

# Part 3 — Impact of Community policies: competitiveness, employment and cohesion

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## Table of contents

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- Introduction . . . . . 114
- The contribution of Community policies to cohesion in the light of the Lisbon and Gothenburg strategy . . . . . 114
- Reforming common policies: CAP and fisheries policy . . . . . 125
- Complementarity between state aid and cohesion policy . . . . . 128
- Justice and home affairs: improving conditions for development . . . . . 131
- The perception of Community policies at regional level . . . . . 132

## Introduction

The Second Cohesion Report presented an analysis of the contribution of Community policies to cohesion. The concern here is not to repeat this analysis but to review the main changes which have occurred in these policies since 2001 in the light of EU objectives, particularly those agreed at Lisbon and Gothenburg. Two policy areas not included in the previous report are also covered, namely trade policy and justice and home affairs. A separate section examines policy on State aid which has important links with cohesion policy. The final section presents the results of a survey conducted in 28 regions in the EU on the perception of the effects of different Community policies.

## The contribution of Community policies to cohesion in the light of the Lisbon and Gothenburg strategy

### Building the knowledge-based economy

Knowledge is at the heart of the Lisbon strategy. The generation, dissemination and use of knowledge is critical to the way in which businesses operate and grow. Facilitating access to finance and markets, promoting business support services, reinforcing links between enterprises and the scientific base, equipping people with the right skills through education and training, encouraging the take up of new technologies and increasing investment in R&D are all key to improving the business environment and stimulating innovation.

Community enterprise, industrial and innovation policy is aimed at strengthening the competitiveness of EU industry and services by encouraging enterprise, establishing an environment conducive to innovation and economic development and ensuring access to markets<sup>1</sup>.

Enterprise policy encourages public-private partnership and networking between companies<sup>2</sup> (through,

for example, the Innovation Relay Centres and the Innovating Regions in Europe network), so stimulating the exchange of knowledge and experience. Similarly, the information and advice centres, which have been established across the EU over the past decade, with the support, *inter alia*, of the Structural Funds, play an important role, along with other business support services, in building relationships between firms in different regions and in helping them solve practical problems.

Enterprise policy is also aimed at encouraging entrepreneurship and making it easier to start and run businesses, which can be particularly important for disadvantaged groups and in lagging regions<sup>3</sup>. To this end, a new EU definition of micro, small and medium-sized enterprises will apply from the beginning of 2005<sup>4</sup>, which by extending coverage to larger firms than at present will effectively reduce the administrative burdens they now have to bear, while at the same time making them eligible for financial support.

As indicated in Part 1, disparities between regions in relation to innovation stem not only from differences in expenditure on R&D, but equally importantly from the weakness of links between businesses, research centres and so on which make up the regional innovation system. Innovation policies are, therefore, moving away from measures to expand R&D and technological capacity directly towards strategies to improve the environment in which firms operate<sup>5</sup>. Three areas deserve particular attention:

- building on the experience of pioneering work financed by the Structural Funds (Regional Innovation Strategies (RIS)), regions are encouraged to develop demand-led, participatory policies for innovation (see below). This is particularly important in the accession countries, where coherent policies at regional level are lacking: RIS-NAC (Regional Innovation Strategies — Newly Associated Countries) was set up, with a budget of EUR 5.25 million, under the Fifth Framework Programme, 16 regions in 9 countries started projects at the beginning of 2002;

- in order to make the most efficient use of existing knowledge and maximise its diffusion, it is necessary to increase the availability of business services and improving their quality. The network of Innovation Relay Centres, in particular, is focused specifically on the needs of less advanced regions helping local businesses access technology and identifying the technologies suitable for transfer to other regions or sectors;
- lack of access to finance is often a key constraint on the growth and development of companies and an important part of enterprise policy is to support the development of alternatives to bank lending, such as venture capital funds, in regions where finance is limited. The means created through the European Investment Fund (EIF) to increase the finance available to SMEs include the SME Guarantee Facility, the ETF Start-up Scheme and the Seed Capital Action. The EIF is also in the process of establishing a contact with at least one financial institution in each accession country for the same purpose.
- the Initiative has helped to stimulate competition between alternative platforms and operators and to focus Member State and Community efforts on key disparities across the EU. Yet, despite broadband lines in the EU doubling between July 2002 and July 2003, availability remains extremely uneven in different areas;
- the overall volume of online transactions remains modest and differences persist between Member States, notably due to gaps in Internet access rates;
- there is continuing expansion of online availability of the 20 basic public services identified in *eEurope*, with the proportion available increasing from 45% in October 2001 to 60% in October 2002 and while differences between Member States still exist, those lagging behind are catching up fast;
- there is a rapid development of Government services online in all of the accession countries, some of which are more advanced than EU Member States in certain areas;

The main plank of Community policy for the information society is the eEurope Initiative launched in June 2000 with a second phase, the eEurope 2005 Action Plan, begun two years later, the main objective being to ensure 'modern online public services (e-government, e-learning and e-health); a dynamic environment for e-business and, as an enabler for these, widespread availability of broadband access at competitive prices and a secure information infrastructure'<sup>6</sup>.

The Action Plan sets out a strategy to make broadband infrastructure available to businesses and people throughout the EU at affordable prices. It also draws attention to the need to develop adequate content and services, with particular emphasis on areas where government can make the difference by supporting, with EU cooperation and possible use of the Structural Funds, deployment of broadband in less favoured regions. The results can be summarised as follows:

- the proportion of EU schools online increased from 89% in March 2001 to 93% in March 2002, with no major differences between Member States, except for Greece, where only 59% of schools were connected. The number of computers connected to the Internet rose from 4 per 100 pupils to almost 6 per 100 over the same period.

At the 2002 Barcelona European Council, the target was set of increasing investment in research and technological development (RTD) in the EU by 2010 to 3% of GDP (two-thirds of this in the private sector), up from just under 2% in 2000. The Sixth Community Framework Programme on RTD, with an overall budget of EUR 17,5 billion, has been launched to help achieve this<sup>7</sup>, in combination with the European Research Area (ERA) Initiative<sup>8</sup>, introduced to reduce fragmentation of research activities across the EU, increase investment in research and improve the environment for realising the potential benefits from research.

Participation of the Cohesion countries and lagging regions in the Fifth Framework Programme (1998–2002) was as follows:

- organisations in the Cohesion countries accounted for 17.8% of participants in Community RTD contracts signed between January 2002 and March 2003, marginally higher than their share of EU population (17.1%) and up from 16% in 2001. In terms of finance, however, they received less than their share of population (14.6%) but this was more than in 2001 (12.2%). In addition, just over 31% of the cooperation links established between organisations in the EU in 2002 included participants from the Cohesion countries;
- disparities across regions are more marked, reflecting the concentration of research in comparatively few areas. Some 14% of the organisations participating in the Fifth Framework Programme were based in Objective 1 regions, the same as in the Fourth Programme (1994–1998). Of the 64 Objective 1 regions, just 8 (Ireland, Berlin, Lisboa e Vale do Tejo, Attiki, Kriti, Comunidad Valenciana, Andalucía and South Yorkshire) were responsible for over half of the projects. The first three of these are no longer full Objective 1 regions;
- so far as SMEs participation is concerned, more than 4,600 SMEs signed a contract in 2001. Some 77% of projects came from businesses with fewer than 50 employees and 42% from businesses with fewer than 10. A number of these were located in acceding and associated countries. Although the SMEs awarded contracts were a tiny fraction of the total in the Union, they accounted for over 23% of participants in the four thematic programmes and received over 15% of the total funding.

Several initiatives have been launched to reinforce the role of regions in the creation of the ERA:

- innovation activities under the Fifth Framework Programme (with a budget of EUR 119 million),

supported the networking of businesses and other organisations at regional level, in conjunction with the innovative actions of the Structural Funds;

- the Programme also financed the “Innovating Regions of Europe” (IRE) network Initiative<sup>9</sup> to facilitate exchange of experience and good practice between regions, including between advanced and lagging regions, in the accession countries as well as the present EU15;
- in the same context, a new pilot initiative<sup>10</sup> was launched in 2003 with a budget of EUR 2.5 million, aimed at developing experimental activities involving networks of European regions (with the active involvement of universities, research centres and the business community) so as to create ‘Knowledge regions’ which could serve as models for the implementation of the Lisbon strategy at regional level;
- several projects aimed at developing regional ‘foresight’ have been supported within the STRATA actions of the Improving Human Potential (IHP) programme (total budget EUR 25 million) to promote long-term strategic thinking and bridge the gap between regional policy and RTDI policy. Special attention has been given to the accession countries.

Looking ahead, the Sixth Framework Programme (2002–2006) through two new initiatives, the Networks of Excellence and the Integrated Projects, has the potential to improve links between more central and peripheral scientific centres, add to the EU’s overall innovative capacity and combat the brain drain from less favoured to more prosperous regions.

Funding for human resource development in the Sixth Framework Programme has been doubled in money terms, with a potentially important effect on less favoured regions through technology transfer schemes. Moreover, a target has been set of spending at least 15% of the budget for the Thematic Priorities on SMEs.

In addition, new cooperation has been established between cohesion policy and R&D policy by enabling successful applicants to the Sixth Framework Programme located in Objective 1 regions to claim additional financing from the Structural Funds *via* the regional authorities concerned.

### Education and training of key importance

The skills and qualifications of its people are the EU's prime resource and key to it becoming the most dynamic and competitive knowledge-based economy in the world. The "Education and Training 2010" programme has been implemented to help achieve this end, setting out 13 objectives<sup>11</sup> aimed at making education and training in Europe "a world reference for quality by 2010"<sup>12</sup>. A recent Communication<sup>13</sup> from the Commission calls on Member States to strengthen their efforts at all levels, particularly in relation to investment in education and training, in order to ensure the success of the Lisbon strategy. At the Brussels European Council<sup>14</sup> towards the end of 2003, Member States agreed to 'strengthen structured cooperation in support of the development of human capital'.

Although many Member States have made considerable efforts to reform and adapt their lifelong learning systems to the knowledge-based economy, the changes made are still not sufficient to meet the challenge. Evidence strongly suggests that in order to create and maintain a minimum level of knowledge-intensive employment, a region must first build up a critical mass of workers with a wide variety of skills. The Community has for many years organised networks linking universities, training institutes and businesses within and between regions and more recently has made efforts to establish networks of 'learning regions'.

At the same time, the increasing decentralisation of responsibility for education and training to regional level across the Union opens the way for the better organisation of training provision in line with both the needs of people and regional development plans.

### More and better jobs in an inclusive society

The European Employment Strategy (EES) was launched at the end of 1997 with the primary objective of combating unemployment through preventive methods and active employability measures. Since 2000, it has been aimed at achieving the objectives set at Lisbon of full employment, better jobs and improved social and economic cohesion.

The Strategy was evaluated in 2002 and was streamlined and revised at the Brussels Spring Council of 2003 better to underpin in an enlarged Union the objectives set at Lisbon. The evaluation pointed to clear structural improvements in the EU labour market. In 2002, unemployment in the EU averaged 7.7% of the labour force as against 10.0% five years earlier, while equally relevantly the proportion of working-age population in employment increased from 60.7% to 64.3%. Despite marked differences between Member States and the difficulty of establishing causal relationships between employment outcomes and specific policies, some convergence of national employment policies towards the objectives and guidelines defined under the EES is discernible.

Efforts are continuing in most parts of the EU to ensure a new start, in the form of training, retraining, work practice, a job, or other employability measure to each person unemployed before they reach six months unemployment in the case of for young people and 12 months in the case of those over 24.

To deliver tailor-made services and support activation and prevention, effective Public Employment Services, equipped with sufficient capacity, are needed. Therefore the Member States are committed to modernising Public Employment Services, with some moving towards cooperation with the private sector. In most new Member States, the Public Employment Services, set up at the beginning of the 1990s, are also undergoing a continuous reform and modernisation process.

### Trade policies and their impact on employment and cohesion

The opening up of trade is generally a source of benefit for economies, leading to shifts in the allocation of factors of production to more productive uses, gains in efficiency and economies of scale, greater competition, increased transfers of knowledge and technology and gains to consumers in the form of greater variety of choice and lower prices.

At the same time, it is also the case that the opening up of trade can lead to costs which are the counterpart of these benefits. Whatever the gains in the long-term, shifts in the allocation of factors of production can, therefore, involve costs of adjustment in the short-term for the enterprises and employees affected by increased imports.

Several features of the costs involved mean that they cannot simply be ignored:

- the costs are generally concentrated on certain sectors and regions, which means that for certain sections of the population they can be substantial and, accordingly, have a more damaging effect than if they were uniformly distributed across the economy as a whole;
- there tends to be no compensation paid by those who gain to those who lose, partly because of the difficulty of estimating the costs involved, and therefore some people (and regions) will be worse off at least in the short-term (which is an argument for assisting those concerned);
- the difference between benefits and costs tends to widen over time: costs tend to be higher in the initial years (foreign competition usually has a rapid effect on uncompetitive sectors) while most of the gains (from increased efficiency brought about by a better allocation of factors of production) take some time before they are felt. The empirical studies, therefore, tend to show that in the years immediately following the opening of trade, costs can amount to 10–15% of the gains, two or three times higher than in the long-term;
- costs and benefits differ equally between different places: the effect on regions depends on the international competitiveness of the sectors of activity located

there, on the degree to which activities are spatially concentrated (especially traded goods) and the extent to which regions are specialised in the production of particular goods and services. Some regions will be adversely affected to a major extent by the opening of trade while others will gain.

There also tends to be a marked asymmetry in the perception of costs and benefits, which has inevitable political consequences. While the costs are very visible, and very alarming, not only because of their concentration but also because of their more tangible nature (the closure of factories, redundancies and so on), the gains tend to be less visible in part because of being intangible — or at least more difficult to measure (greater variety of choice for consumers, for example) — less striking and more diffuse.

Despite the typically low costs of adjustment, the accompanying measures taken when trade is opened up are, therefore, of critical importance from both an economic and political perspective. This importance is all the greater since well-targeted accompanying policies can limit the adjustment costs by anticipating them so far as possible and easing the adjustment process that needs to take place. An early identification of the vulnerable sectors and workers involved should, therefore, enable costs to be minimised. At the same time, when the problems arise, the provision of assistance to the individuals concerned to help them make the necessary adaptation can accelerate the change and minimise the scale of adjustment costs.

It is in the interest of the EU to help ease any adjustment process which is necessary and to contribute towards covering the costs of the policies which it has implemented. This it did over many years under the European Coal and Steel Community. The development of the same kind of policy for facilitating change will be all the more important in the years to come when many trade agreements will either come to an end or will need to be renewed (the Multi-Fibre Agreement, the EU-Chile agreement) and new agreements will need to be negotiated (DDA, EU-Mercosur), the overall consequence being almost certainly a substantial increase in imports of sensitive goods.

Through the EES, employment policies in Member States are coordinated on the basis of common objectives and priorities. The Strategy calls for the involvement of all relevant parties in the public and private sector, including the social partners, according to the institutional setting in the country concerned. The EES Guidelines specify that the strategy should be implemented effectively at regional and local level as well as at national level, and the Commission has called for greater involvement of relevant actors.

In 2002 and 2003, the employment situation in each of the accession countries was reviewed in some detail in order to define appropriate employment policies in preparation for the implementation of the EES on accession and develop plans for expenditure under the ESF during the 2004 to 2006 period.

The revision of the EES in 2003 resulted in the simplification of the Guidelines which now comprise three overriding objectives:

- the achievement of the employment rate targets set at Lisbon;
- quality and productivity at work, as evidenced by more and better jobs;
- an inclusive labour market, in which unemployment is reduced and social and regional disparities in access to the labour market narrowed.

In addition, there are 10 specific guidelines for structural reform. Success in implementing the EES will depend on the increased adaptability of workers and enterprises, more people being attracted into employment, more and better targeted investment in human capital and better governance.

The new EES is closely connected with policies for economic and social cohesion, the three overriding aims as well as the specific guidelines having the common aim of reducing social inequalities and regional employment disparities.

## Social inclusion and gender equality

The Treaty of Amsterdam extended the mandate of the EU to combat social exclusion. The Lisbon Summit, therefore, set the aim of taking a decisive step towards eliminating poverty and social exclusion in the EU by 2010. This goal was further elaborated at the Nice Summit and since then a common strategy for social inclusion has been implemented, with the same method of open coordination as for employment policy being adopted, except that Member State participation is voluntary rather than mandatory. In practice, all Member States have become involved in the process and the first national action plans against social exclusion were submitted in June 2001, giving policies in this area greater visibility.

The plans enabled 8 major challenges for future policy to be identified: to develop a labour market conducive to inclusion and to give everyone the opportunity and right to employment; to ensure that everybody has an adequate level of income to give them a decent standard of living; to tackle educational disadvantages; to preserve the family and protect the rights of children; to ensure everyone has decent housing; to guarantee access to quality services; to improve delivery of services and to regenerate areas suffering from multiple deprivation.

A second generation of national action plans produced at the end of July 2003 should give new impetus to the process. On the basis of Member States proposals, 8 annual evaluation exercises will be undertaken of particular policy themes, involving 3 to 6 Member States, independent experts, social partner representatives and regional and local authorities as well as people who are actually experiencing poverty or social exclusion.

In parallel, cooperation is underway with the accession countries in preparation for their participation in the strategy once they join the Union, and together with the Commission, they have produced memoranda on social inclusion, identifying the main

problems and challenges and putting forward priority policy measures.

The list of indicators adopted at the end of 2001 should enable the situation in each country to be better measured. It comprises 7 structural indicators that the Commission uses as a basis for its annual synthesis report on the economic and social situation in the Union and needs to be extended for the next generation of plans to include both regional and non-financial indicators.

Other activities undertaken as part of the Community Programme on Social Inclusion, funded by a budget of EUR 75 million for the period 2002 to 2006, include the exchange of experience between countries (64 projects supported in the first phase and almost 30 in the second) and studies on specific issues, all of which should strengthen cooperation, increase common understanding and stimulate new approaches.

A new strategy to tackle social exclusion is, therefore, underway, with all Member States being increasingly involved, even if on a voluntary basis, which adds a new dimension to convergence and which reinforces the European social model as well as helping to achieve a better balance between the social and economic policies of the EU.

Equal treatment of men and women is a fundamental principle in the EU. Since 1996, a mainstreaming approach has been followed and all Community policies have taken account of the gender impact in their planning and implementation.

### Environmental protection for sustainable growth

The main new environmental initiative of the last two years was the adoption by the European Parliament and the Council<sup>15</sup> of the 6th Environmental Action Programme: Our Future — Our Choice (6th EAP). This places the environment in a broad perspective, taking account of economic and social conditions and emphasises the Lisbon and Gothenburg objectives.

The Programme has four broad elements: effective implementation and enforcement of environmental legislation (the *acquis*); integration of environmental concerns into other policies, including on infrastructure; use of a combination of means to achieve ends in the most efficient and effective way; and wide stakeholder involvement in the development and implementation of policies.

The Programme singles out four areas for action: climate change; nature and biodiversity; the environment and health; natural resources and waste. It also introduces a new concept of 'thematic strategies' as a way of tackling particular complex environmental issues<sup>16</sup> and of determining the priorities for Community intervention, including measures financed by cohesion policy. It proposes, in addition, the gradual removal of subsidies with negative effects on the environment, which are incompatible with sustainable development.

Because less prosperous countries tend to have a smaller amount of environmental infrastructure initially, the scale of expenditure required to meet the Directives tends correspondingly to be both larger and to account for a larger share of GDP (given that this is relatively small). The Structural Funds, therefore, have a clear potential role to play in helping these countries comply with EU environmental policy.

Despite the high direct costs involved, the policy is designed to reduce both financial and social costs over the long-term by reducing health hazards and the need for measures to clean up pollution. The World Health Organisation, for example, has recently estimated that 100,000 premature deaths in Europe can be attributed to particulate matter<sup>17</sup>. Emissions of airborne particulate matter in the accession countries are expected to fall by between 1.8 and 3.3 million tonnes by 2010 as a result of compliance with EU Directives, so reducing premature deaths by around 15,000.

Compliance with EU legislation also means cleaner drinking water in the accession countries, with

particular gains in Bulgaria and Estonia (as well as Turkey) where 20–30% of households are not connected to main water supplies, while implementation of the Urban Waste Water Treatment Directive is estimated to reduce nutrient pollution by between 33% (in the Czech Republic) and 67% (in Poland).

Despite a projected 2% growth in waste generation, the Landfill Directive is estimated to produce a reduction of waste disposed of in this way from around 59 million tonnes in 1998 to between 20 and 35 million tonnes in 2020, while the Directive on packaging waste is estimated to increase the amount of waste recycled by 3.7 million tonnes by the same year.

Investment in environmental protection may also create employment. Eco-industries taken together directly account for around 1% of total employment in the EU15, while jobs are expanding in waste management (recovery and recycling), which total around 200,000 to 400,000. The same trends are apparent in the accession countries.

The majority of the investment associated with the Directives has already taken place in the EU15 (some 63% or so before 2001), though the proportion varies across environmental domains. In the case of waste disposal, investment is virtually complete, while for water supply, some 72% had been undertaken before 2001. The only area in which most of investment is still to occur relates to controls on air pollution, though in terms of the scale of expenditure, waste water treatment is likely to be more important. Nevertheless, large investment for control of airborne emissions is likely to be required as result of the Integrated Pollution Prevention and Control (IPPC) Directive and the climate change agreements under the Kyoto Protocol.

Over the past 15 years, the environmental provisions of cohesion policy have been strengthened and current Structural Fund rules make protection of the environment a horizontal principle and conformity with the environmental *acquis* a top priority<sup>18</sup>. It is, therefore, important that the objectives of the Environmental

Action Programme and the requirements of environmental legislation are taken into account in structural interventions across the EU.

### Internal market and services of general interest



The development of trans-European networks in transport, telecommunications and energy are intended both to help make the internal market a reality and to strengthen economic and social cohesion. EU policy in this regard is aimed at ensuring the interconnection, and interoperability, of national networks and access to these in the context of open and competitive markets. It takes particular account of the need to link island, land-locked and peripheral regions with central areas of the Union. These policies have a direct effect on the competitiveness of the EU economy as a whole and influence the location of economic activity. Because of this territorial effect, cohesion needs to be one of the major objectives of network policies.

This is also important in the light of the opening of these sectors to competition. While this has resulted in a reduction in costs and increase in the efficiency of the services provided, it is evident that freeing market forces can lead to particular social groups or parts of the EU being excluded from having access to essential services. Liberalisation is, therefore, being accompanied by a growing requirement to establish public service obligations in order to preserve and strengthen economic and social cohesion. Network policies are, therefore, prominent among those which bear on the issue of services of general economic interest, the importance of which was emphasised at the Barcelona and Laeken Councils.

In a changing world, services of general interest are a key element of the European model of society. This is enshrined in Article 16 of the EU Treaty and Article 36 of the Charter of Fundamental Rights. This places the individual citizen at the heart of the Union's priorities. The Commission has, therefore, set out its reflections, in a Green Paper in May 2003, on the possible ways of



### 3.1 Trans-European Transport Network projects of European interest

- |   |                      |   |                                |
|---|----------------------|---|--------------------------------|
|  | "Essen" Rail project |  | Inland waterway project (2001) |
|  | Rail project (2001)  |  | Inland waterway project (2003) |
|  | Rail project (2003)  |  | Motorway of the sea (2003)     |
|  | "Essen" Road project |  | Airport projects               |
|  | Road project (2001)  |  | Port projects                  |
|  | Road project (2003)  |   |                                |

Source: DG TREN

0 250 500 km

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implementing these services effectively, largely by involving non-Government organisations and civil society generally.

The very nature of services of general interest involves them in public service obligations introduced at the same time as liberalisation of the sectors concerned. Their purpose, depending on the type of service concerned, is to ensure that the service is universally available, that the continuity of the services offered and their quality is maintained and that prices are affordable, taking account in all aspects of the need to protect consumer interests and to safeguard supply. The Community is providing financial support to Member States to ensure that they are respected and is, for example, using the Structural Funds to ensure complete territorial coverage of mobile telephone and broadband networks.

### Transport policy

Policy on trans-European networks for transport (TEN-T) has, since the Maastricht Treaty, been directed towards integrating the European 'space' and alleviating the isolation of peripheral areas, so preventing a fragmented development of national networks. The construction of cross-border routes and the improvement of existing ones, therefore, enables the 'frontier effect' which hinders growth of trade to be progressively reduced. At the same time, the TEN-T guidelines are aimed at promoting a shift away from environmentally-harmful modes of transport.

The TEN-T policy has improved accessibility perceptibly since 1991 and even greater effects are expected over the coming years, especially in the accession countries. This investment, however, needs to be accompanied by substantial expenditure to improve the secondary network and its connections with the TEN-T. This is particularly so as regards rural areas in the east of these countries, in which reaching a motorway can in places take up to three hours.

Following the 2001 White Paper on Transport Policy, revisions were made to the 1996 TEN-T guidelines at

the end of 2001 and new priority projects were announced. This list of projects of European interest was extended in October 2003 to cover the accession countries (Map 3.1).

In view of the considerable finance needed for these networks, the cost of which is estimated at almost EUR 600 billion up to 2020, the Commission also adopted a Communication in April 2003 on possible new ways of funding the development of TENs in Europe in order to secure a better coordination of public and private finance. In parallel, the Commission adopted a proposal in July to revise the Eurovignette Directive on the pricing of infrastructure and to link charges to users more closely to costs. The proposal, however, limits the level of tolls which can be charged, the aim being to avoid excessive charges reducing the beneficial effects on accessibility and economic development. In this regard, impact analysis of the revision of the TEN-T guidelines shows a substantial gain (20%) in accessibility for the peripheral regions and the accession countries and a considerable increase (170%) in international traffic for the latter countries<sup>19</sup>.

In practice, the effects of liberalisation are most measurable as regards air transport. The number of cities with international connections has increased by 70% since 1992, while economy fares fell on average by 15% between 1997 and 2000 (though business fares rose)<sup>20</sup>. In addition, public service obligations have been imposed in respect of peripheral areas and those with a low volume of traffic, so helping to support their economic development. These obligations are often combined with the provision of subsidies.

### Energy policy

EU Energy policy has three main aims: to achieve greater security of supply, to create an internal energy market and to protect the environment better. The 2002 Green Paper, *Towards a European Strategy for the Security of Energy Supply*, identifies the management of demand as the key priority for the future, emphasising improvements in energy efficiency and

the development of internal energy sources, especially renewable ones.

Following the Electricity Directive in 1996 and the Gas Directive in 1998, energy markets have been liberalised, so introducing more competition and giving rise to restructuring of supply, benefiting large energy consumers in particular, but carrying the risk of disadvantaging the more peripheral and less populated regions. This risk, however, has been mitigated through the imposition of public service obligations. Further regulatory measures are in prospect to assist these regions, including an obligation to maintain energy supply, the regulation of charges to final consumers and the imposition of minimum quality standards.

In conformity with the Treaty, the policy on trans-European Networks for energy (TEN-E) has the same common aims as for transport and other networks, to ensure that national grids across the EU are connected, that all regions have access to these and that the grids are managed at the European rather than the national level<sup>21</sup>. The regional dimension and considerations of economic and social cohesion were taken into account in the first Community guidelines as regards the TEN-E<sup>22</sup>. Significant progress has been made in construction of these networks, with support of the Structural Funds. Five gas pipelines entered into service before the end of 2001 and several major electricity distribution projects were completed, with substantial investment in peripheral regions.

The latest TEN-E guidelines, adopted in June 2003, put the emphasis on the development of electricity distribution networks and the introduction of natural gas in land-locked areas and peripheral and ultra-peripheral regions.

The promotion of sustainable development is one of the main priorities for energy policy, in line with the commitments under the Kyoto Convention. The targets have been set of increasing the share of renewables in total energy consumption to 12% by

2010 and their share of electricity production to 22%, with a target for the use of biocarburants in transport of 5.75%. The TEN-E need, therefore, to be accompanied by support for investment at local level in energy generation from wind, solar and geothermal sources<sup>23</sup>.

The development of new energy sources, such as natural gas and electricity produced from renewable sources, would enable peripheral regions both to diversify their energy sources — and so reduce their vulnerability to disruption of external sources of supply — and to improve the quality of life.

### Telecommunication policy

The availability of efficient telecommunication networks at an affordable price is an important factor both for competitiveness and for improving the quality of life of people. Technological improvements and liberalisation of markets have led to a marked reduction in call rates, especially for long-distance and international calls, which has benefited the more remote regions, in particular, even if it has been accompanied by an increase in fixed charges.

The Universal Service Directive of March 2002 defined the corresponding obligations which will need to be respected in the future throughout the region. After years of liberalisation, critical gaps are evident in the geographical coverage of services, even those involving a mature technology like mobile telephones.

The TEN-Telecom programme, which became the eTEN in 2002, is aimed at strengthening economic and social cohesion, linking islands and the more remote regions with the central parts of the EU<sup>24</sup>. The main problem which the programme is intended to tackle is not so much 'missing links' in the network as the lack of applications and services for businesses, government and individuals. The activities funded, therefore, have the objective of assisting the development of an Information Society, open to all and facilitating the social inclusion of, for example, the elderly and people with disabilities.

In 2002, as noted above, the eEurope 2005 action plan was launched, which included a strategy of making broadband networks available to everyone in the EU at an affordable price. By 2005, the aim is to extend availability to half the Internet connections in Europe. It is evident, however, that in the absence of a sufficient level of profitability, the investment required to cover all parts of the EU completely will not be secured by the market alone but will need public funding. To this end, the Commission established new guidelines in 2003 for the development of broadband networks and for the coverage of areas not yet served by mobile telephony with the support of the Structural Funds.

## Reforming common policies: CAP and fisheries policy

### Common agricultural policy

In 2003, the CAP absorbed around 46½% of the EU Budget, overall expenditure amounting to just over EUR 47 billion, 90% going to the first pillar for market support and direct aid and 10% to the second pillar for rural development.

EU expenditure on agriculture has increasingly declined in relation to GDP, from 0.57% of EU12 GDP in 1990–1992 to 0.47% of EU15 GDP in

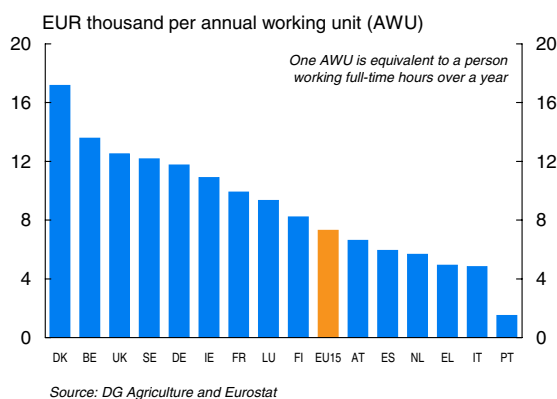
2000–2002. Agenda 2000 deepened and extended the reform of the CAP begun in 1992, reducing official prices and direct aids. It also contributed to consolidating rural development along with the second pillar of the CAP and to creating a coherent framework for adapting the CAP to the features of agriculture in the accession countries. In addition, it reformulated the objectives of EU agriculture policy:

- to improve agricultural competitiveness in the EU without excessive recourse to subsidies;
- to preserve the level of farmers' income and its stability;
- to respect the environment and the diversity of the countryside;
- to improve the quality of agriculture produce;
- to simplify and decentralise the CAP.

Because of the reduction of official market prices and the increase in direct aids to producers in place of those linked to price support, direct aids (excluding direct payments for rural development) accounted for 70% of CAP expenditure in 2000–2002, 7 percentage points more than in the 1995–1997 period. By contrast, traditional CAP measures, such as aids for exporting or stock-building, represented only 14.5% of expenditure in 2000–2002 as against 22% in 1995–1997.

In 2001, 4 Member States received 64% of payments from the EAGGF Guarantee, namely, France (22%), Spain (15%), Germany (14%) and Italy (13%). Since 1990, payments to Belgium, Denmark, Greece, the Netherlands, Italy, Ireland and Germany have been reduced, while those to the UK, Spain, Portugal and France have increased. If payments are related to the number of hectares, Belgium, the Netherlands and Greece are the main recipients, though the first two countries are the only ones recording a reduction in these terms

### 3.1 Expenditure from the Guarantee section of the EAGGF, 2002



since 1995. In relation to employment, payments are highest in Denmark, the UK, Sweden and Belgium (Graph 3.1).

In Sweden, Finland and Ireland, the share of EAGGF transfers in gross agricultural value-added was over 50% in 2000–2001 and it was below 20% only in Italy, Luxembourg and the Netherlands. The share generally increased between 1995–1996 and 2000–2001, though it declined in Belgium. The increase was especially marked in the UK, Austria and Spain. It also rose in Germany, Greece and France in relation to both employment and hectares but it fell in relation to agricultural value-added.

Payments to Portugal and Spain also increased, though the former remains the one Cohesion country where the level of support is less than the EU average, whether payments are related to employment, hectares or agricultural value-added.

In 2001, the largest effect of direct CAP aids was on the income of medium-sized to large holdings (representing 40% of income) rather than on the income of large (28%) or small holdings (24%). At the same time, some 5% of recipients in the largest holdings account for half of all payments, the main beneficiaries being specialised cereal producers and cattle breeders.

Outside Objective 1 regions, measures for rural development are financed by the EAGGF-Guarantee section. In Objective 1 regions, this section finances the three accompanying measures introduced as part of the 1992 CAP reform — agri-environment, early retirement of farmers and afforestation of agricultural land — as well as support for mountainous and disadvantaged areas. All the measures are directed at specific priorities for rural development, namely: the development of a competitive agricultural sector respecting the environment, diversification of agricultural activities and the promotion of multi-functional rural areas, support for the competitiveness of rural areas as a whole and preserving the European rural heritage.

Of the funding for rural development from the EAGGF (totalling around EUR 49.5 billion over the period 2000–2006, excluding LEADER+ which accounts for another EUR 2 billion), EUR 32 billion comes from the Guarantee section. Of this, EUR 10.4 billion is directed towards Objective 1 regions. Including funding from the Guidance section (EUR 17.5 billion in total), the overall amount for rural development in Objective 1 regions totals EUR 27.9 billion, 56% of the total allocated to this across the EU. This demonstrates the strong link between rural development policy and the priority objectives of economic and social cohesion.

Analysis of the measures implemented, however, shows that of the total amount of EUR 49.5 billion, only around 10% is being spent on measures to strengthen the rural economy which are not linked to agricultural activities (such as diversification towards tourism and craft trades, services and the development of villages). A large part of the funds for rural development (EUR 23.4 billion, 47% of the total of the two EAGGF sections or 73% of the Guarantee section) is allocated to the accompanying measures noted above.

As regards the future of the CAP, the Brussels Council of October 2002 established the nominal amount of spending on market management and direct payments for each year 2007 to 2013, based on an annual growth of 1%. This implies a reduction in expenditure in real terms under the first pillar. Expenditure on the second pillar of the CAP has not yet been determined, although it has been re-affirmed that, in line with Agenda 2000 objectives, the CAP in future should safeguard the interests of producers in the disadvantaged regions of the present EU, in particular, and maintain a multi-functional agricultural sector in all parts of the EU.

In June 2003, the Agriculture Council of Ministers in Luxembourg, following Commission recommendations, agreed a reform of the CAP for the periods 2004 to 2006 and 2007 to 2013. The four main elements are:

- the decoupling of direct aids from production through the introduction of a single payment per holding, which will be related to respect for the environment, food safety and animal welfare. The general rule will be that Member States should decouple their payments for cereals and animals from 2005, though it will be possible to continue paying certain subsidies under the old system until 2006;
- a progressive reduction of direct payments to larger holdings (termed 'modulation');
- a series of sectoral measures for agricultural markets leading to lower prices;
- the strengthening of the second pillar through the introduction of new measures for promoting the environment, quality and animal welfare as well as helping farmers to comply with Community norms, financed in part by the savings from 'modulation', i.e. by the transfer of some of the amounts obtained by the reduction in direct payments to large holdings.

In future, the potential of the CAP to have an effect on cohesion will depend more than in the past on the objectives defined by Member States, and, where relevant, by regions, which will have wider scope for determining the form of direct payments. At the same time, farmers will have more flexibility over their decisions on production, which should be more market oriented and ensure a more stable income as well as increasing the efficacy of income transfers.

Rural development has a more prominent place in the new CAP. There will be an effective transfer of funding from the first pillar to the second through a reduction in direct payments of 3% in 2005, 4% in 2006 and 5% from 2007 up to 2013 (a process termed 'modulation' as noted above). A transfer of 5% will mean an additional EUR 1.2 billion a year to finance rural development and environmental protection, quality improvements and animal welfare, as well as assisting farmers to apply the new Community norms. The

distribution of the additional amounts under the second pillar, as a result of this process of 'modulation', will be made on the basis of cohesion criteria at Member State level (agricultural land area, agricultural employment and GDP per head). In addition, the rate of Community co-financing of agri-environmental measures has been increased to 85% in Objective 1 regions and to 60% elsewhere.

Enlargement will lead to a marked widening of disparities in agriculture and an increase in its dual nature because of the large number of small holdings in the accession countries with larger employment than in the EU15. The number employed in agriculture in the EU will increase from around 6½ million to 10½ million, raising the share of total employment from 4% to 5½%, which would become 7½% if Bulgaria and Romania were also to join. Value-added in agriculture will be increased by under 8%.

On the basis of present figures, 9 of the 10 new Member States will have Objective 1 status over all or virtually all of their regions, and it is estimated that around two-thirds of funding from the two sections of the EAGGF for rural development will go to such regions in the future EU25.

## Fisheries

The main aim of the Common Fisheries Policy (CFP) is to strengthen the competitiveness of the sector. It has four elements: the conservation of fish stocks, the restructuring of fishing and fish farming, the organisation of the market for fish and associated products and agreements on fishing with third countries.

The 2002 reform was essentially directed at the first two elements, introducing a system of longer-term planning aimed at sustaining fish stocks and replenishing the stocks which have been depleted to dangerous levels. Emergency measures were, therefore, introduced to protect stocks as well as marine eco-systems.

As regards the restructuring element of the CFP, a new system of limiting the capacity of the fishing

fleet has been introduced, giving more responsibility to Member States to balance capacity in relation to fish stocks. In addition, a reorientation of Community structural measures entails the progressive reduction of state aid to private enterprises wishing to modernise their fleets, while maintaining aid for improving safety and working conditions. This will be supported by the creation of a new emergency Fund aimed at encouraging the decommissioning of fishing boats.

A Commission action plan has recently been launched to tackle the social, economic and regional consequences of restructuring. It is difficult at this stage to identify the regions and areas which will be most affected by the fishing quotas which have been set.

Plans for rebuilding the stocks of the most threatened species will be established in the near future. These will include rules for the calculation of the annual catch rate for these and measures for reducing fishing as well as for monitoring and control.

In the short-term, reductions in the catch will inevitably lead to a reduction in income from fishing, the extent of which will vary across the EU. Activities linked to fishing (ship-building, suppliers, processing and marketing of fish and fish products) will also be affected to varying degrees in different parts of the EU, depending on the extent of reliance on the industry.

In the longer-term, the rebuilding of stocks, increases in the catch and a lessening of competition between fishing boats operating in a given area should serve to increase profitability which could more than compensate for reduced activity while stocks are recovering. Member States should, therefore, be prepared to respond to the social and economic effects of the necessary restructuring of the sector:

- by subsidising the decommissioning of fishing boats in cases where fish stocks are too much under threat to enable a reasonable level of income to be generated over the long-term and supporting their conversion to other uses;
- by compensating for the loss of income during temporary periods of suspension of fishing, within the limits and according to the conditions specified in the CFP.

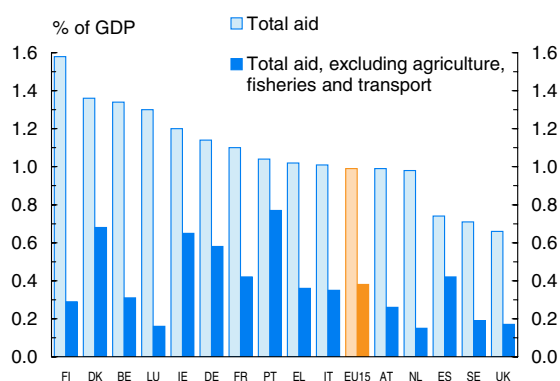
Ten of the accession countries have maritime coasts, but only Poland and the three Baltic States have a significant fisheries sector. Nevertheless, the total catch of these three countries amounts to less than 7% of the total EU catch (though 17% if Turkey is included), even taking account of fish farming. Since the transition began in these countries, they have experienced a substantial fall in their fish catch as a result of the over-exploitation of stocks and the loss of markets in the former Soviet Union.

The effect of enlargement on the CFP will, therefore, be limited. On the other hand, significant structural measures will be necessary to enable restructuring and modernisation of the sector to take place.

### Complementarity between state aid and cohesion policy

As has been recognised by successive European Councils, strict control of state aid is necessary to achieve the Lisbon objectives and Member States have been called on to reduce the overall amount of

#### 3.2 State aid in Member States, 2001



Source: DG COMP, State Aid Scoreboard

**Table 3.1 State aid per head in Member States, 1997–2001**

	Total aid per head (PPS)			Total aid per head excluding agriculture, fisheries and transport (PPS)		
	1997–1999	1999–2001	% change	1997–1999	1999–2001	% change
<b>EU15</b>	251.0	226.0	-10.0	123.0	97.0	-21.1
<b>BE</b>	322.0	325.0	0.9	83.0	80.0	-3.6
<b>DK</b>	274.0	360.0	31.4	144.0	186.0	29.2
<b>DE</b>	313.0	288.0	-8.0	179.0	157.0	-12.3
<b>EL</b>	185.0	155.0	-16.2	73.0	61.0	-16.4
<b>ES</b>	178.0	154.0	-13.5	112.0	90.0	-19.6
<b>FR</b>	286.0	263.0	-8.0	145.0	109.0	-24.8
<b>IE</b>	320.0	329.0	2.8	226.0	188.0	-16.8
<b>IT</b>	284.0	231.0	-18.7	132.0	84.0	-36.4
<b>LU</b>	450.0	578.0	28.4	108.0	82.0	-24.1
<b>NL</b>	207.0	246.0	18.8	43.0	44.0	2.3
<b>AT</b>	265.0	251.0	-5.3	65.0	61.0	-6.2
<b>PT</b>	252.0	177.0	-29.8	190.0	133.0	-30.0
<b>FI</b>	439.0	396.0	-9.8	89.0	78.0	-12.4
<b>SE</b>	169.0	169.0	0.0	48.0	48.0	0.0
<b>UK</b>	112.0	115.0	2.7	53.0	42.0	-20.8

*IE: Data cover the period 1998–1999 instead of 1997–1999.*

*Source: DG Competition, State Aid Scoreboard*

aid and to reorient it towards horizontal areas of common interest, including cohesion objectives.

Control of state aid can make a positive contribution to cohesion. By allowing aid only to regions and sectors where it is most needed and has the least effect in distorting competition, control serves to concentrate aid on regions which are in most need of catching up and so helps to reduce regional disparities across the Union. At the same time, the discipline exercised by control encourages Member States to put money into schemes which bring tangible results to both them and the EU as a whole and, accordingly, tends to improve the effectiveness of public intervention.

Overall expenditure on state aid across the EU fell from EUR 102 billion in 1997 to EUR 86 billion in 2001. This fall was due to a significant reduction in aid to financial services, the coal industry, agriculture and manufacturing as well as in aid to assisted regions (Graph 3.2).

The level of state aid in relation to GDP declined in 12 of the 15 EU Member States between 1997–99 and 1999–2001 (Table 3.1), in line with the commitment made at the Stockholm Council to reduce aid by 2003 at the latest. Within this, moreover, the share of aid going to support horizontal objectives increased by 10 percentage points between the two periods.

The State Aid Scoreboard, nevertheless, shows that significant disparities remain between Member States in aid to manufacturing and that the gap between the level in the most prosperous Member States and that in the four Cohesion countries hardly changed over the period. The Cohesion countries (11.5% of EU GDP in 2001) continued to account for 10% of total expenditure on state aid to the manufacturing sector in 1999–2001, whilst the share of the four big economies (Germany, France, Italy and the UK — 72% of EU GDP in 2001) fell from 79% in 1997–1999 to 76% in 1999–2001.

### Aid to lagging regions

In 2001, around EUR 8 billion of state aid, some 9% of the total<sup>25</sup>, went to regions in the EU classified as type 'a'<sup>26</sup>, which are almost precisely the same as Objective 1 regions<sup>27</sup>. This was much lower than the a peak of EUR 27 billion in 1993, when Germany (EUR 17 billion) and Italy (EUR 7 billion) accounted for nearly 90% of the total. In 2001, these two countries were still responsible for more than half of regional aid, though in absolute terms, the amount spent was much smaller than 8 years previously (EUR 2.5 billion in Germany and EUR 2,1 billion in Italy). This biggest reduction was in aid to the new German Länder, which received substantial amounts immediately following unification. Between 2000 and 2001, however, the overall value of type 'a' aid remained much the same.

### Aid to other problem regions

In 2001, around EUR 800 million of state aid (excluding agriculture, fisheries and transport) went to wholly assisted regions of type 'c'<sup>28</sup>, these corresponding closely to those eligible for Objective 2 support from the Structural Funds. In addition, nearly EUR 4.5 billion went to NUTS 2 regions of type 'c' which were partially assisted. Unfortunately, lack of data below the NUTS 2 level means that it is not possible to determine the proportion of these aids which went to assisted parts of regions<sup>29</sup> and, therefore, to compare the extent of aid between Member States.

Although most Member States have reduced State aid and reoriented it towards horizontal objectives, in line with EU strategy, reorientation towards cohesion objectives is less evident since regional aid has declined.

### State aid and the Lisbon-Gothenburg objectives

Policies on cohesion and on state aid are complementary; both are aimed at contributing to the

Lisbon and Gothenburg agenda for pursuing growth, competitiveness and sustainable development throughout the EU. In the less-developed regions, the challenge of achieving the Lisbon-Gothenburg objectives is by definition significantly greater than elsewhere. Hence the need for increased aid (for investment in public goods and institutional capacity building), higher aid intensities (to encourage inward investment) and substantial support from the EU Budget (the 'convergence/solidarity' element of cohesion policy). The common task of both policies is to establish a framework in which Member States and regions, with appropriate levels of support from the EU, can develop and implement effective strategies for growth and competitiveness, without either having an adverse effect on economic development, at regional, national or EU level, or giving rise to a wasteful misallocation of scarce budgetary resources.

The Commission has recently begun an in-depth examination of the existing regional aid guidelines, which need to be revised in order to allow Member States to plan ahead for the period after 2006 when the present aid maps expire. This revision will take account of the development of cohesion policy at EU level, as well as of national and regional policies aimed at achieving the Lisbon and Gothenburg objectives. It should reflect wider objectives for State aid policy which have their origin in the Lisbon agenda. The principal aim, confirmed at the Stockholm and Barcelona Councils, will be to have 'less and better targeted State aid', implying perhaps a more thematic approach outside the less developed regions as well as tighter controls on the most distorting and wasteful forms of aid.

In 2002, the Commission also adopted a new block exemption regulation for state aid for employment<sup>30</sup>, which, by eliminating the need for prior notification of aid for job creation or to encourage the recruitment of disadvantaged workers, should result in a simplification of Community co-financing procedures for certain aid schemes. Moreover, the

regulation explicitly takes account of the specific features of the weakest regions by providing for an increase in aid intensity for the creation of employment in these.

As regards state aid measures which are not explicitly covered by the existing frameworks, guidelines and regulations, the Commission will continue to consider the possibility of introducing a mechanism to determine whether these measures distort competition. Such a new approach could allow Member States the flexibility to intervene in all regions to support employment, competitiveness and cohesion in pursuit of the Lisbon objectives.

### Justice and home affairs: improving conditions for development

High levels of criminality, the existence of organised crime and corruption all tend to inhibit the economic development of the areas affected, in particular by deterring new investment, especially from outside. Perceptions that law enforcement lacks the capability of properly addressing these problems adds to the deterrent. A secure environment in which the rule of law is predominantly respected, therefore, represents an essential precondition for sustainable economic development.

Three aspects of EU policy on justice and home affairs are particularly relevant for cohesion policy:

- a strengthening of judicial and administrative capacity, cross-border cooperation and the fight against organised crime and corruption is important to support the maintenance of a stable economic and political environment, which, in turn, is important for development. This will be all the more the case following enlargement;
- the involvement of local and regional authorities in the development and implementation of immigration and asylum policies. These authorities, together with the social partners, NGOs and other

local actors, play an increasingly important role in integrating third country nationals into society and economic life;

- the management of external borders, so complementing cross-border measures supported by the Structural Funds.

While there is a need for better understanding of the geography of crime and the vulnerability of particular regions to organised crime, it is, nevertheless, possible to highlight certain regions and areas which have a high level of criminality which can affect their development.

Although there are marked differences between the countries, organised crime rates are particularly high in some of the accession countries and tend to be increasing<sup>31</sup>. The form which criminal networks take in these countries directly affects not only their economic development and their potential but also security in the Union. For example, the practice of exploiting legal businesses (hotels and other parts of the tourist industry, health care facilities, real estate and banking) as a means of penetrating a region has become part of the standard *modus operandi* of organised crime groups in these countries. In addition, criminal organisations tend to take advantage of weaknesses in legal and administrative systems, and corruption and use of influence is relatively extensive in some of the accession countries. Public procurement and tendering procedures are particularly vulnerable and the combination of major asset transfers and weak institutions is especially susceptible to corruption. Considerable efforts were made by the accession countries, with PHARE support, to develop anti-corruption strategies and to strengthen law enforcement bodies. Nevertheless, perception of corruption is higher than in present EU Member States, in some cases markedly so, and much remains to be done in most of the countries.

Urban areas, especially those where sections of the population with most problems are concentrated,

living in difficult housing conditions with a lack of amenities, are another example. The URBAN Audit undertaken by the Commission has drawn attention to the link between urbanisation and crime. Nearly all cities where comparisons are possible have higher crime rates than the rest of the country. Rates are highest in cities in the north of the EU and in capitals elsewhere. According to the latest figures, moreover, rates are increasing in most cities. Significantly, EU structural policy, particularly in relation to urban development, includes the crime rate in the criteria for allocating funds and also includes crime along with police and judicial cooperation among its guidelines for action<sup>32</sup>.

A further example concerns regions in the south of Italy in which two specific ERDF programmes have been undertaken in the 1994–1999 and 2000–2006 periods, aimed at combating crime, creating a safer environment and increasing confidence in the law in order to break the vicious circle of lagging development, high crime rates and insecurity.

Combating crime in the EU effectively, organised or otherwise, implies the need to develop the means of providing EU support for the efforts of regions and local communities to tackle deep-rooted traditions of crime which slow down economic development. This is particularly true in the accession countries, which lack the financial resources needed to fund effective measures for tackling organised crime.

As noted above (in Part 1), a coordinated approach is needed in order to integrate immigrants into society and the economy, which includes ensuring access to education and training, health and social services, decent housing and so on.

### The perception of Community policies at regional level

At the request of the Commission, case studies were carried out in 28 regions across the EU in order to examine how Community policies and their effects were

perceived by those on the ground responsible for implementing them. The regions selected covered nearly all Member States and included Objective 1 regions as well as other regions, either with areas eligible for Objective 2 or not eligible for Structural Fund assistance at all<sup>33</sup>. The Community policies emphasised in the study were the CAP, competition policy (state aid) and policy on R&D. The analysis is based on the data for each region and on interviews with regional officials. It should be emphasised that the views presented below are those of the officials interviewed and do not necessarily represent the opinion of the Commission. While it is not possible to generalise the results of the study, it does enable useful conclusions to be drawn about the perception of the contribution of Community policies to economic and social cohesion.

In most cases, 'Community policy' is taken to mean 'Community funding' and in the majority of cases, attention is focused on the amounts received from the CAP, the Structural Funds and state aids. Often, when other Community policies, such as on the environment, were referred to, the focus was more on the contribution of the CAP or Structural Funds rather than on the policies themselves.

The great majority of the case studies considered that Community cohesion policy, in the form especially of projects financed by the Structural Funds, is the most visible and has the greatest impact in the region (see Box in Part 4). This should be underlined since cohesion policy was not one of the priority areas identified for the case studies in the terms of reference.

The positive effect of the single market and economic and monetary union was implicitly recognised in the majority of cases. In a number of the case studies in Objective 1 regions, there was a more modest perception of the positive impact of the single market on convergence and cohesion, reflecting a recognition of its effect in increasing the importance of deficiencies in regional competitiveness, such as inadequate communication links or the peripheral nature of the area.

In regions undergoing radical industrial restructuring (West Midlands, Asturias, Magdeburg and Saarland), it was considered that the completion of the internal market had served to accelerate the process of structural adjustment which had begun earlier, giving rise to adverse effects on employment. At the same time, the important role played by the Structural Funds in accompanying this policy was both recognised and appreciated.

In all the regions, there was recognition of the significant impact of the Common Agricultural Policy (CAP), but observations about its consequences varied according to the type of region. In regions where agriculture is most important, the positive effect on the standard of living of farmers and on the restructuring, modernisation and diversification of the sector was recognised. On the other hand, this was less typical for Mediterranean type regions or in regions with forests, due to the perception that the CAP was less important in supporting the cultivation in which they specialise.

In this regard, several commentators in regions outside Objective 1 (in West Midlands, Ireland and Nord-Pas-de-Calais, for example) pointed out that money from the CAP went mainly to the most profitable enterprises and the most developed areas in the region and because of this may widen disparities both within the region itself and between regions.

The second pillar of the CAP, rural development, is considered to have a more limited effect, because of its smaller size in terms of funding, although its contribution to the diversification of rural areas was recognised. There were widespread positive remarks about the LEADER Initiative as well as about the partnership at regional level which it encouraged.

In a number of rural areas (Andalucía, Kentriki Makedonia), the case studies emphasised, in particular, the multiplier effects of improving the ability of agricultural producers to get produce to urban

markets, brought about by a conjunction of the EAGGF-Guidance section and the ERDF.

In general, the positive contribution of integrating environmental considerations into regional development policy was acknowledged, as was, in particular, the requirement for stricter norms. In some regions, however, European norms were regarded as being less restrictive than national norms (especially in Austrian, Swedish and Finnish regions), and as introducing procedures which are both ill-suited to regional circumstances and too bureaucratic.

In nearly all cases, the close relationship between environmental and cohesion policy was emphasised as well as the positive synergy between the two. In almost all Objective 1 regions, environmental policy was viewed as the projects financed by the Structural Funds on the environment rather than the Directives or Community regulations. At the same time, some regions called for greater linkages between environmental policy and the CAP (in Nord-Pas-de-Calais, Sardegna and Algarve).

The situation as regards state aid was the subject of comments mainly outside the Cohesion countries. In general, there was a perception that such aid did not always correspond to the severity of structural problems which exist. In a few cases, it was seen as supporting declining sectors rather than efforts to modernise productive capacity in the regions concerned.

In other cases, there was some confusion because of different types of assistance given to SMEs, including different financial mechanisms. Concern was also raised about the potential 'frontier effect' which state aid could have on neighbouring regions if applied with different intensities.

In some regions, the benefits resulting from finance from the R&D Framework Programmes were recognised (especially in regions in the UK and Germany as well as in Kriti). As in the case of environmental

policy, a significant degree of synergy was identified between R&D and cohesion policy. Most of the case studies, particularly in Objective 1 regions emphasised especially the importance of investment in R&D infrastructure and equipment financed by the Structural Funds. In some cases, however, the Structural Funds contributed up to 10 times as much to regional expenditure in this area as the

Framework Programme, which tends to limit the appreciation of the latter at regional level.

Policy on innovation was mentioned in several cases, especially in Objective 2 regions, its contribution to diversification and to the modernisation of the productive base being acknowledged, while regional innovation networks were welcomed<sup>34</sup>.

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- 1 A sound consumer protection policy is also important for the proper functioning of markets.
  - 2 Industrial policy in an enlarged Europe, COM(2002) 714 final.
  - 3 Green Paper 'Entrepreneurship in Europe', COM(2003) 27 final. The European Charter for Small Enterprises was endorsed by the European Council in Santa Maria da Feira, Portugal, on 18-19 June 2000, and by the Candidate countries in Maribor, Slovenia, in April 2002. See the third implementation Report, COM(2003) 21 final.
  - 4 Commission recommendation of 6 May 2003, C(2003)1422.
  - 5 Innovation policy: updating the Union's approach in the context of the Lisbon strategy, COM(2003) 112 final.
  - 6 eEurope 2005 Action Plan, COM(2002) 263 final.
  - 7 Investing in research: an action plan for Europe, COM(2003) 226 final.
  - 8 Towards a European Research Area, COM(2000) 6 final.
  - 9 <http://www.innovating-regions.org>
  - 10 Regions of Knowledge (KnowREG). See also <http://www.cordis.lu/era/regions.htm>
  - 11 Detailed work programme on the follow-up of the objectives of education and training systems in Europe (OJ C 142 of 14.6.2002).
  - 12 Conclusions of the Barcelona European Council held on 15 and 16 March 2002.
  - 13 "Education & Training 2010": The success of the Lisbon Strategy hinges on urgent reforms. (Draft joint interim report on the implementation of the detailed work programme on the follow-up of the objectives of education and training systems in Europe.) COM(2003) 685 final.
  - 14 Council Conclusions of 25 November 2003 on the 'Development of human capital for social cohesion and competitiveness in the knowledge society' (OJ C 295 of 5 December 2003).
  - 15 Decision 1600/2002/EC, OJ L 242 of 10/9/2002.
  - 16 Such as soil protection; protection and conservation of the marine environment; sustainable use of pesticides; air pollution; urban environment; sustainable use and management of resources; waste recycling (Decision 1600/2002/EC)
  - 17 WHO, World Health Report 2002, Geneva, 2002.
  - 18 European Commission, The Structural Funds and their co-ordination with the Cohesion Fund: guidelines for programmes in the period 2000-06, EUROP, Luxembourg 1999 and Further Indicative Guidelines for the Candidate Countries, COM(2003) 110 final.
  - 19 SEC(2003) 106.
  - 20 Economic Reform: Report on the functioning of Community product and capital markets, COM(2002) 743 final ("Cardiff report")
  - 21 The black-out in Italy in September, 2003, for example, which occurred when consumption was low, was due not to any lack of capacity in the system nor to an isolated event but to a weakness in the chain of decision-making and inadequate coordination of the European network.
  - 22 Decision 1254/96/EC.
  - 23 The Multi-annual Programme 'Intelligent Energy for Europe' was adopted by the Council in November 2002, allocating EUR 190 million over four years for promoting the use of renewable energy sources and achieving a reduction in Greenhouse gases, as agreed at Kyoto in 1997.
  - 24 Decision 1336/97/EC.
  - 25 This represents less than a quarter of total aids, excluding agriculture, fisheries and transport for which no division of the amounts spent by region is available.
  - 26 Under Article 87, paragraph 3 of the Treaty, certain areas have a derogation from the principle that state aid is incompatible with the common market. Point 'a' of the paragraph states that aid aimed at encouraging economic development in regions in which the standard of living is unusually low or there is a serious level of under-employment can be considered compatible with the common market.
  - 27 In 2000, the status of the Lisboa e Vale do Tejo region changed from 'a' to 'c'. Since the data available at present do not enable the two periods to be distinguished, all the aid for this region is included as 'a'. For Cohesion countries, certain types of aid are not destined for a precise region but the whole country.
  - 28 Under Article 87, paragraph 3, point c states that aid intended to support the development of particular activities or economic region can be considered to be compatible with the common market so long as it does not distort trade conditions to an extent which is contrary to the common interest.
  - 29 Data on state aid are not available for regions below NUTS 2 level, which is not a problem for measuring assistance to type 'a' regions which are all NUTS 1 or NUTS 2 regions. For type 'c' regions, however, it is often the case that only part of a NUTS 2 region is eligible. There are therefore regions which are fully assisted, like Berlin, or partly assisted, like Bayern.

- 30 OJ L 337, of 13.2.2002.
- 31 Sources: Europol annual reports, Transparency International Global corruption reports, World Bank reports.
- 32 Towards an urban agenda in the European Union, COM(1997) 197 final.
- 33 The regions included in the study were Hainault in Belgium, Oberbayern, Saarland and Magdberg in Germany, Kentriki Makedonia and Kriti in Greece, Asturias, Cataluña and Andalucía in Spain, Bretagne, Nord–Pas-de-Calais and Limousin in France, Border, Midland and Western and Southern and eastern in Ireland, Campania, Toscana and Sardegna in Italy, Flevoland in the Netherlands, Steiermark in Austria, Algarve and Açores in Portugal, Itä-Suomi and Estelä-Suomi in Finland, Norra Mellansverige and Övre Norrland in Sweden, West Midlands, Highlands & Islands and Northern Ireland in the UK.
- 34 For further reflections on this general issue, see European Economic and Social Committee, Exploratory Opinion on ‘The contribution of other Community policies to economic and social cohesion’, September 2003, which covered the CAP, economic policy in the form of the Growth and Stability pact, and policy on competition, the internal market, transport, education and vocational training.

