Green Paper on territorial cohesion and the state for the debate on the future reform of cohesion policy

2008/2174(INI) - 19/06/2008 - Non-legislative basic document

PURPOSE: to present the fifth progress report on economic and social cohesion.

BACKGROUND: in September 2007, the Commission launched a public consultation on the challenges with which cohesion policy will be confronted in the coming years to collect ideas on the priorities, organisation and governance of the policy. The first part of this report provides a synthesis of the contributions received between September 2007 and February 2008. This first phase of the debate helps to identify issues for discussion and direction for reflection, which the Commission will take into serious consideration in the context of the budget review. The second part of the report provides a more in-depth analysis of major regional trends. The theme of this progress report is European growth sectors, whose performance in the regions will, to a large degree, determine the level of regional economic development in the years to come.

Objectives and priorities: all contributions agree that the main objective of cohesion policy is the reduction of economic and social disparities between the levels of development of European regions. Lagging regions must thus remain the focus of the policy. Yet, a majority of contributions – **along with the European Parliament** – argues that the policy should cover the whole territory of the EU, considering that cohesion policy is not a simple mechanism of solidarity, but also aims at fostering the endogenous development potential of European regions. The large majority of stakeholders recognise territorial cooperation as an essential part of cohesion policy and call for it to be strengthened.

Concerning the content of cohesion policy, a consensus seems to emerge at this stage on the following cross-cutting themes: 1) competitiveness linked to the renewed Agenda for growth and jobs; 2) active labour market policies to boost employment, strengthen social cohesion and reduce the risk of poverty and 3) sustainable development. In addition to the above themes a number of other issues received considerable attention such as the inclusion of territorial cohesion in the Lisbon Treaty.

Convergence, growth and economic restructuring among EU regions: the report notes that convergence among European regions has remained strong in recent years, leading to a marked narrowing of disparities in GDP per head, employment and especially unemployment rates. For the purpose of the analysis which follows, regions have been grouped into three categories: 1) Convergence, 2) Transition, and 3) Regional Competitiveness and Employment (RCE) regions, each with a distinct socio-economic profile. Convergence regions still have a considerably lower GDP per head, at 58% of the EU average while Transition regions are getting closer to the EU average. Between 2000 and 2005, both groups of regions reduced the gap with the EU average by around 5 percentage points. Employment rates are low at 58% in Convergence regions, compared to 68% in RCE regions. Since 2000, Convergence regions have not been able to reduce this gap. Transition regions, however, did reduce the gap and now have a 63% employment rate, but remain well below the RCE regions. Employment rates are low at 58% in Convergence regions, compared to 68% in RCE regions. Since 2000, Convergence regions have not been able to reduce this gap. Transition regions, however, did reduce the gap and now have a 63% employment rate, but remain well below the RCE regions. Unemployment rates are still four percentage points higher in Convergence than in RCE regions, but this gap was almost twice as big in 2000.

Regional distribution of European high growth sectors: at the regional level, three growth sectors are analysed: 1) Financial and business services, 2) Trade, transport and communication and 3) Construction. The growth sector, high and medium-high tech manufacturing, is part of the industry sector and thus can not be readily identified at the regional level. The three types of regions differ in terms of economic structure, growth trends and productivity.

- **Convergence regions**: the three growth sectors have contributed to substantial employment creation, but not enough to offset the significant employment reductions in agriculture. GVA growth was also strong in the growth sectors especially in Financial and business services and Trade, transport and communication. Convergence regions are undergoing a major economic restructuring. Substantial employment is being created in the service sector, while agriculture is shedding even more employment. GVA growth is high especially in industry and services and productivity growth is three times higher than in RCE regions. Such restructuring requires a tailored policy response. The report states that convergence regions should facilitate the shift of employment to services, especially to sectors which do not require high education levels, and continue to modernise their agriculture sector. As industry is and will remain an important sector in Convergence regions, policy should facilitate a progressive reorientation of the industry towards high productivity and high value added activities to avoid specialisation in industrial sectors particularly exposed to international competition and offering poor growth prospects. Convergence regions should also aim to improve the education level of the labour force as shifting to higher value added activities will increase the demand for such labour. The share of highly educated people aged 25-64 is considerably lower in Convergence regions than in RCE regions, 17% and 25% respectively.
- **Transition regions**: transition regions are catching up rapidly with RCE regions thanks to the strong performance of the three growth sectors and high and medium-high tech manufacturing. As a result, the economic structure of Transition regions is becoming more and more like that of RCE regions. This will also influence the speed at which they adopt new technologies and help to reduce the productivity gap.
- Lastly, the high productivity levels in **RCE regions** give these regions an edge not only in Europe but also in the world. In part, this high productivity is due to strong investments in R&D, which are much higher than in Convergence regions. Yet to maintain a global edge, these regions have to be able to compete with other world competitors, which invest even higher shares in R&D and higher education. This clearly underlines the benefit of the increasing orientation of cohesion policy in RCE towards more investments in innovation and human capital.

Next steps: the debate on the future of cohesion policy has just started and will continue in the coming years. Among the many important events which will mark this debate, it is worth mentioning the ongoing public consultation on the budget review, the public consultation on the Green Paper on territorial cohesion which the Commission will launch in autumn 2008, and the ministerial and high-level events which will be organised under the different Presidencies. The Commission will report on the progress of this reflection in the Sixth progress report on economic and social cohesion in spring 2009. In due course, the Commission will present its report on the 2008/2009 budget review setting out its overall vision for the structure and direction of the EU's future spending priorities.