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CPMR SEMINAR: REGIONAL RESPONSES FOR LEADING EUROPE OUT OF THE CRISIS

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**"WHAT REGIONAL POLICY TO LEAD EUROPE TOWARDS LONG TERM SUSTAINABLE
GROWTH AND COMPETITIVENESS"**

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Ladies and Gentlemen, dear Friends,

I would like to share with you 9 points linking the past, the present and the future of European regional policy.

Let me start with a few words on crisis. Yes, it is quite likely that we are getting out of recession but moving from very modest recovery to growth rates we need will take some time. There are experts who believe that how you get out of the crisis might be even more important than the crisis itself.

1. The financial crisis with its concomitant economic downturn has hit the European economy with its full force. It has upset not only some of our strongest economies and destabilised what seemed to be well established multi-national banking systems but destabilised some of the most impressive successes of European integration such as the vibrant Irish economy, and the more fragile but nevertheless remarkable advances made in some of the newer member states. Today the choice of anti-crisis instruments and the investment patterns emerging from the implementation of national fiscal packages will condition the long term performance of the European economy. Crisis cannot be disconnected from long term growth and structural change.

It is then of critical importance that we establish a well structured exit strategy focusing on long term sustainable growth, on education, research and innovation, energy efficiency and advanced renewable energy industries rather than on simply eliminating production gaps generated by the crisis. We do not know when the banks will resume credit activities and whether credit will go to enterprises Europe needs most-innovative and future orientated or rather to politically sensitive sectors and firms. However a glance at the fiscal measures adopted so far by many Member States shows that they have rather focused on stimulating demand and not on seizing the opportunity to restructure economic activity and indeed our way of life towards enhanced sustainability by smart investments.

Fiscal measures are judged against the backdrop of their direct impact on public budgets and deficits. We seem to care less about growth patterns to which the stimulus is to contribute. And this is worrying. Long term sustainable growth could make paying back borrowing possible if growth based on fiscal stimulus were sustainable. This is rather unlikely unless new investment is a smart one, triggering structural transformation in manufacturing, bringing green technology, eco-innovation, low carbon and a knowledge based society.

In this context, European Cohesion policy plays a major role as a restructuring focused investment policy. Through a combination of public and private funding, it has the potential to influence investment patterns at all levels of the economy. It has a dual function. On the one hand it participates in short term demand stimulation while simultaneously investing in long term competitiveness.

The nature of European cohesion policy is to embrace all sectoral policies in a coherent integrated implementation strategy. Thus it covers on the one hand infrastructure projects in such diverse sectors as transport, energy, broad band, water management, research and on the other, new forms of funding for SMEs as well as risk capital and guarantee schemes.

Cohesion policy instruments can and should play both a catalysing and a funding role in shaping new investment patterns. The policy has a history of

shifting investment patterns. It guarantees funding stability; enhances cooperation and the exchange of good practice as well as offers entrepreneurs new forms of financial engineering to fund innovation. It is not crowding out private capital, it is making the place more attractive to private investors.

Cohesion programmes are long term investment programmes based on European priorities each one adapted to the specific needs of the region concerned.

Economic restructuring need not aggravate unemployment levels. The problem is how to protect existing jobs while creating new ones. This requires a place based policy approach. Policy priorities must reflect local preferences and use local knowledge to channel public resources towards the most productive investment generating sustainable jobs.

Many of the ongoing cohesion policy programmes focus on sustainable jobs, infrastructure, energy, IT and broad band, research and innovation. This was achieved thanks to the strategic approach and the reality of multi-level governance. Since November 2008 the European Commission has proposed measures to simplify the legislation governing the structural funds with a view to accelerating the implementation of programmes thus mobilizing resources in support of national recovery programmes. These important resources are often the major source of public investment at regional or local level. The idea is to encourage regions to accelerate programmes and target expenditure on smart investments in order to facilitate structural transformation through new investment patterns.

2. European debate about post-2013 policy agenda and the role of regional policy in it will take place in this difficult period of Europe's fight for its global relevance, for its long term competitiveness but also for its credibility via-a-vis citizens who do have their expectations.

European regional policy as the policy delivering social, economic and territorial cohesion is based on shared competences between Member States

and regions on the one hand and the European Commission on the other, working together in the interest of the Union and its citizens. Throughout the history of cohesion policy, this shared competence has been based on a clearly defined contract of confidence between the member states and the Commission. Governance is therefore key for this policy and decisive for its credibility. Our commitment to further improve governance will be even more important in the future.

Over the last 20 years, which embrace four generations of community regulations, we have witnessed two contradictory tendencies. First, the content of the programme contract between the EC and the member states/regions has become more and more general allowing member states/regions to decide on and implement specific programmes and concrete projects. Secondly, at the same time the evolution of management systems, even if strongly delegated, has become more and more controlled by the Commission and the systems have become more complex.

Two critical issues result from this double evolution. First, fragmented and dispersed priorities, and second, detailed and excessive bureaucracy.

3. The evolution of the most lagging regions has always been the priority of the policy. With a few exceptions, there has been progress in this area over the last 20 years. At the same time, however, many member states, in search of quick growth, have focused on growth centres, and not on the underlying efforts leading to the reduction of disparities. In my view, real convergence requires a double effort - support for growth locomotives and for those needing to reach a critical mass in their growth capacity. Locomotives can do their job if links between more and less advanced territories are properly developed. With respect to the more advanced regions we rather often faced the discrepancy between the effort of the Commission to anticipate challenges and needed restructuring and the intentions of the actors on growth to address existing problems. It has frequently led to using European support as replacement for own sources.

We will have to invest in the years to come in what would allow to better exploit interdependencies and links, including those between cities and regions, rural and urban territories, locomotives and lagging areas.

The general experience has been very clear - structural actions, oriented towards long and medium term objectives, have strong relevance at subnational level. Effective structural policy of this kind could not have been initiated and managed in a centralised way at the national level. Subsidiarity has been a key choice.

4. The Treaty, without any ambiguity, says that balanced and harmonious development of the Union is the objective of cohesion policy. It is also clear that the regional level is at the heart of this policy. That is why this structural policy focuses on the utilization of every region's resources, with priority given to those that are less advanced. The Treaty also envisages a complementary cohesion fund to accompany at national level the convergence of the weakest member states within the system related to EMU.

Regional policy is therefore neither a business cycle oriented short term policy nor the income support policy. It is a structural policy working in favour of regional sustainable development of all regions.

Today we have to concretise the new dimension of territorial cohesion, which in my view is complementing and not substituting the regional dimension. We have to deepen the understanding of and the way we address territorial specificities with a view to be able, especially at the local level, to more precisely define the development needs and those of interregional, cross border and transnational cooperation.

5. In our decision about the future policy, we will have to agree on its architecture, its priorities and its governance. The three major objectives of today, regional and national convergence, regional competitiveness and employment, and territorial cooperation do not seem to pose any problems among stakeholders.

There are of course militants of the renationalization of European regional policy and its replacement by an open method of coordination without a European budget or on the basis of a sectorialised budget.

There are those who believe that it is enough to support growth centres and that the market will do the rest in a natural way. Neither renationalization nor support for a "centres only" approach that is based on sectorial policy will work for Europe.

6. While leaving in place the current architecture, which implies a regional dimension and Europe-wide coverage of the policy, it is necessary to more precisely state the economic, social and territorial functions of the policy. It is necessary to establish an appropriate transitional system for regions coming out of convergence so that they can effectively continue their catching up. It is necessary to better define the needs at regional level that would be the basis for eligibility, financial repartition and the management. The regional framework of the policy should respond more precisely to three realities of regional development: the role of grand metropolises, the local level, and the interregional challenges at national and European levels.

7. What should be the priorities of the policy? I am convinced that concentration of priorities is crucial for its efficiency. The mission of the policy should be to integrate three elements of the European agenda. First, competitiveness of all regions should remain a priority with a view to better position European regions in the global context.

Second, sustainable development of all regions integrating environment, energy, climate change, innovation and research, European networks and human capital is a major demand for today and tomorrow. The regional level is the right level for structural actions of sustainability as it allows for the best adaptation of actions to specificities of every region. Third, long term economic and social restructuring and the response to the crisis.

8. On governance, let me say first of all that I find it essential for the credibility of the policy. We are not satisfied with the efficiency of the policy but what I find unacceptable is the perception of the efforts to improve the efficiency as a pretext for dismantling the policy. It is important to better clarify the responsibility of member states, the Commission, and the European Parliament. In particular, strengthening the obligations of member states for results is a political imperative.

9. In the years to come, Europe we live in will be in need of strong collective action to respond to expectations of its citizens, who are fully aware of how much depends on choices made by policy makers. All public opinion polls confirm this.

We, the policy makers, have raised the stakes by promising to deliver. The challenges are well known, the "EU 2020" strategy has been opened to public consultations. European development policy with clear targets and tools will be needed. Cohesion policy is a policy for development that engages all levels of European governance in the pursuit of European development objectives. It is a modern place based policy, that is striking a good balance between equity and efficiency, that works towards strengthening of institutional capacities, delivers systems based on the project-approach to investment strategies, makes advances in evaluation aiming at a more result-oriented policy approach.

There is no alternative to cohesion policy among all policy tools that evolved with integration. The sectoral approach to development policy in the EU that was recently offered in a strange ghost document is both a political and an economical misunderstanding. The challenges that we face are not sectoral by nature. An interdependent mix can be delivered through a place-based policy.

I would like to encourage you to be active. Respond to the "Europe 2020" strategy paper where regional policy relevance does not feature. The European Parliament will deliver a clear voice on the future cohesion policy.