cohesion Policy such ideas will be taken advantage of mainly in the regions located in "old" member-states. Nevertheless, the proposals should be treated as a very important direction of the strategic development of the discussed common policy, which in a longer term will also undoubtedly find an application in Polish regions.

We should support trans-border cooperation

The Polish government's draft position on the EU structural policy after 2006 (announced last May) advocates the need to raise the effectiveness of investment undertakings for the sake of building up regional competitiveness. The authors of the draft use that justifiable declaration as a basis for advocating support for trans-border cooperation and development of pan-European infrastructural networks. In addition, the government draft position backs the proposal to

¹ *"Future of the European Union Cohesion Policy"* – Conference of European Cities and Regions, Leipzig, May 5-6, 2003.

increase the share of the Cohesion Fund (slated for infrastructural investments) in the roster of European resources earmarked for new member-states to some 1/3.

The proposal to develop trans-border cooperation within the framework of the New Cohesion Policy is in our opinion worthy of utmost support, the more so since the current instruments of such cooperation on our Eastern border require reinforcement. Of particular significance to Poland is the development of trans-border cooperation with Ukraine.

Let's not overestimate the role of the Cohesion Fund and infrastructural investments!

On the other hand, giving a priority to the expansion of the communication network and raising the share of the Cohesion Fund in the roster of financial resources earmarked for new member-states seems problematic. Firstly, an excessive reinforcement of the role played by that fund strengthens the political and program-management role of the central authority at the expense of territorial self-governments. In addition, there is no guarantee that the procedures associated with putting the Cohesion Fund in motion will indeed permit a better absorption of European resources. This has been demonstrated by the experience of using the resources of the ISP A pre-accession program - a prelude to spending the Cohesion Fund. A report of the Supreme Chamber of Control issued last April states that Poland has been experiencing huge difficulties in carrying out that program. Secondly, expert estimates of the effectiveness of the discussed investment activities differ quite widely.

Let's maintain uniform criteria for all member-states

Polish politicians should also oppose the adoption of different cohesion policy criteria with respect to "old" and "new" members of the European Union. We should particularly resist the idea of applying different statistical criteria to granting assistance to individual member-states, because that could lead to membership categorization. However, this does not exclude the possibility of requesting privileges or special financial instruments for new EU member-states. We should bear in mind that past enlargements of unified Europe were accompanied by new financial regulations and payments meant to satisfy the needs of countries joining the Community. Considering the scale of developmental backwardness of Central and Eastern European countries, it is amazing that no negotiations of special assistance instruments for new members have been initiated so far. Moreover, it seems that the countries in our region must

receive privileged treatment under the cohesion policy and maybe even under the competition and state assistance policies. In this context, concentration of spending under the New Cohesion Policy on investments carried out within the framework of Objective 1, which will mainly benefit new member-states, seems to be an absolute minimum.

We should support transition periods for some regions

It is in the Polish interest to consent to transition periods for those European regions which have been using structural assistance to date, but which for statistical reasons will not meet the conditions required to receive such assistance after enlargement. This is because granting temporary privileges to current members will give new members more grounds to solicit special assistance instruments.

Let's promote the effectiveness of the New Cohesion Policy

Improved management is an important element of the reform of the European regional policy. More stress in that policy should be put on results rather than only on procedural compliance. This refers both to the policy's de-centralization and cutback in regulations and bureaucratic procedures required by the European Commission. Moreover, it seems expedient to support proposals that call for increasing the cohesion policy budget to an amount higher than 0.45% of the gross EU product.

Why Poland should participate in the debate

The debate on the future of the European regional policy is entering its decisive phase. Europe should hear the Polish position on this issue. Making the Polish voice heard will be significant not only to the shaping of our national interests in enlarged Europe but also to promoting the image of Poland among its European partners. A passive attitude may give the impression of incompetence or unpredictability. By joining the process of establishing new institutions and terms of one of the most important European policies Poland might also be able to smooth over the unfavorable impression left by its involvement in the Iraqi conflict.

Still, it will not be enough to make statements on European policy issues. They must be backed by appropriate domestic action. That entails before all else the need to prepare the public

administration and financial system for the New Cohesion Policy. We should also initiate work on the new National Development Plan, which will not only face up to our developmental needs but also to trends of the changing European regional policy. Moreover, the government must adapt its economic policy to these challenges and create conditions propitious to the influx of foreign investment and development of domestic entrepreneurship. Only a comprehensive approach to the New Cohesion Policy will enable us to draw maximum advantage of European integration and influence a positive response to our activities among our European partners.

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The Institute of Public Affairs is preparing, in collaboration with the embassies of France and United Kingdom, and with assistance of the Office of the Committee of European Integration, a conference dedicated to the New EU Cohesion Policy. The conference is slated to take place in late September 2003. It will be used to sum up various countries' positions on the changing cohesion policy. We will also discuss the Polish position in the face of these changes as well as planning and organizational preparations indispensable to our participation in carrying that policy out.

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