From Building Blocks to Negotiating Boxes: The Reform of EU Cohesion Policy

EoRPA Paper 05/3

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This paper has been prepared for the 26th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside on 2-4 October 2005. It should not be quoted without permission.

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Preface

This paper on the reform of EU Cohesion policy provides a review and assessment of the debate over the past year on the proposals put forward by the European Commission for Structural and Cohesion Funds policy after 2006. The paper has been prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for the EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies.

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The research for this paper was undertaken by EPRC in consultation with EoRPA partners. It involved a programme of desk research and fieldwork visits among national and regional authorities in Member States during Spring/Summer 2005.

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Many thanks to everyone who participated in the research. The European Policies Research Centre also gratefully acknowledges the financial support provided by Sponsors of the EoRPA Consortium.

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EXECUTIVE SUMMARY

Introduction

In a year dominated by the lead-up to, and collapse of, the negotiations on the future of the EU financial perspective at the June European Council in Brussels, the aim of this paper is to provide a review and assessment of the debate on the reform of EU Cohesion policy. It charts the progress of the budgetary negotiations and assesses the implications for eligibility and financial allocations under the Structural and Cohesion Funds. The paper also examines how the regulatory debate is evolving, identifying the points of agreement and argument, and it considers how Member States preparations for the next programming period are developing with respect to strategic planning and programming.

Review of the Policy Context

The challenge for EU Cohesion policy was restated by the latest data on economic and social disparities published by DG Regio in the Third Progress Report. In terms of policy issues, the discussion over reforms to EU Cohesion policy have been influenced by the debate about the future of 'political Europe' and the draft Constitutional Treaty, which includes an article enshrining ' territorial cohesion' as one on the objectives of the EU. The other contextual issue is the reappraisal of the future of 'economic Europe' and the relaunch of the Lisbon strategy, with a renewed commitment to growth and jobs.

The basis for the reform debate on EU Cohesion policy are the proposals set out by the European Commission in the Third Cohesion Report and the draft Regulations in 2004. These would change the rationale, thematic focus and implementation procedures of Structural and Cohesion Funds. Eligibility for EU support would change significantly, with a concentration of resources on the countries and regions qualifying for the Convergence objective, transitional provisions for phasing-out and phasing-in regions, and the withdrawal of the explicit designation of Objective 2 areas on the basis of EU-wide criteria in favour of a more thematic approach for the Regional Competitiveness objective.

Establishing the implications of the Commission's proposals for the allocation of funding is complicated by the limited information available and the assumptions that have to be made. It is clear that the absorption cap would play an extremely important role, and the use of the Berlin methodology would only apply to the EU15. The share of Cohesion Fund resources as part of overall allocations would increase, and there would be relatively generous provisions for the phasing-out (statistical effect) regions.

The Negotiation Process

At the outset of the negotiations, the Commission's position on financial resources was supported by the Cohesion countries and most of the new Member States, but opposed by some of the richer EU countries. Other Member States held an intermediate position. Negotiations began in September 2004 under the Dutch Presidency which took the novel approach of grouping Member State positions into 'building blocks'. The outcome of the exercise showed five broad groups of positions, encompassing a wide range of views on the

overall budget, the distribution among objectives, the allocation methodology and the provisions for transitional regions.

The Luxembourg Presidency then sought to bring Member State positions together in the form of a comprehensive 'negotiating box', first produced in March 2005. In subsequent variants of the negotiating box, the document was progressively refined, taking on board the views of different Member States. Compared to the original Commission proposals, it reduced the level of overall EU expenditure, shifted the allocation of resources towards the Convergence objective, improved the treatment of transitional regions and retained a sizeable budget for Regional Competitiveness and Employment. The process revealed the limitations of the Berlin methodology, with numerous changes to coefficients and thresholds, and a long list of 'additional provisions' for specific Member State concerns.

However, the Brussels Council failed to reach agreement, with major political differences about the structure of the budget, net balances and, specifically, the future of the UK rebate and agricultural spending. The UK Presidency is currently engaged in a round of bilateral discussions with a view to exploring the potential for producing a new negotiating box in Autumn 2005.

The Debate on the New Regulations

In parallel with the debate on the financial perspective, Member States have been discussing the draft Regulations on Structural and Cohesion Funds. Although there is consensus in several areas – notably with respect to the need for simplification and more flexibility – there are some fundamental differences over the 'strategic approach to cohesion' in the form of the proposed Community Strategic Guidelines and the National Strategic Reference Frameworks. A range of views has also been expressed on issues under the other titles of programming, effectiveness, financial contribution of the Funds, controls and financial management.

Strategic Planning and Programming

Although the Regulations have yet to be approved, both the Commission and the Member States have begun the preparations for the next programming period. At the start of the year, the Commission identified a list of 'issues of Community interest', which were then discussed with Member States and led to Commission proposals for the Community Strategic Guidelines. Notwithstanding concerns about the Guidelines, all Member States are engaged in the process of drafting their National Strategic Reference Frameworks, in some cases with extensive processes of consultation.

From the first drafts of the Frameworks, it appears that Member States are planning closer integration of national and EU strategies and more targeting of resources, especially under the Regional Competitiveness objective. Management of the geographical dimension of EU funding is still an open question and there are differences over how much the Frameworks should focus on the Lisbon agenda. These debates are replicated in the preliminary discussions about the next generation of Operational Programmes.

Conclusions

Three conclusions emerge from the paper, which provide a basis for discussion at the Sponsors' Meeting.

1. The Brussels European Council produced no agreement on the future financial framework for the EU, although the working compromise on EU Cohesion policy can be regarded an achievement, given the range of different viewpoints. However, the proposed allocation methods marked a further and significant increase in complexity of the funding formula. There are also concerns about the lack of transparency of the process, and the controlling influence of the Commission over the release of information on budgetary calculations.

2. The progress to date on the National Strategic Reference Frameworks suggests the possibility that there will be much greater national / EU policy coherence in the implementation of Structural Funds than has ever existed before outside the main Objective 1 countries. This would potentially avoid, or at least ameliorate, an important set of policy and institutional tensions that have caused significant difficulties in the negotiation and implementation of Structural Funds in previous programme periods.

3. For several of the Member States in the EU15, the implementation of the Regional Competitiveness strand of the Structural Funds in the 2007-2013 period will prompt a different approach to managing and delivering the programmes, arising from external and internal pressures as well as new opportunities. An important issue, however, is whether the new Regulations will provide a sufficiently facilitative environment for innovative approaches to economic development. As the new Regulations are negotiated, the key question is whether simplification will actually be achieved.

1. INTRODUCTION

The collapse of negotiations on the future EU financial perspective at the June European Council in Brussels has left the preparations for the next round of Cohesion policy programmes in a state of uncertainty. With less than 18 months to go until the planned start of the next programming period, Member States and regions lack the necessary budgetary and strategic framework to guide their programme preparations. For most of the new Member States, the key issue concerns the volume of resources. For the poorer Member States and regions in the EU15, there are also questions about eligibility – the use of 2001-2003 rather than 2000-2002 GDP per head data makes a critical difference to the shares of their population eligible for Objective 1, phasing-out or phasing-in support. And for other parts of the EU15, it is not certain whether there will be any significant Structural Funds assistance available.

Although the budgetary negotiations foundered on disagreement over the UK rebate and EU agricultural spending, in the run-up to the Council meeting considerable progress had been made by officials in developing a possible financial framework for Cohesion policy that would reconcile the views of the EU Member States. A series of 'negotiating boxes' put forward by the Luxembourg Presidency over the April-June period had systematically adapted budgetary ceilings, eligibility criteria and the financial allocation methodology to take account of the various national interests. With 25 Member States involved, the approach taken has become increasingly complex, with significant changes to the so-called Berlin methodology and extensive use of special provisions. Nevertheless, the basis for a possible budgetary framework for future Structural and Cohesion Funds is in place.

In parallel with the budgetary negotiations over the past year, the Structural Affairs Working Group has been discussing the content of the future Regulations for EU Cohesion policy. While less contentious than the financial debate, it is evident that there are also important differences among Member States, particularly with respect to the role of the Community Strategic Guidelines and National Strategic Reference Frameworks, the scope of the proposed thematic priorities and eligible expenditure to meet regional and local needs, and the degree to which simplification will be achieved in practice.

In anticipation of a budgetary settlement, Member States are engaged in post-2006 strategic planning, having established committees, working groups or consultation mechanisms to develop their National Strategic Reference Frameworks. Most progress has been made by the new Member States and EU15 countries/regions that are reasonably certain of Convergence funding in the next period. In some other countries, particularly where future EU support is contingent on a sizeable Regional Competitiveness and Employment objective, there has been a slower, more cautious approach to strategic planning for the future.

The aim of this paper is to provide a review and assessment of the debate on the reform of EU Cohesion policy over the past year. It charts the progress of the budgetary negotiations and assesses the implications for eligibility and financial allocations under the Structural and Cohesion Funds. The paper also examines how the regulatory debate is evolving,

identifying the points of agreement and argument, and it considers how Member States preparations for the next programming period are developing with respect to strategic planning and programming.

The paper begins by reviewing the context for the reform debate (Section 2) with respect to political and economic developments over the past year. It summarises the European Commission's proposals for EU Cohesion policy in 2007-2013 and examines the implications of the proposals for the eligibility and funding allocations to Member States. The paper then examines the negotiations on the future of Cohesion policy (Section 3), first under the Dutch Presidency, and then through a series of negotiating boxes under the Luxembourg Presidency, as well as the aftermath of the Brussels European Council. For the later versions of the negotiating boxes, an estimate of the implications for Member State financial allocations is also provided. Section 4 reviews the parallel debate under way on the content of the new Council Regulations, discussing each of the titles under the General Regulation. The paper then explores the strategic planning and programming preparations being made by Member States for the 2007-2013 period (Section 5), considering their views on the Community Strategic Guidelines and the development of their National Strategic Reference Frameworks and Operational Programmes. Finally, the paper presents some conclusions and issues for discussion (Section 6).

2. REVIEW OF THE POLICY CONTEXT

2.1 Political and economic agendas

The starting point for reviewing the policy context is the challenge of economic and social cohesion, outlined most recently by DG Regio in the Third Progress Report in June 2005 on the basis of new Eurostat statistics.[1] This restates the main messages of the Third Cohesion Report and provides the latest data on the marked disparities across the EU following enlargement with respect to GDP per head (Latvia: 41 percent; Luxembourg 215 percent), employment rates (Poland: 51 percent; Denmark, 70 percent) and productivity (Poland: <30 percent; Ireland >150 percent). As previously noted, regional disparities are wider still, with over one quarter of the EU's population having GDP per head levels below 75 percent of the EU average. On the other hand, the data suggests that disparities have been falling across the EU over the past decade; although the reduction in disparities is greater between Member States, differences in GDP per head between regions have also been falling, driven mainly by productivity growth.

In terms of policy issues, the context for the discussion of reforming EU Cohesion policy over the past year has two main elements: the political direction of the European Union; and the economic agenda of promoting growth and jobs. Both, to different degrees, have implications for Cohesion policy.

First, there is the debate about the *future of political Europe*. A new framework for political decision-making was set out in the draft Constitutional Treaty, adopted by the Heads of State and Government on 18 June 2004 and signed on 29 October 2004. The Treaty, which needs to be ratified all Member States, has[2] been approved by parliamentary procedure in 12 Member States (Austria, Belgium, Cyprus, Germany, Greece,[3] Hungary, Italy, Latvia, Lithuania, Malta, Slovakia, Slovenia) and by referendum and parliament in two further countries (Luxembourg and Spain). Estonia and Finland plan to submit the Treaty for parliamentary ratification in late 2005 or 2006; Poland submitted the Treaty in July 2005 but failed to vote. However, the Treaty was rejected by referenda in France and Netherlands, and subsequently six Member States (the Czech Republic, Denmark, Ireland, Portugal, Sweden and the United Kingdom) decided to postpone referenda or suspend the parliamentary ratification process, in some cases without setting a date.

There is, therefore, considerable uncertainty about the future of the Treaty and disputes among the Member States as to whether ratification should continue or stop, or whether parts of the Treaty should be implemented by other means. At the June 2005 Brussels European Council, the Member States agreed to a "period of reflection" for further debate to take place, stating that the timetable for ratification in different countries could be

[1] *Third Progress Report on Cohesion: Towards a new partnership for growth, jobs and cohesion,* Communication from the Commission, Brussels, 17.5.2005, COM(2005) 192.

[2] At time of writing, August 2005.

[3] However, some parties in the Greek Parliament have submitted a joint proposal for the Treaty to be put to a referendum.

altered if required, and that the Council would make an assessment in the first half of 2006 on how to proceed.[4]

There are no important, direct implications for EU Cohesion policy arising from the delay in ratifying the Constitutional Treaty. The main limitation is that, in the short term, the Commission's proposals for promoting territorial development under the Structural and Cohesion Funds will not be underpinned by a Treaty article enshrining 'territorial cohesion' as one of the objectives of the EU alongside economic and social cohesion. (However, the territorial cohesion objective has still been developed and discussed over the past year, notably at the Informal Meetings of Regional Policy Ministers in Rotterdam (December 2004) and Luxembourg (May 2005). More significant for Cohesion policy are the less tangible influences of the ratification problems on the negotiation of the EU budget, such as the positions and arguments adopted by some Member States.

The second contextual policy issue is the reappraisal of the *future of economic Europe*, with a relaunch of the Lisbon strategy. Successive Spring Councils have indicated the slow response of the EU in meeting the Lisbon objectives and, in particular, the mixed record of achievement among Member States. In its 2005 report to the Spring Council, the Commission's assessment of progress restated the lagging performance of the EU in growth and employment, the variable impact on productivity, the virtual cessation of efforts to achieve product market integration and continued problems in meeting commitments on social cohesion and environmental issues.[5] The costs of not achieving the Lisbon goals were reinforced by Commission research showing the macro-economic impact of product and labour market reforms, combined with increased knowledge investments, to be an increase in potential EU GDP growth of 0.75 percent per year (7-8 percent over a ten-year period).[6]

The renewal of the Lisbon agenda was given impetus under the Irish Presidency, in particular with agreement for a high-level group under Wim Kok to consider how further progress might be made. The Kok Report[7] was published under the Dutch Presidency, and some of the recommendations were immediately taken up by the European Council and Ecofin meetings in November 2004, emphasising the importance of the Kok priorities (knowledge society, internal market, business climate, labour market, environmental

[4] *Declaration by the Heads of State or Government of the Member States of the European Union on the ratification of the Treaty establishing a Constitution for Europe,* European Council, 16-17 June 2005, Brussels, SN 117/05.

[5] *Working together for growth and jobs: a new start for the Lisbon Strategy*, Communication to the Spring European Council, Brussels, 2.2.2005, COM(2005) 24. *Commission Staff Working Document in support of the report from the Commission to the Spring European Council*, 22-23 March 205, on the Lisbon Strategy of economic, social and environmental renewal, Brussels, 28.1.2005, SEC(2005) 160.

[6] *The economic costs of non-Lisbon: A survey of the literature on the economic impact of Lisbon-type reforms,* European Economy Occasional Papers No.16, Directorate-General for Economic and Financial Affairs, Brussels, March 2005.

[7] *Facing the Challenge: The Lisbon strategy for growth and employment,* Report from the High Level Group chaired by Wim Kok, Office for Official Publications of the European Communities, Luxembourg, November 2004

sustainability), the role of the Broad Economic Policy Guidelines (BEPG), multilateral surveillance, national performance benchmarking and fiscal consolidation.[8]

Box 1: Integrated Guidelines for Growth and Jobs (2005-2008)

Macroeconomic guidelines

1. To secure economic stability
2. To safeguard economic sustainability
3. To promote an efficient allocation of resources
4. To promote greater consistency between macroeconomics and structural policies
5. To ensure that wage developments contribute to macroeconomic stability and growth
6. To contribute to a dynamic and well-functioning EMU

Microeconomic guidelines

7. To extend and deepen the internal market
8. To ensure open and competitive markets
9. To create a more attractive business environment
10. To promote a more entrepreneurial culture and create a supportive environment for SMEs
11. To expand and improve European infrastructure and complete priority cross-border projects
12. To increase and improve investment in R&D
13. To facilitate innovation and the uptake of ICT
14. To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth
15. To contribute to a strong industrial base

Employment guidelines

16. To implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion
17. To promote a lifecycle approach to work
18. To ensure inclusive labour markets for job-seekers and disadvantaged people
19. To improve matching of labour market needs
20. To promote flexibility combined with employment security and reduce labour market segmentation
21. To ensure employment-friendly wage and other labour cost developments
22. To expand and improve investment in human capital
23. To adapt education and training systems in response to new skill requirements.

Source: COM(2005) 141 *op.cit.*

At the Spring 2005 European Council, Member States agreed to refocus efforts on growth and employment and achieve greater mobilisation of national and Community resources (including Cohesion policy) on the economic, social and environmental objectives of the strategy, based on three strands: knowledge and innovation as an engine of sustainable

[8] *Presidency Conclusions of the Brussels European Council, 4-5 November 2004,* Council of the European Union, Brussels, CONCL 3.

growth; making Europe an attractive place to live and work; and social cohesion.[9] The Council approved the 'Integrated Guidelines for Growth and Jobs' (2005-2008), comprising the BEPG and Employment Guidelines, as a basis for coordinating macro-economic, micro-economic and employment policies around 23 integrated actions (see Box 1).[10] These objectives were complemented by the decision to have a three-year governance cycle, with annual reports on progress.

Subsequently, the Commission published a series of papers proposing how the relaunched Lisbon programme should be implemented. With respect to EU Cohesion policy, Commission-funded research has shown that Structural Funds already contribute (implicitly) to the goals of the Lisbon agenda; in many regions, some two-thirds of Structural Fund expenditure may be relevant to the Lisbon goals, but the efficiency of interventions is limited by the lack of formal integration and insufficient focusing of investment.[11] In line with the objectives of the 'growth and jobs' agenda, therefore, the Commission has proposed that the Structural and Cohesion Funds should target investments in knowledge, innovation and research capacities, as well as improved education and vocational training, and economic infrastructure support to improve the attractiveness of Member States, regions and cities.[12] These new goals are strongly reflected in the National Strategic Reference Frameworks currently being drawn up by Member States (see Section 5.2 below).

2.2 The Reform of EU Cohesion policy: Commission proposals[13]

In February 2004, the European Commission put forward its budgetary proposals for the 2007-13 period followed by the publication of the Third Cohesion Report outlining changes to Cohesion policy. In July 2004, the Commission also submitted its formal legislative proposals, starting an intensive process of negotiation within the committees of the Council. The details are well known and need only be summarised here.

In its Financial Framework for 2007-13, the Commission proposed an increase in the EU budget of 31 percent by 2013 compared to 2006. Annual cohesion policy expenditure (excluding rural development) would rise from €38.8 bn in 2006 to €51bn in 2013. The financial resources for the Structural and Cohesion Funds would represent c.0.41 percent of GNI in an EU27. In addition, the Commission proposed changes to the own resources system,

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[9] *Presidency Conclusions of the Brussels European Council, 22-23 March 2005,* Council of the European Union, Brussels, CONCL 1.

[10] *Integrated Guidelines for Growth and Jobs,* Commission recommendation and proposal for a Council decision, Brussels, 12.4.2005, COM(2005) 141 final.

[11] *Thematic Evaluation of the Structural Funds' Contribution to the Lisbon Strategy: Synthesis Report,* Report to the European Commission (DG Regio), Danish Technological Institute.

[12] *Common Actions for Growth and Employment: The Community Lisbon programme,* Communication from the Commission to the Council and the European Parliament, Brussels, 20.7.2005, COM(2005) 330 final.

[13] The Commission's proposals, the implications for eligibility and financial allocations and Member State reactions were examined in detail in Bachtler J and Wishlade F (2004) *Searching for Consensus: The Debate on Reforming EU Cohesion Policy*, European Policy Discussion Paper No. 55, European Policies Research Centre (http://www.eprc.strath.ac.uk/eprc/publications_downloads.htm). The following section is a summary of the paper.

including the replacement of the current system of budgetary compensation for the UK with a generalised correction mechanism applicable to all larger net contributors.

The Commission proposed changing EU Cohesion policy in three important respects.

- First, the rationale for Cohesion policy placed more stress on the promotion of regional competitiveness as a contribution to the Lisbon Agenda. Greater emphasis was also accorded to territorial cohesion, broadening the remit of policy beyond spatial imbalances in income and employment to address issues such as polycentric development of urban areas and the specific problems of areas with geographical handicaps.

- Second, future EU cohesion policy would be targeted on the themes of: innovation and the knowledge economy; accessibility and services of general economic interest; environment and risk prevention; employment, training and adaptation; and social inclusion. The current Objectives 1, 2 and 3 would be superseded by three new objectives: Convergence; Regional Competitiveness and Employment; and European Territorial Cooperation.

- Third, the Commission proposed making significant changes to the way that EU Cohesion policy is implemented. While the key principles underlying the Structural Funds would be retained, a new planning framework would be introduced with strategic frameworks for Cohesion policy at European and national levels. Measures to simplify and decentralise implementation were also proposed.

2.3 Implications for eligibility

On the basis of the Commission's proposals, the implications for the eligibility of each Member State for the different components of the Cohesion policy package can be determined. Each of these components is discussed in turn in the following sections.

2.3.1 Convergence regions (formerly Objective 1)

The proposed basic eligibility criterion for the Convergence regions remains essentially unchanged from that of Objective 1, this concerning NUTS II regions whose GDP per head measured in purchasing power parities and calculated on the basis of the last three years is at, or less than, 75 percent of the Community average.

As is well-known, the so-called statistical effect of enlargement will bring about significant shifts in the coverage of the least-developed regions. On the basis of current data (see Table 1), the Convergence priority will cover almost all (92.9 percent) of the population of the 10 new Member States, but just a small proportion (15 percent) of the EU15 (compared with 22.3 percent for 2000-6). Some 70 regions (33 in the EU15 and 37 in the new Member States) would be concerned by the convergence objective, a total population of around 124 million.

Table 1: Assisted area coverage post 2006?

	Convergence	Statistical effect	Phasing-in	TOTAL
EU25	27.7	3.6	3.6	34.9
EU15	15.0	4.3	3.5	22.8
NMS10	92.9	0.0	3.8	96.7
Belgium		12.4		12.4
Czech Rep	88.6			88.6
Denmark				0.0
Germany	12.5	6.1		18.6
Estonia	100.0	0.0		100.0
Greece	36.6	55.5	7.8	100.0
Spain	36.0	5.9	16.3	58.2
France	2.7			2.7
Ireland			26.5	26.5
Italy	29.2	1.0	2.9	33.1
Cyprus				0.0
Latvia	100.0			100.0
Lithuania	100.0			100.0
Luxembourg				0.0
Hungary	72.2		27.8	100.0
Malta	100.0			100.0
Netherlands				0.0
Austria		3.4	0.0	3.4
Poland	100.0			100.0
Portugal	70.1	3.8		74.0
Slovenia	100.0			100.0
Slovakia	88.9			88.9
Finland			13.0	13.0
Sweden				0.0
UK	4.0	0.6	4.4	9.1

Source: Own calculations from Eurostat data (April 2005 update).

2.3.2 Convergence: Outermost regions

Reflecting their special status under Article 299(2) of the Treaty a separate treatment of the Outermost regions (OMR) is proposed under the draft Structural Funds Regulation. The seven regions concerned are: the four French *départements d'outre mer* (Guadeloupe, Martinique, Guyane and Réunion); the Spanish Autonomous Community of the Canary Islands; and the Portuguese Autonomous regions of the Azores and Madeira.[14]

Of the seven, five currently fall within the threshold for the Convergence objective, with Madeira and the Canaries classed as Phasing-in regions. However, Martinique appears close to the margins of eligibility for the Convergence objective (GDP(PPS) for the 2000-2 period is 74.9 percent of the EU25 average). Notwithstanding this, the draft Structural Funds

[14] In addition, the Commission has set out a series of recommendations in a recent working paper: *A stronger partnership for the outermost regions*, COM(2004) 343 of 26 May 2004.

Regulation makes clear that the OMRs will benefit from a specific line of funding from the ERDF.[15]

2.3.3 Convergence: the Cohesion Fund

The Cohesion Fund would contribute to the Convergence priority under the new architecture. Eligibility for the Cohesion Fund is defined in Article 5(3) of the Draft Regulation as concerning Member States whose per capita gross national income (GNI), measured in purchasing power parities (PPS) and calculated for the last three years available, is less than 90 percent of the Community average, and which have a programme for meeting the economic convergence conditions referred to in Article 104.

Table 2 suggests that Spain would cease to qualify for the Cohesion Fund post-2006. It is interesting to note that Cyprus qualifies for the Cohesion Fund but that, at the same level of analysis (ie. NUTS II) it would not qualify for the Convergence Priority.

Table 2: GNI(PPS) per head 2001-3 (EU25=100)

Eligible Member States		**Ineligible Member States**	
Latvia	38.6	Spain	93.3
Estonia	41.5	Italy	107.8
Lithuania	42.9	Germany	109.2
Poland	45.7	Ireland	110.5
Slovakia	50.9	Finland	112.0
Hungary	55.6	Sweden	115.1
Czech Republic	65.1	France	115.5
Malta	71.2	Belgium	119.5
Portugal	75.2	United Kingdom	119.6
Slovenia	76.1	Netherlands	120.2
Greece	77.3	Austria	120.8
Cyprus	85.4	Denmark	122.7
		Luxembourg	190.9

Source: Own calculations from DG ECFIN AMECO database.

2.3.4 Convergence: Statistical effect regions

A high profile has been given to the situation of regions whose Objective 1 status is affected simply by the so-called statistical effect of enlargement, that is the shifting thresholds of average levels of GDP(PPS) per head with the accession of a number of significantly poorer Member States.

The equivalent threshold to 75 percent of the EU15 average post-enlargement is currently 82.19 percent.[16] At present, 16 regions fall between these thresholds. Interestingly, these include three regions – Hainaut (Belgium), Lüneburg (Germany) and Highlands & Islands (UK) – which do not currently have Objective 1 status. The 16 regions account for just over 16 million inhabitants – about 3.6 percent of the EU25 population (see Table 1). Of particular

[15] Article 5(2).

[16] Based on EUROSTAT data for 2000-2, as revised on 7 April 2005.

note, more than half of the Greek population has statistical effect status on the basis of the latest data.

2.3.5 Competitiveness: Phasing-in areas

A further category of regions concerns those with Objective 1 status in 2000-6 whose levels of growth have put their GDP(PPS) per head beyond the Convergence threshold, even without the statistical effects of enlargement (ie. above 82.19 percent of the EU25 average). Some 12 regions, (including the Outermost regions of Madeira and Canarias) fall into this grouping. This involves a population of around 18 million, equivalent to 3.6 percent of the EU25 total (see Table 1). For Spain, Ireland and Hungary, and to a lesser extent Finland, a significant proportion of the national population falls into this category.

2.3.6 Competitiveness: Other regions

A notable feature of the proposed reform of the Funds is the withdrawal of the explicit designation of areas on the basis of EU-wide criteria under Objective 2 in favour of a more thematic approach. Mention is made of a number of types of region with particular territorial development problems, such as islands and mountain areas, as well as urban, rural and fisheries areas. At this stage, it is not clear, whether (and what) specific criteria are envisaged for the special treatment of these areas.

2.4 Implications for funding

The Commission proposal for the global allocation for Cohesion Policy has changed as statistics have evolved: the draft General Regulation[17] earmarked a sum of €336.12 billion (equivalent to €373.9 billion if transfers to rural and fisheries are included); by January 2005, this had fallen to €333.0 billion (€370.2 billion with transfers to rural and fisheries).[18] In April 2005, following a further release of statistical data, this rose to €341.4 billion (€379.6 billion with transfers to rural and fisheries).[19] This last figure also involved an increase in relation to GNI, from 0.41 percent under the two earlier proposals to 0.42 percent.

The allocation of Cohesion Policy funding to any given Member State is the result of the complex interaction of top-down principles on the global breakdown of funding between different priorities and country groupings and bottom-up criteria determining the share of a given budget. More specifically, the draft Regulation indicated that the overall budget should be allocated with: around 78 percent for the Convergence objective (less-developed regions, outermost regions, Cohesion Fund and phasing-out regions); around 18 percent for the Regional Competitiveness and Employment objective, including the phasing-in regions;

[17] Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, COM(2004)492 final of 14 July 2004.

[18] Multiannual Financial Framework 2007-2013, *Financial package for cohesion policy 2007-2013: update on the basis of the latest available statistics,* Fiche no 26, rev 3, 26 January 2005.

[19] Multiannual Financial Framework 2007-2013, *Financial package for cohesion policy 2007-2013: update on the basis of the latest available statistics,* Fiche no 26, rev 4, 26 January 2005.

and around four percent for the Territorial Cooperation objective. The April 2005 update shifted these percentages to 79.3 percent, 16.5 percent and 4.2 percent, respectively.

As will be seen, each element has its own mechanism for determining the allocation to any given country: in some cases the approach is 'bottom up', based on a measurement of disparities (notably the regional convergence element); in some cases it is top-down, with a distribution key being applied to a given amount of funding (for example, the Cohesion Fund).

The calculations for each element are affected by several overarching constraints:

- the annual allocation for Cohesion policy per country should not exceed 4 percent of GDP as forecast for that year;
- a proportion of the regional convergence, competitiveness and cooperation allocations is transferred to Heading 2 under the EAGGF Guidance and EFF;
- for the new Member States, the Cohesion Fund should represent one third of the Cohesion policy financial allocation.

2.4.1 Convergence Objective: regional convergence and employment

For 2007-2013, the Commission proposed that the allocation for the Regional Convergence and Employment objective (formerly Objective 1) should be based on the Berlin formula, with minor amendments.[20] The Berlin formula, as amended involves the following steps:

1. Assessing the gap in regional GDP(PPS) per head for NUTS II regions with GDP(PPS) per head of less that 75 percent of the EU average.
2. Making an allocation based on the size of that gap multiplied by a national coefficient to benefit the poorest countries. The national coefficients are set out below.

GNI(PPS) per head - EU25=100	**National Coefficient**
<82	5 percent
>82<99	4 percent
>99	3 percent

3. Making an allocation based on the number of unemployed persons in excess of the Convergence Region average (€ 100 per year for each person unemployed in excess of the average rate).

2.4.2 Convergence Objective: national competitiveness (Cohesion Fund)

Member States eligible for the Cohesion Fund are those where GNI(PPS) per head is less than 90 percent of the EU25 average over the last three years. Eligible Member States are all 10 new Member States together with Greece and Portugal.

[20] See SAWG Fiche 15

The starting point for Cohesion Fund allocations is the determination of the overall budget. The Commission proposed that the same aid intensity should be applied in 2007-2013 as in the 2004-2006 period; at 2004 prices, this amounts to €44.6 per head per annum, equivalent to €29,850.8 million over 2007-2013.[21]

This sum is distributed among the eligible Member States on the basis of the average of each country's share of the total eligible population and total surface area.[22] The average is adjusted by one-third of the difference between a given country's GNI per head and the average of the beneficiary countries. The result is used as a distribution key for the initial budget. As noted earlier, for the new Member States, this sum is adjusted such that the Cohesion Fund represents one-third of their Cohesion policy allocation.

2.4.3 Convergence Objective: Phasing-out (statistical effect)

Special provisions are made for regions which would have had Convergence region status if this were determined by EU15, rather than EU25 GDP per head averages – the so-called statistical-effect or phasing-out regions.[23] The basis for the phasing-out allocation is the same as for Convergence regions, but with a number of important differences:[24]

- for the purposes of the calculation, GDP per head is assumed to be 75 percent of the EU25 average;
- the unemployment component is based on the average for the phasing-out regions (this being 12.2 percent);[25]
- aid intensity in 2007 is capped at 85 percent of the intensity in 2006;
- from 2009, aid intensity reduces at the rate of five percentage points per annum; and
- separate, but unspecified, provision is made for those regions not eligible for Objective 1 in 2000-6, but eligible for phasing-out on the basis of current data (Hainaut, Lüneburg and Highlands & Islands).

2.4.4 Convergence Objective: Outermost Regions (OMR)

The General Regulation makes a separate allocation to the Outermost regions (OMR), in addition to the amounts under other strands of the Convergence objective.[26] The amount is expressed as a percentage of the total, this being 0.42 percent of € 264 billion - € 1,108.8 million for 2007-2013. For the purposes of this paper, this sum has been retained. However, there is clearly a problem in establishing whether the percentage figure is simply the result

[21] See DG Regio 25 October 2004 seminar presentation.

[22] These data are not available for Cyprus or Malta from Eurostat, but estimates were made from other sources for the purposes of the calculations.

[23] General Regulation Article 5(2).

[24] See Financial Perspective Fiche no 47 of 13 January 2005.

[25] See Financial Perspective Fiche no 58, Rev 1 of 26 January 2005.

[26] General Regulation Article 16(1)(d).

of the *sum* that the Commission has proposed to allocate or whether the Commission has determined that the *percentage* amount should be fixed at 0.42 percent, whatever the amount of the Convergence allocation. The total allocation for the OMRs is divided between the eligible regions in proportion to their shares of the eligible population.

2.4.5 Regional Competitiveness and Employment

The Regional Competitiveness and Employment Objective comprises two elements:

- Regional Competitiveness and Employment, which covers all regions not eligible for the Convergence objective.

- Phasing-in – that is special treatment of regions that cease to qualify under the regional Convergence objective *even if EU15 averages were used.*

Budget allocations for each are given in the draft Regulation[27] which proposed that 83.44 percent of the budget should be allocated to Regional Competitiveness and Employment and 16.56 percent should be allocated to the phasing-in regions; this amounts to € 48,312 million and € 9,589 million respectively. However, the Commission's later calculations[28] suggested a marginally higher amount for Regional Competitiveness (€ 48,386 million) and a lower sum for phasing-in (€ 8,103 million).

This budget for Regional Competitiveness and Employment is allocated on the basis of a distribution key that takes account of the following criteria:[29] total population; number of unemployed persons in NUTS III regions with an unemployment rate above the group average; number of jobs need to reach an employment rate of 70 percent; number of people with low educational level; NUTS II surface area divided by population; and NUTS II GDP(PPS) per head as a percentage of the group average.

For each criterion, the share of the population of each eligible region is calculated and then weighted as follows:

Table 3: Criteria and weighting for Regional Competitiveness and Employment allocations

Population	60
Number of unemployed	15
Number of jobs needed to reach 70% employment	10
Number of employed people with low education	10
Population density	5

For each region, the weighted shares are summed and adjusted by +5 or -5 percent depending on whether GDP per head is below or above the average of the group. For each Member State, the sum of the share of the eligible region is the distribution key for the

[27] Article 17(1).

[28] Fiche 26 Rev 4.

[29] Article 17(1)(a) and Financial Perspective Fiche 28 of 7 October 2004.

allocation of the competitiveness and employment strand of the budget. This is set out below.

Table 4: Distribution Key for Regional Competitiveness and Employment Funding

EU25	100.0
EU15	99.2
NMS10	0.8
Belgium	3.1
Czech Republic	0.3
Denmark	1.4
Germany	22.4
Spain	7.0
France	22.2
Ireland	0.8
Italy	12.9
Cyprus	0.2
Luxembourg (Grand-Duché)	0.1
Netherlands	3.5
Austria	2.1
Portugal	1.1
Slovak Republic	0.2
Finland	3.5
Sweden	5.4
UK	13.8

Source: Own calculations.

2.4.6 Regional Competitiveness and Employment: Phasing-in

Special provisions are made for phasing-in regions – those which would have lost Convergence region status even if this were determined by EU15, rather than EU25 GDP per head averages.[30] The basis for the phasing-in allocation is the same as for Convergence regions, but with a number of important differences:[31]

- for the purposes of the calculation, GDP per head is assumed to be 75 percent of the EU25 average;
- the unemployment component is based on the average for the phasing-out regions;
- aid intensity in 2007 is capped at 75 percent of the intensity in 2006;
- from 2008, aid intensity reduces in a linear fashion to reach the average aid intensity for the Regional Competitiveness and Employment component (ie. € 23 per head) in 2011 and the following years.

Separate provision is made for "one region which is fully eligible to Objective 1 in the current period, and whose particular geographical situation is recognised in primary Community law". For these calculations, this has been assumed to be Itä Suomi (Finland),

[30] General Regulation Article 17(1)(b)

[31] See Financial Perspective Fiche no 47 of 13 January 2005.

which would otherwise benefit from the weighting given to population density in the Regional Competitiveness and Employment component. For financial allocation purposes this is treated as a Phasing-out region.

2.4.7 Territorial Cooperation

The draft General Regulation proposed a sum of € 13.2 billion for territorial cooperation;[32] in the April 2005 update of the figures, this was raised to € 14.2 billion. The sum is divided as follows: [33]

- 35.61 percent for financing cross-border cooperation;
- 12.12 percent for the contribution of the ERDF to the cross-border strand of the European Neighbourhood and Partnership Instrument and of the Instrument for Pre-Accession pursuant;
- 47.73 percent financing of transnational co-operation; and
- 4.54 percent for the financing of co-operation networks

The distribution of funding for elements 1 and 2 above is based on the share of NUTS III population living in specified border areas. The distribution of funding for transnational cooperation is based on the share of total population.

2.5 Financial outcomes under the Commission proposal

The last stages of the calculation of national allocations involve: calculating the total by Member State; applying an annual ceiling calculated as 4 percent of GDP based on forecasts for the period; and transfers to EAGGF and EFF from Convergence funding. In addition, the composition of the total for the new Member States is adjusted such that the Cohesion Fund represents one-third of the global sum.

Some uncertainties remain in these calculations. In particular, it has not proved possible to replicate the Commission GDP forecasts for 2007-2013.[34] The mechanism for transfers to rural and fisheries is also unclear. The Commission has given percentage amounts by Member State for transfers from the Convergence allocation (excluding the Cohesion Fund) for the EAGGF and the EFF; however, the totals do not correspond with those given by the Commission.[35]

In the final stage of the calculation, the composition of Cohesion policy funding to the new Member States is adjusted so that the Cohesion Fund represents one-third of the total. The figures given by the Commission are set out in Table 5.

[32] Article 18.

[33] See SAWG Information Note 28.

[34] Annex to Financial Perspective Fiche no 25 of 23 September 2004.

[35] Financial Perspective Fiche 30 of 11 October 2004 and Financial Perspective Fiche 26 Rev 4 of 26 January 2005.

Table 5: Commission Proposals for the Cohesion package (2007-13) € m (2004 prices)

	EU25	EU15	NMS10
Convergence Total	**246981**	**105886**	**141095**
• **Regional Convergence**	175643	83059	92584
• **Cohesion Fund**	54532	6021	48511
• **Phasing-out**	15706	15706	0
• **Outermost regions**	1100	1100	0
Competitiveness Total	**56489**	**54973**	**1516**
• **Phasing-in**	8103	6950	1153
• **Regional Competitiveness & Employment**	48386	48023	363
Territorial Cooperation	**13288**	**10365**	**2923**
Cohesion Package	**316758**	**171224**	**145534**
Transfers to EAGGF & EFF	*35356*	*18936*	*16414*

Source: Fiche 26 Rev 4.

None of the data provided by the Commission produce outcomes on a country-by-country basis. In practice, it is extremely difficult to replicate the calculations undertaken by the Commission in order to understand the implications for individual Member States, for several reasons: there is no comprehensive source of detailed information on the methodology; some of the data sources (eg. on past allocations) are unpublished; and some of the criteria are capable of multiple interpretations. Therefore, the calculations presented in Table 6 should be treated with considerable caution and considered no more than broad estimates of how funding might turn out on a country-by-country basis under the Commission proposals.[36]

[36] Note that the analysis excludes financial allocations to Bulgaria and Romania.

Table 6: Commission Proposals for Cohesion policy allocations (2007-13)

	Convergence	OMR	Cohesion Fund	Phase-out	Phase-in	Comp & Emp.	Cooperation	Total
EU25	175096	1109	54250	15650	8088	48386	13288	315866
EU15	83146	1109	6023	15650	6939	48053	10300	171220
NMS10	91950	0	48227	0	1149	333	2988	144646
Belgium	0	0	0	958	0	1498	366	2822
Czech Rep	18245	0	9427	0	0	95	472	28240
Denmark	0	0	0	0	0	653	262	915
Germany	11201	0	0	3977	0	10810	1856	27845
Estonia	1845	0	963	0	0	0	83	2890
Greece	9854	0	3302	7160	547	0	351	21213
Spain	20032	493	0	2138	3675	3372	984	30694
France	2510	483	0	0	0	10755	1623	15371
Ireland	0	0	0	0	485	363	152	999
Italy	18961	0	0	448	589	6230	1668	27895
Cyprus	0	0	109	0	0	161	39	308
Latvia	2312	0	1220	0	0	0	130	3662
Lithuania	3825	0	1993	0	0	0	164	5983
Luxembourg	0	0	0	0	0	57	24	82
Hungary	15452	0	8547	0	1149	0	503	25651
Malta	509	0	265	0	0	0	22	796
Netherlands	0	0	0	0	0	1716	481	2196
Austria	0	0	0	221	0	1036	351	1608
Poland	40275	0	20721	0	0	0	1170	62167
Portugal	17852	132	2721	476	192	553	235	22162
Slovenia	2763	0	1434	0	0	0	108	4306
Slovak Rep	6723	0	3547	0	0	77	297	10645
Finland	0	0	0	0	486	1695	238	2419
Sweden	0	0	0	0	0	2629	423	3052
UK	2736	0	0	273	966	6685	1287	11948

Note: Figures are in € m at 2004 prices.

Source: Own calculations.

Despite only limited information, several assumptions could be made about financial allocations to Member States.

- For the new Member States, the absorption cap would play an extremely important role, limiting allocations to €145.5 bn in the 2007-13 period (excluding Bulgaria and Romania). Capping affects almost all the new Member States to a greater of lesser degree and reduces the total allocation to the NMS10 by over € 150 bn from the amount based on the Berlin formula.

- Given the influence of the absorption limit, the use of the Berlin methodology might only apply to the EU15, where annual per capita allocations under the Convergence priority could fall to €215.6 per head for 2007-13.

- The share of Cohesion Fund resources as part of overall allocations would increase; estimates suggested allocations of €41 per head in the EU15 and €93 per head in the new Member States.
- The relatively generous provisions for the statistical effect regions would ensure sizeable shares of Convergence priority funding going to Germany, Greece, and Spain.
- The former Objective 1 phasing-in regions would face a very steep reduction in per capita allocations, from as high (in some cases) as €286 per head in 2007 to the projected per capita level for all other regions of €23 by 2012.

3. THE NEGOTIATION PROCESS

At the outset of the negotiations, the Commission's position on financial resources (ceiling of 1.24 percent of GNI) was supported by Spain, Portugal, Greece, Belgium and most of the new Member States, which explicitly called for an increase in EU Cohesion policy spending at or beyond the current 0.45 percent of EU GDP, although without specifying what level of increased expenditure would be required. A very different view was taken by the richer EU countries, six of which (Austria, France, Germany, the Netherlands, Sweden and the UK) had advocated a limit on expenditure of 1 percent of EU GNI. An intermediate position was held by countries such as Finland, Ireland and Italy, some of which suggested a budget of 1.1-1.14 percent of GNI. There was also concern about the proposed division of funding between old and new Member States, about the absorption limit (among many new Member States), and about the structure of the proposed financial framework.

With respect to the substance of Cohesion policy, there was a positive response from many Member States to the Commission's proposal to emphasise regional competitiveness, the new architecture, the approach to spatial coverage and the new delivery system. Under all these headings, however, many countries were uncertain – or had specific reservations – about particular aspects of the proposals pending clarification from the Commission.

Turning now to the review of the recent reform debate, the following sections examine the negotiation process over the past year. They begin with an outline of the discussions under the Dutch Presidency, and then the evolution of the negotiations – through successive 'negotiating boxes' under the Luxembourg Presidency - before concluding with the current situation and immediate outlook.

3.1 Dutch Presidency

Negotiations on the Commission's budgetary proposals began in September 2004. The Dutch Presidency took the novel approach of seeking to group Member State positions into 'building blocks' with a view to providing a structure to the discussions and assisting in finding areas of possible consensus. Detailed discussion was taken forward in the Ad Hoc Group on the Financial Perspectives, established in July 2004, which played an important role in identifying generally shared principles, the main issues at stake and the positions of Member States, including their budgetary implications. The Group also sought more detailed information from the Commission services on the assumptions and calculations

underlying the Commission's proposals, explanations which were published in an extensive series of fiches.

At the conclusion of the Presidency, a report prepared for the December 2004 European Council noted that the budgetary positions of Member States differed widely on every heading of the financial perspective.[37] For the EU budget as a whole, the proposed expenditure ceilings ranged from €694 bn (averaging 0.85 percent of EU GNI) to €1,056 bn (averaging 1.30 percent of EU GNI). The report summarised the general approach of Member States on expenditure as follows.

> *"Some delegations consider that a substantial increase of expenditure is needed to be able to cope with the Union's new priorities. Enlargement of the Union requires substantial additional funding. Whilst not necessarily agreeing to all detailed figures, these delegations consider that the Commission proposal constitutes a good basis for political agreement.*
>
> *For a number of delegations the overall ceiling for expenditure for the period 2007-2013 cannot exceed 1,0% of the enlarged Union's GNI, equivalent to €815 billion in terms of commitment appropriations over that period. Those delegations point out that this will provide 6,5% in real growth compared to the current Financial Perspective and enable the costs of enlargement, including the priority of solidarity with new Member States, to be met in full. They furthermore consider that funding for new priorities should primarily be found through reorientation of current expenditure.*
>
> *Some delegations take an intermediate approach and/or consider that the final figure for the overall ceiling will depend on a detailed examination of the policies accompanied by an assessment of the expenditure required to support them."*

These overall positions on expenditure ceilings were reflected in the indicative positions of Member States on Cohesion policy. The building blocks constructed by the Dutch Presidency (see Table 7) showed five broad groups of positions among Member States, ranging from those broadly in agreement with the Commission's proposals to those fundamentally opposed to the budget, the distribution among objectives, the allocation methodology or the provisions for transitional regions. Between the two extremes were a set of intermediate views reflecting particular concerns with the proposals for the Convergence or Regional Competitiveness objectives or the arrangements for phasing-out/in. The positions on the overall budget ranged from those Member States arguing for a larger increase in Cohesion policy spending than that proposed by the Commission (up to a high figure of €355 bn) to those looking for a substantial decrease (down to a low figure of €190 bn).

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[37] *Progress Report from the Presidency to the Committee of Permanent Representatives / Council on the Financial Perspectives 2007-2013*, Brussels, 6 December 2004, CADREFIN 155.

Table 7: Indicative positions of Member States on Cohesion policy 2007-2013 grouped into 'building blocks' (December 2004)

	Building Block A	Building Block B	Building Block C	Building Block D	Building Block E
Overall position	Broadly in agreement with COM proposal.	General acceptance of COM proposal but larger increase in funds for transitional regions.	More or less agreement with COM proposal, but more focus on poorest regions and countries.	Support for COM objectives but more focus on poorest regions. Substantially reduced budget.	Concentration on less-developed Member States. Opposed to COM proposals for regional competitiveness.
General considerations	Allocation between objectives as proposed by COM is right. 4% cap should be applied as should revised version of the Berlin allocation method. EU25 should be basis for average EU GDP to be used for eligibility.	EU support should focus on the poorest regions. Support for COM allocation between objectives, although amounts for Obj.1 and phasing-out/in are the minimum necessary. 4% cap should be applied. More flexibility in n+2. Revised Berlin method is good basis for allocation. EU25 should be the basis for eligibility and allocation calculations.	More emphasis on fairness and solidarity, to be reflected in spending allocations. More for Convergence. 4% cap and revised Berlin methods should not create disparities in per capita aid intensity. More flexibility in n+2 and higher co-financing for Cohesion Countries. EU25 should be the basis for eligibility and allocation calculations.	Concentration of policy on less-developed regions and Member States, so more emphasis on Convergence. Berlin method should be adapted accordingly. 4% cap and n+2 to be strictly applied. Instruments should satisfy principles of proportionality, subsidiarity and simplification. Cohesion budget should be at current levels or lower.	Convergence should be aimed at Member States not regions and account for far higher funding share. Berlin method should be revised accordingly. 4% cap and n+2 to be strictly applied. Instruments should satisfy principles of proportionality, subsidiarity and simplification. EU27 should be basis for eligibility and allocation calculations.
Convergence	Budget as proposed by COM. Statistical effect is justified concept.	Budget increase larger than COM proposal. Phasing-out should apply to the Cohesion Fund.	Budget increase, possibly lower than COM proposal. Phasing-out should be limited in time and scope with steeper degressivity.	Budget increase lower than COM proposal. Phasing-out support should be limited in time and scope (end by 2013).	Budget decrease. Focus on needs of new Member States. Transitional measures should be limited in time and scope with steeper degressivity.
Regional Competitiveness	Budget increase as proposed by COM. Proposal is balanced and acceptable.	Budget increase, maybe larger than COM proposal. Proposed amounts are the minimum, and phasing-in arrangements could be more generous.	Constant budget or increase lower than COM proposal. Transitional arrangement for phasing-in regions could be restricted and less generous.	Budget decrease. Funds should be for activities with clear value added. Phasing-in support should be limited in time and scope.	Budget decrease to zero. No support for competitiveness funding under this heading.
Territorial Cooperation	Budget increase as proposed by COM. Proposal is balanced and acceptable.	Budget increase. COM proposal is a good basis.	Budget increase as proposed by COM. New objective for cooperation is welcomed.	Constant budget or increase smaller than COM proposal. Support for principle of cooperation, especially CBC.	Baseline is a constant budget. May be case for some increase in expenditure, especially TNC, but needs justification.
Overall budget level	Increase as proposed by Commission.	Larger increase than COM proposal.	Increase as the COM proposal, or somewhat lower.	More or less constant budget or slight decrease.	Substantial decrease.
Budget range 2007-2013	**€338-340 bn**	**€340-355 bn**	**€295-335 bn**	**€230-275 bn**	**€190-235 bn**

Source: Table compiled from information in CADREFIN 155, 6 December 2004, *op. cit.*

At that stage in the negotiations, the generally shared principles were limited to the statement that[38] "efforts should be directed to the objective of reducing disparities in development levels, with particular attention to the least developed parts of the Union". The 'issues at stake' identified by the Presidency report were considerable, and in some cases fundamental, as follows:

- *General issues*: value added, subsidiarity, proportionality and policy objectives; the relative focus on the least-developed regions/Member States; the percentage allocation of spending between the three objectives; the use of a revised Berlin allocation method as the basis for calculating eligibility and financial allocations; the methodology and scope of the four percent cap; disparities in per capita aid intensity; the application of the n+2 rule; co-financing rates; and the use of EU25 vs EU27 averages as a basis for measuring relative prosperity;

- *Convergence*: the budget level and allocation between the different components; the application, scope and arrangements of statistical phasing-out; and the phasing-out of the Cohesion Fund;

- *Regional Competitiveness*: the budget level and allocation between the different components; and the application and arrangements of phasing-in;

- *Territorial Cooperation*: policy objectives, eligibility rules and budget level.

The December European Council duly took note of the report from the Dutch Presidency and invited the Luxembourg Presidency to press ahead with work to establish political agreement on the financial framework by June 2005. Although the Council endorsed the Commission proposal "to maintain the ceiling for own resources at the current level of 1,24% of EU GNI", it also explicitly recognised the need for budgetary constraint, stating that the financial framework "should attest to determined efforts towards budgetary discipline in all policy areas within a general context of budgetary consolidation in the Member States".[39]

3.2 Luxembourg Presidency

The Dutch 'building block' approach was not continued under the Luxembourg Presidency. Instead, in the early part of the year, the Presidency went back to 'first principles' to establish positions and views among Member States. It was therefore not until March 2005 that the first comprehensive document was produced by the Presidency providing a basis for debate in the form of a 'negotiating box'. Replicating the approach used in the Agenda 2000 negotiations, the document was seen as:[40]

[38] *Ibid.* p.22

[39] *Presidency Conclusions of the Brussels European Council, 16-17 December 2004,* Council of the European Union, Brussels, 1 February 2005, CONCL 4.

[40] *Non-Paper Financial Perspective 2007-2013 Negotiating Box*, Note from the Presidency to the Committee of Permanent Representatives, Brussels, 8 March 2005, CADREFIN 43.

> *"a tool designed to provide a solid framework and give focus and momentum to the discussions. To that end it incorporates two kinds of elements: language on principles and issues which might serve as the basis for the conclusions of the June European Council (presented in normal typeface), and descriptions of the main problems which the Presidency considers will need to be addressed if an overall agreement is to be reached (presented in italics)".*

The Presidency was keen to stress that the document was not binding on any delegation and was guided by the principle that "nothing is agreed until everything is agreed".[41] Between 8 March and the start of the Brussels Council, five main versions of the Negotiating Box were produced, together with one supplementary note on amendments to Version 5 discussed in the course of the Council meeting. The following sections briefly summarise the evolution of the debate on the basis of the Negotiating Boxes, focusing mainly on issues related to Cohesion policy (Heading 1b).

3.3 Negotiating Box 1

The first Negotiating Box (NB1), produced on 8 March, mainly restated the Commission's broad proposals and the draft General Regulation. It did not put forward any figures for expenditure for the financial perspective as a whole, apart from a reference to maintaining the ceiling on payment appropriations at 1.24 percent of EU GNI, or under any of the sub-headings. The issue of own resources was also left open.

NB1 did, however, raise some important questions about the allocation methodology for Cohesion policy. In particular, it indicated the need to examine:

- the coefficients and thresholds to be applied so that the financial envelope of a Convergence region reflected its relative prosperity and took account of unemployment (see Box 2);
- the issue of whether the special transitional arrangements "constitute an adequate response to the issue of transition"; and
- the ceiling on cohesion transfers for the New Member States with respect to the methodology for estimating national GDPs over the period, and possible ways of reducing the perceived perversity in the side effect of capping (leading to aid intensities in the poorest Member States being lower than in more prosperous Member States).

[41] *Ibid.*

Box 2: Berlin method coefficients of prosperity and employment

The Berlin method, as amended, involves the following steps:

- Assessing the gap in regional GDP(PPS) per head for NUTS II regions with GDP(PPS) per head of less than 75 percent of the EU average.
- Making an allocation based on the size of that gap multiplied by a national coefficient to benefit the poorest countries

GNI(PPS) per head - EU25=100	National coefficient
<82	5 percent
>82<99	4 percent
>99	3 percent

- Making an allocation based on the number of unemployed persons in excess of the Convergence Region average (€ 100 per year for each person unemployed in excess of the average rate).

3.4 Negotiating Box 2

The second version of the Negotiating Box (NB2)[42] again did not include figures for spending, with the exception of stating the proposed ceiling of 1.31 percent of EU GNI for commitment appropriations, and, as previously, 1.24 percent for payments. The new content related primarily to the allocation methodology for Cohesion policy, the main changes being to concentrate resources more on the poorest Member States and regions.

- The *split between the different objectives* of Cohesion policy was modified to shift resources to Convergence (whose proposed share of total commitments increased from 78 to 81 percent) and away from Regional Competitiveness and Employment (whose share fell from 18 to 15 percent).
- Changes were proposed to *the allocation method for Convergence regions*, replacing the prosperity-related coefficient used at Berlin for Objective 1 (5%, 4%, 3%) with the ranges 3.5-4.5%, 2.8-3.6%, 2.1-2.7% for regions with levels of GNI per capita below and above specified thresholds between 82 and 99 percent of the Community average. The premium to take account of the numbers of unemployed was extended from €100 (at Berlin) to a range between €100 and €200 per unemployed person per year.

[42] *Non-Paper Financial Perspective 2007-2013 Negotiating Box*, Note from the Presidency to the Council, Brussels, 21 April 2005, CADREFIN 84.

- *The aid intensity for allocating the Cohesion Fund* was set at between €31.3 and €40.2 per capita. A review of eligibility for the Cohesion Fund in 2010 was also inserted.

- *New allocations for transitional areas* were proposed. Phasing-out arrangements for the Cohesion Fund were included (to the benefit of Spain); the degressivity of allocations for phasing-out/in regions were specified; and special degressive rates were proposed for Member States where phasing out regions would represent at least one third of Objective 1 eligibility in 2006 (to the benefit of Greece and Germany in particular). Importantly, aid intensities from 2007 for current Objective 1 regions losing that status would be driven essentially by the aid intensity in 2006.

- The *ceilings on cohesion transfers* to the Member States were modulated by adjusting the level of capping on a sliding scale so that the more prosperous the Member State (as measured in GNI), the smaller transfers should be as a percentage of national GDP. (see Box 3).

- The 50:50 split between ERDF and ESF for the Regional Competitiveness and Employment objective was removed.

Box 3: Modulation of the effects of capping

	GNI(PPS) per head EU25=100	Transfer cap as % of national GDP
Belgium	120.2	2.3
Czech Rep	64.9	3.5
Denmark	122.9	2.3
Germany	108.7	2.6
Estonia	44.4	3.9
Greece	77.9	3.2
Spain	94.1	2.9
France	114	2.5
Ireland	110.8	2.5
Italy	108.7	2.6
Cyprus	82.5	3.1
Latvia	39.5	4.0
Lithuania	42.4	3.9
Luxembourg	195.3	0.8
Hungary	55.7	3.6
Malta	73.5	3.3
Netherlands	121.5	2.3
Austria	121.1	2.3
Poland	45.5	3.8
Portugal	75.2	3.2
Slovenia	75.7	3.2
Slovak Rep	51.1	3.7
Finland	113.6	2.5
Sweden	115.6	2.4
UK	119.6	2.4

Source: Own calculations from Eurostat and DG ECFIN data.

3.5 Negotiating Box 3

The refinement of the allocation methodology for Cohesion policy, to take account of different Member State interests, continued in the third version of the Negotiating Box (NB3),[43] published on 19 May.

- A further *shift in resource allocation* towards the Convergence objective was proposed (with an increase in the share of total commitments from 81 to 82 percent), this time at the expense of the Territorial Cooperation objective, whose proposed share was reduced from 4 to 3 percent.

- The ranges of the prosperity-related coefficient under the *allocation method for Convergence regions* were increased and narrowed to 4.0—4.25%, 3.2-3.4% and 2.4-2.55%. The unemployment premium was also increased from a range of €100-€200 to €300-€700 per unemployed person per year.

- The proposed *aid intensities for the Cohesion Fund* were also increased from a range of €31.3-€40.2 to a range of €35.8-€38.0 per capita. Also, the use of population and surface area for calculating national Cohesion Fund allocations was modified so that, if a Member State's share of total population exceeded its share of total surface area by a factor of 5 or more, reflecting an extremely high population density, only the share of total population would be used for calculating the share (to the benefit of Malta).

- The *allocation criteria for the Regional Competitiveness and Employment* objective were modified to give less weight to total population (reduced from 0.6 to 0.5) and to increase the weighting of unemployment (0.15 to 0.2) and employment (0.10 to 0.15). The weights of the other criteria of low education (0.10) and population density (0.05) remained unchanged (see Table 4 for Commission proposals).

- Provision was made for *regions with specific characteristics recognised under the Treaties,* with additional funding of €20 per inhabitant (to the benefit of the sparsely populated areas of Finland and Sweden).

- With respect to *transitional provisions*, the treatment of regions currently ineligible for Objective 1 but qualifying for transitional support was clarified. The degressivity for phasing-out regions was steepened slightly.

- The modulated *ceilings on cohesion transfers* to the new Member States, introduced in NB2, were modified slightly and provision was made for a review and adjustment of allocations in 2010, within a range of €3 billion (positive or negative).

- Of key importance, it was proposed to use individual growth rates for GDP for 2007-13, as projected by the Commission, to determine capping levels.[44]

[43] *Non-Paper Financial Perspective 2007-2013 Negotiating Box*, Note from the Presidency to the Council, Brussels, 19 May 2005, CADREFIN 108.

- The *definition of the Territorial Cooperation objective* incorporated inter-regional cooperation (alongside cross-border and trans-national cooperation). This replaced the former proposal for inter-regional cooperation to be promoted through a ring-fenced allocation within the mainstream Structural Fund programmes. The allocation of resources between cross-border cooperation (70 percent), trans-national cooperation (25 percent) and inter-regional cooperation (5 percent) was also specified in the NB for the first time.

  While the main changes related to allocation methods, NB3 also proposed a percentage allocation of commitment resources to Heading 1b (in the range 0.37-0.38 percent of EU27 GNI). Further, it put forward proposals for the rate of increase in spending under Heading 1a (an annual real growth in commitments of 8-11 percent compared to 2006), Heading 3a (18 percent), Heading 3b (5 percent), Heading 4 (4.5-8 percent) and Heading 5 (3 percent). Some starting points for a reform of Own Resources were also proposed.

3.6 Negotiating Box 4

Two weeks before the Brussels Council, the fourth iteration of the Negotiating Box (NB4)[45] included actual expenditure figures for each year of the 2007-2013 period under budget Headings 1a, 3a, 3b, 4 and 5. It also set proposed spending on Cohesion policy at 0.37 percent of EU27 GNI.

With respect to the allocation methodology, NB4 included specific figures (as opposed to ranges) for the Convergence region prosperity-related coefficient (at 4.20%, 3.36% and 2.52%) and the unemployment premium - and the average aid intensity for the Cohesion Fund (€37.5 per capita). In each case, these figures were at the higher end of the ranges proposed in NB3. (By contrast, the proposed aid intensities for support under the Rural Development instrument and new Fisheries instrument were reduced.)

More significantly, following a series of proposals in NB2 and NB3 to shift resources towards those Member States and regions benefiting from the Convergence objective, NB4 included steps to limit the impact of cutting back the Regional Competitiveness and Employment objective; a 'safety net' was proposed specifying that the share of each Member State should not be less than two-thirds of its share in 2006 of combined funding under Objectives 2 and 3. The impact of degressivity for transitional regions was also modified so that the linear reductions would be based on reaching the *national* average per capita aid intensity level (rather than the EU average).

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[44] However, these projections were not, apparently, put in the public domain. Given the critical role of capping in determining the allocations to the new Member States, this has considerable implications for being able to replicate Commission calculations of the distribution of the funds.

[45] *Non-Paper Financial Perspective 2007-2013 Negotiating Box*, Note from the Presidency to the Council, Brussels, 2 June 2005, CADREFIN 115.

Under the Territorial Cooperation objective, additional support was proposed for border areas by increasing the share of resources for cross-border cooperation (from 70 to 75 percent) at the expense of transnational cooperation (whose share was reduced from 25 to 21 percent). Further, provision was made for the aid intensity along the former external terrestrial borders between the EU15 and EU12 to be 20 percent higher than for other regions (to the benefit of the eastern border areas of Germany and Austria).

The use of absolute sums in place of ranges or no absolute figures at all, which had been the case under the first three Negotiating Boxes, facilitates an assessment of the implications of the NB4 proposals. This is presented in Table 8. However, as with the attempt to replicate the Commission's proposals, such calculations should be treated with considerable caution. In particular, although many detailed aspects of the methodology were discussed and altered in the course of the negotiations, many questions remain unanswered. Moreover, and of key importance for the allocations to the new Member States, there is apparently no information available on the growth rates used by the Commission to establish the levels at which capping 'bites' on transfers.

Table 8: NB4 Proposals for Cohesion policy allocations (2007-13)

	Convergence	OMR	Cohesion Fund	Phase-out	Phase-in	Comp & Emp.	Cooperation	Total
EU25	158302	562	51759	12301	7755	38004	8493	277175
EU15	72104	562	6820	12301	6539	37750	6282	142357
NMS10	86198	0	44939	0	1216	254	2211	134818
Belgium	0	0	0	823	0	1182	250	2255
Czech Rep	16304	0	8377	0	0	66	383	25130
Denmark	0	0	0	0	0	462	196	658
Germany	9817	0	0	3529	0	8595	1021	22961
Estonia	1811	0	938	0	0	0	65	2814
Greece	8277	0	2771	5804	586	0	235	17672
Spain	17302	250	1765	1267	3569	2713	553	27419
France	2389	245	0	0	0	8682	968	12284
Ireland	0	0	0	0	408	258	107	774
Italy	17025	0	0	272	555	4759	1053	23663
Cyprus	0	0	79	0	0	127	30	236
Latvia	2336	0	1218	0	0	0	101	3654
Lithuania	3761	0	1942	0	0	0	122	5825
Luxembourg	0	0	0	0	0	42	19	61
Hungary	14220	0	7910	0	1216	0	384	23730
Malta	455	0	236	0	0	0	17	707
Netherlands	0	0	0	0	0	1343	305	1648
Austria	0	0	0	187	0	761	285	1233
Poland	38558	0	19667	0	0	0	775	59000
Portugal	14996	67	2284	257	245	444	127	18420
Slovenia	2318	0	1207	0	0	0	96	3622
Slovak Rep	6435	0	3367	0	0	60	238	10101
Finland	0	0	0	0	305	1410	176	1891
Sweden	0	0	0	0	0	2082	315	2397
UK	2298	0	0	161	872	5015	673	9019

Note: Figures are in € m at 2004 prices. **Source:** Own calculations.

3.7 Negotiating Box 5

The fifth and final comprehensive variant of the Negotiating Box (NB5)[46] was published on 15 June, on the eve of the Brussels Council meeting. Submitted to the Council as a basis for negotiation, NB5 provided budget figures for all headings. Among the changes made, the most notable were the significant reductions in the expenditure ceilings for commitment appropriations (from 1.31 to 1.06 percent of EU27 GNI) and for payment appropriations (from 1.24 to 1.00 percent). Proposed spending on Cohesion policy was now €306.5 billion, and reductions were made to all of the other Headings in terms of annual growth in spending and overall totals. Figures were also provided for the breakdown in spending between Convergence (€252.2 bn), Regional Competitiveness and Employment (€46.8 bn) and Territorial Cooperation (€7.5 bn).

A detailed methodology for reforming Own Resources was proposed.

Further changes were made to the allocation methodology, in many cases providing additional resources for specific types of regions.

- Convergence – the prosperity-related coefficients were adjusted yet again (from 4.2%, 3.36%, 2.52% to 4.25%, 3.36%, 2.62%), reducing slightly the preference given to the poorest regions. More significantly, the average aid intensity for the Cohesion Fund was increased from €37.5 to €42 per head.

- Regional Competitiveness and Employment – the safety net was improved so that the future share of each Member State would not fall below three-quarters (compared to two-thirds in NB4) of their combined Objective 2 and 3 funding.

- Territorial Cooperation – the proportion of the budget for cooperation was reduced from 3 to 2.45 percent, and the preference of cross-border cooperation over transnational and inter-regional cooperation was increased again, with respective shares of 77%, 19% and 4% (compared to 75%, 21% and 4% in NB4).

- Transitional allocations – extra support was proposed for phasing-out/in regions with high unemployment with an additional premium of €600 per unemployed person. The degressivity of phasing-out for the Cohesion Fund was also defined.

One of the most striking features of NB5, however, was the list of 'additional provisions' (see Table 9). Similar to the 'Paragraph 44' additions in the 1999 Berlin agreement, Paragraphs 39-46 of NB5 identified special support for those categories of region that could not otherwise be accommodated in the allocation methodology. Some of these had already been included in previous NBs (the non-Objective 1 phasing-out regions; Objective 1 areas with at least one-third of their eligible population affected by phasing-out; outermost regions; sparsely-populated regions; and the EU15/EU25 border areas) but were given

[46] *Financial Perspective 2007-2013 Negotiating Box*, Note from the Presidency to the Council, Brussels, 15 June 2005, CADREFIN 130.

additional support. Other cases were new: the five poorest Polish regions; Cyprus; Northern Ireland; and the NUTS II regions of Itä-Suomi and Madeira.

The implications of the changes in NB5 for financial allocations to each Member State under each objective are shown in Table 10 (with the same caveats to the calculations noted earlier).

Table 9: 'Additional provisions' in Negotiating Box 5

Para.	Regions	Provisions
39	Phasing-out regions representing at least one-third of the 2006 Objective 1 population	Shallower degressivity, with reduction from 80% of 2006 per capita aid intensity in 2007 to 50% in 2013
40	Phasing-out regions currently ineligible for Objective 1 or eligible from 2004	Starting point for degressivity of 90% of theoretical 2006 per capita aid intensity
41	Polish NUTS II regions of Lubelskie, Podkarpackie, Warmínsko-Mazurskie, Podlaskie and Swietokrzyskie	Additional funding of €10 per inhabitant
42	Cyprus	Treatment as phasing-in region on the same basis as regions in para. 40
43	NUTS II regions of Itä-Suomi and Madeira	Phasing-in status but treated as phasing-out for funding purposes
44	Outermost regions. Regions of Austria, Finland and Sweden fulfilling Accession Treaty criteria	Additional funding of €30 per inhabitant
45	Regions on former EU15/EU12 land borders	Aid intensity 50% higher than for other border regions under the Territorial Cooperation objective
46	Northern Ireland	Allocation of €200 mill for the PEACE Programme

Source: CARDEFIN 130 5 *op. cit.*

Table 10: NB5 Proposals for Cohesion policy allocations (2007-13)

	Convergence	OMR	Cohesion Fund	Phase-out	Phase-in	Comp & Emp.	Cooperation	Total
EU25	160739	842	52820	12489	8777	37981	7217	281065
EU15	73551	842	7661	12489	6927	37857	5262	144789
NMS10	87187	0	45159	0	1850	124	1955	136275
Belgium	0	0	0	643	0	1141	208	1993
Czech Rep	16422	0	8425	0	0	65	363	25274
Denmark	0	0	0	0	0	446	164	611
Germany	10188	0	0	3857	0	8296	867	23209
Estonia	1820	0	937	0	0	0	55	2812
Greece	8376	0	3103	5808	586	0	201	18073
Spain	17302	374	2000	1278	3630	2913	453	27950
France	2471	367	0	0	0	8380	797	12015
Ireland	0	0	0	0	406	250	89	745
Italy	17651	0	0	280	634	4596	879	24039
Cyprus	0	0	217	0	408	0	25	650
Latvia	2350	0	1217	0	0	0	84	3651
Lithuania	3779	0	1941	0	0	0	102	5822
Luxembourg	0	0	0	0	0	47	16	63
Hungary	14066	0	7918	0	1442	0	329	23755
Malta	467	0	241	0	0	0	14	722
Netherlands	0	0	0	0	0	1508	252	1760
Austria	0	0	0	187	0	735	275	1198
Poland	39446	0	19661	0	0	0	676	59782
Portugal	15175	101	2558	256	346	429	104	18968
Slovenia	2377	0	1237	0	0	0	97	3711
Slovak Rep	6460	0	3365	0	0	59	211	10096
Finland	0	0	0	0	434	1407	147	1988
Sweden	0	0	0	0	0	2075	264	2338
UK	2389	0	0	180	891	5632	547	9838

Note: Figures are in € m at 2004 prices.

Source: Own calculations.

3.8 Negotiating Box 6

Subsequent to the June European Council meeting, an addendum to NB5 was produced.[47] This sixth variant (NB6) provided figures for the maximum total expenditure for EU27 in the period 2007-2013 as €871.514 bn for commitment appropriations (1.06 percent of EU GNI) and €827.515 bn for payment appropriations (1.00 percent of EU GNI).

With respect to Cohesion policy (Heading 1b), the level of financial commitment was raised slightly to 0.376 percent of EU27 GNI, reflecting the allocation of an additional €3.1 bn for Cohesion policy (a new total of €309.594 bn). Most of this extra funding was allocated to the Convergence objective, with a small increase for Regional Competitiveness and Employment (including some extra resources for phasing-in regions). The allocation to

[47] *Financial Perspective 2007-2013 Negotiating Box*, Addendum to the Note from the Presidency to the Council, Brussels, 17 June 2005, CADREFIN 130, ADD 1.

Territorial Cooperation remained static, but its proportion of the bigger budget fell (again) slightly from 2.45 percent in NB5 to 2.42 percent.

Many small changes were made to the allocation methodology, in every case providing more favourable treatment. Under the Cohesion Fund, the average aid intensity was increased from €42.0 to €44.7 per capita; and the period of degressivity for phasing-out (of the Cohesion Fund) was extended from two to four years, with an additional €800 mill to cover the longer period. Minor increases were also made to some of the coefficients for ensuring that the least-developed regions were not disadvantaged by capping. Other modifications applied to the list of additional provisions (see Table 11).

Table 11: 'Additional provisions' in Negotiating Box 6 (changes compared to NB5 in bold)

Para.	Regions	Provisions
39	Phasing-out regions representing at least one-third of the 2006 Objective 1 population	Shallower degressivity, with reduction from 80% of 2006 per capita aid intensity in 2007 to 50% in 2013
40	Phasing-out regions currently ineligible for Objective 1 or eligible from 2004	Starting point for degressivity of 90% of theoretical 2006 per capita aid intensity
41	Polish NUTS II regions of Lubelskie, Podkarpackie, Warmínsko-Mazurskie, Podlaskie and Swietokrzyskie	Additional funding of €10 per inhabitant
42	Cyprus	Treatment as phasing-in region on the same basis as regions in para. 40
43	NUTS II regions of Itä-Suomi and Madeira	Phasing-in status but treated as phasing-out for funding purposes
43a	**Canarias**	**Additional envelope of €100 mill.**
44	Outermost regions. Regions of Austria, Finland and Sweden fulfilling Accession Treaty criteria	Additional funding of **€35** (formerly €30) per inhabitant
45	Regions on former EU15/EU12 land borders	Aid intensity 50% higher than for other border regions under the Territorial Cooperation objective
46	Northern Ireland	Allocation of €200 mill for the PEACE Programme
46a	**Swedish regions falling under the Regional Competitiveness and Employment objective**	**Additional ERDF envelope of €150 mill**
46b	**Austrian regions falling under the Regional Competitiveness and Employment objective situated on the former external EU borders**	**Additional ERDF envelope of €150 mill**

Source: CARDEFIN 130, APP1 *op. cit.*

The implications of NB6 for cohesion policy allocations to Member States are shown in Table 12 (again with the above mentioned caveats to the calculations).

Table 12: NB6 Proposals for Cohesion policy allocations (2007-13)

	Convergence	OMR	Cohesion Fund	Phase-out	Phase-in	Comp & Emp.	Cooperation	Total
EU25	161794	983	54144	12490	8805	38501	6953	283870
EU15	74237	983	8825	12490	6935	38375	5069	147114
NMS10	87557	0	45319	0	1870	126	1884	136756
Belgium	0	0	0	644	0	1148	200	1992
Czech Rep	16459	0	8437	0	0	66	350	25312
Denmark	0	0	0	0	0	449	158	607
Germany	10374	0	0	3857	0	8345	836	23411
Estonia	1831	0	942	0	0	0	53	2826
Greece	8376	0	3303	5808	586	0	194	18266
Spain	17402	437	2800	1279	3635	2930	436	28919
France	2512	428	0	0	0	8429	767	12137
Ireland	0	0	0	0	406	251	86	744
Italy	17964	0	0	280	635	4623	846	24348
Cyprus	0	0	220	0	416	0	24	660
Latvia	2353	0	1217	0	0	0	81	3651
Lithuania	3803	0	1950	0	0	0	98	5851
Luxembourg	0	0	0	0	0	48	15	63
Hungary	14065	0	7918	0	1455	0	317	23755
Malta	471	0	243	0	0	0	14	728
Netherlands	0	0	0	0	0	1517	243	1760
Austria	0	0	0	187	0	890	265	1342
Poland	39674	0	19763	0	0	0	651	60088
Portugal	15175	117	2722	256	346	432	100	19148
Slovenia	2399	0	1246	0	0	0	93	3739
Slovak Rep	6502	0	3382	0	0	60	203	10147
Finland	0	0	0	0	434	1415	141	1990
Sweden	0	0	0	0	0	2236	254	2490
UK	2435	0	0	180	892	5664	527	9898

Note: Figures are in € m at 2004 prices.

Source: Own calculations.

3.9 Evolution of the Negotiating Boxes: Assessment

The evolution of the NBs from March to June 2005 shows the progression from a situation of major differences between the Member Sates on fundamental issues to a workable compromise (with respect to EU Cohesion policy) in terms of the level of proposed spending and the allocation of expenditure. Several conclusions can be drawn from the above analysis.

1. Overall EU expenditure was reduced in line with the views of the Group of Six to 1.06 percent of EU GNI for commitments appropriations and 1.0 percent for payment appropriations, yet a sizeable Cohesion policy budget was retained. The Commission's initial proposal[48] had been for a commitment appropriations budget of some €102.5

[48] COM(2004) 101 final.

billion; by NB6, this had been negotiated down to around €87 billion. Although the Cohesion budget under NB6 fell significantly from the Commission's original proposal, its share in the total actually increased slightly. Major reallocations were made to the proposed allocations for Headings 1a (Competitiveness), 3a/3b (internal policies) and 4 (external policies) in the order of 40-60 percent (see Table 13).

2. With respect to Cohesion policy, a larger share of the budget was shifted towards the Convergence objective (this increased from 78 to more than 82 percent), but the overall amount declined by almost €16 billion from the Commission proposals (see Table 14).

3. By contrast, the Cohesion Fund and the phasing-in regions both improved their positions in relation to the Commission's proposals. The Cohesion Fund increased by almost 10 percent (€ 608 million) on the Commission's proposals and, under NB6, accounted for 20.5 percent of the Cohesion policy total, compared with 18.4 percent under the Commission proposals. Although in absolute terms smaller, the increase secured for the phasing-in regions is more significant still: the NB6 figure is almost 20 percent higher than the Commission proposal within the context of a budget that is over 9 percent lower.

4. A sizeable budget for Regional Competitiveness and Employment was, however, still secured (albeit less in both absolute and relative terms than proposed by the Commission), with the impact of cutbacks on individual Member States being ameliorated by the application again of a safety net.

5. Territorial Cooperation was a big loser from the negotiations, with no increase in real terms over the 2000-06 budget and little prospect of being able to fund more 'strategic projects' under cross-border and transnational cooperation programmes.

6. The specific concerns of individual Member States were addressed by adapting the prosperity-related coefficient, the absorption coefficient, the degressivity of phasing-out/in regions and by increasing the allocations to specific categories of region (OMRs and sparsely-populated areas).

Notwithstanding these changes, the negotiations showed up the limitations of the methodology in incorporating all of the political priorities of Member States. This is evident in the list of 'additional provisions' (see Table 9) and was explicitly acknowledged in NB5:

> *"The methods, definitions and arrangements set out above form the common bedrock for allocating the cohesion funds to the Member States. However, their necessarily general nature and the impossibility in practice of building in all the relevant factors do not allow an adequate response to a number of objective situations, which accordingly call for special treatment for a variety of reasons: the need to take into account revisions of the most recent statistical data, the disportionate impact on certain regions and countries of mechanically applying certain criteria, exceptional geographic and demographic circumstances, etc... In order to pay full regard to these different elements in the interests of fairness and*

balance the following additional provisions will be applied when implementing the allocation of cohesion expenditure."

7. Further 'additional provisions' were included in the course of the Brussels Council (see Table 11), some clearly motivated by last-minute attempts to gain the support of individual Member States for an agreement. Presumably, however, these are also part of the baseline from which future negotiations now have to proceed.

Table 13: Evolution of the Negotiating Box – Commitments for 2007-2013 by Heading

Proposed allocations	**COM prop**	**NB 1 8 Mar**	**NB 2 21 Apr**	**NB 3 19 May**	**NB 4 2 Jun**	**NB 5 15 Jun**	**NB 6 17 Jun**
Expend. ceiling: commitments (%)	-	-	1.31	1.31	1.31	1.06	1.06
Expend. ceiling: payments (%)	1.24	1.24	1.24	1.24	1.24	1.00	1.00
1A: Competitiveness	132755	-	-	-	74000	72010	72010
1B: Cohesion – total	341405[d]	-	-	-	-	306508	309594
1B: Cohesion - % of EU 27 GNI	0.42			0.37-8	0.37	0.37	0.376
2: Natural resources	405060[a]	-	-	-	-	377801	377800
of which market-related agric.	301074	-	-	-	-	295105	295105
3a: Freedom, security, justice	24705[b]	-	-	-	7470	6630	6630
3b: Other internal policies		-	-	-	4490	4370	4370
4: EU as a global partner	92110	-	-	-	51010	50010	50010
5: Administration	28620[c]	-	-	-	51300	50300	50300

Notes: Except where otherwise stated, figures in € m at 2004 prices. a) Estimate. b) no breakdown of Heading 3 is given in the Commission Working Document. c) Unlike the later administration figures, this does not include Commission administrative expenditure, which is integrated into the other headings. d) A different figure of €338710 is given in SEC(2005)494.
Sources: Commission Working Document: Technical Adjustments to the Commission Proposal for the Multiannual financial framework 2007-20013, SEC(2005)494 final of 12 April 2005; Multiannual Financial Framework 2007-2013, Fiche no. 26 Rev 4 of 12 April 2005; and own calculations.

Table 14: Evolution of the Negotiating Box: Cohesion Policy commitments for 2007-2013

	COM prop 12 Apr		**NB4 2 Jun**		**NB5 15 Jun**		**NB6 17 Jun**	
	€ m	**%**	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Convergence	**270665**	**79.3**	**251337**	**82.0**	**252249**	**82.3**	**254781**	**82.3**
Convergence	191111	56.0			177252	57.8	178240	57.6
Phasing-out	15706	4.6			12202	4.0	12202	3.9
Cohesion Fund	62748	18.4			61953	20.2	63356	20.5
OMR	1100	0.3			842	0.3	983	0.3
Comp & Emp	**56489**	**16.5**	**45976**	**15.0**	**46758**	**15.3**	**47313**	**15.3**
Phasing-in	8103	2.4			9494	3.1	9695	3.1
Other regions	48386	14.2			37264	12.2	37618	12.2
Terr Coop	**14251**	**4.2**	**9195**	**3.0**	**7500**	**2.4**	**7500**	**2.4**
Cross border	6802	2.0	6896	2.2	5775	1.9	5775	1.9
Transnational	6802	2.0	1931	0.6	1425	0.5	1425	0.5
Interregional	647	0.2	368	0.1	300	0.1	300	0.1
TOTAL	**341405**	**100.0**	**306508**	**100.0**	**306508**	**100.0**	**309594**	**100.0**

Source: Multiannual Financial Framework 2007-2013, Fiche no. 26 Rev 4 of 12 April 2005; Negotiating Boxes 4, 5 and 6 *op cit;* and own calculations.

3.10 The Brussels European Council

The Presidency Conclusions of the Brussels European Council on 17-18 June 2005 provided a bland statement of the outcome:[49]

> *"The European Council regretted that it was not possible to reach an overall agreement on the Financial Perspective at this stage. It underlined the need for clarity over the resources available to the Union in support of common policies over the future financing period, and undertook to continue to make every effort to achieve this objective. It noted that the preparatory work undertaken collectively has allowed work on this issue to advance significantly. It agreed that the focus and momentum given to the discussions through the negotiating box drawn up at the initiative of the Presidency need in particular to be maintained."*

The diplomatic wording concealed a deep political division among Member States on the future budget. Going into the negotiations, it was clear that the key issue would be the future of the British rebate, with the UK linking any reduction of its rebate to a fundamental reform of agricultural spending, while France was publicly calling for the rebate to be abolished. However, the argument was not limited to differences between France and the UK, and other countries expressed concern about the structure of the budget or their net balance. The vote on the final version of the financial perspective (NB6 above) was rejected by five countries (Finland, the Netherlands, Spain, Sweden and the UK), with two other countries (Denmark and Italy) abstaining. The collapse of the negotiations, associated with considerable rancour and mutual recrimination among EU leaders, was variously portrayed by the heads of state and government as a 'profound crisis, an 'enriching debate', and a 'turning point'. The divisions between Member States were also presented more fundamentally as a clash between "two confronting conceptions of Europe",[50] in terms of market-reliant economic liberalism versus more extensive political integration in support of the European 'social model'.

Notwithstanding the clear differences and summit rhetoric, it has been argued that the EU came very close to an agreement[51] that would have been acceptable to the Council, European Parliament and the Commission. In the view of the Luxembourg Presidency, the basis for an agreement was created at the Brussels meeting by a Presidency proposal along the following lines:[52]

- a budget for commitment appropriations representing 1.056 percent of GNI and 1.0 percent for payment appropriations, figures claimed to have been "universally

[49] *Presidency Conclusions of the Brussels European Council, 16 and 217 June 2005,* Council of the European Union, Brussels, 18 June 2005, CONCL 2.

[50] Speech by Jean-Claude Juncker, President of the Council of the EU at the European Parliament on the outcome of the Luxembourg Presidency and the European Council held on 16-17 June, Brussels, 22 June 2005.

[51] Interview with DG Budget Commissioner Grybauskaite on the financial perspective, 25 July 2005, EurActiv.com

[52] Speech by Jean-Claude Juncker, *op. cit.*

accepted by all Member States….any future compromise will not differ substantially from this level";

- maintenance of the British rebate as regards the 15 original Member States, with the UK co-financing Cohesion policy in the new Member States but without contributing to the CAP in these countries; and

- the Commission to prepare a proposal, by the end of 2008, for reforming all aspects of the budget, with the proposal to be examined by the Council and possible modification to the last part of the financial perspectives from 2009.

3.11 Current situation

The UK Presidency has made a commitment to "take forward discussions on future financing, drawing on progress to date, and with a view to resolving all the elements necessary for an overall agreement as soon as possible."[53] The UK approach is that agreement on the budget depends on setting out "a process that leads to a more rational budget and that this must allow such a budget to shape the second half of the perspective up to 2013",[54] with reference to the budgetary framework set out in the Sapir Report.

As a starting point, the UK Presidency is consulting EU partners on the way forward. Ministers and officials are engaged in bilateral consultations with other Member States with a view to exploring the scope for presenting a new negotiating box during the autumn (possibly in November) in the hope of a possible agreement by the end of the year. In order to place the budgetary negotiations in a broader context, the UK Presidency is planning to convene a special meeting of Heads of State and Government to discuss the future direction of the European Union and its policy priorities.

Given the breadth of the debate, and the centrality of the UK rebate to the argument, most Member States believe that it will not be possible to secure a deal on the budget under the UK Presidency, and that an agreement in Spring 2006 is more likely. An agreement in the first half of 2006 is likely to cause a delay in programming. Even if the Regulations are approved quickly by the Council, rapid approval by the European Parliament is not guaranteed, especially if the budgetary settlement is contentious. Also, even assuming that the National Strategic Reference Frameworks and Operational Programmes are submitted together, it seems unlikely that the process of adoption will be completed in less than six months. This is of particular concern to the new Member States, where major investment under the Structural and Cohesion Fund programmes is involved.

Delay in securing budgetary agreement is also being viewed with concern by some of the EU15 Member States (notably Greece and Spain) whose receipts would be negatively affected by the use of 2001-2003 data for calculating eligibility for Convergence support. For example, three Greek regions could potentially lose Convergence status, and the Athens

[53] UK Presidency Priorities, http://www.eu2005.gov.uk/

[54] *Programme of the British Presidency,* presented by UK Prime Minister Tony Blair to the European Parliament, 23 June 2005, Brussels.

region seems likely to be 'downgraded' from phasing-out to phasing-in status; Galicia and Castilla-La Mancha may also lose their current Convergence objective status, as would Slovenia. Undoubtedly, the complex allocation methodology negotiated between March and June (and the list of additional provisions) would have to be re-worked to satisfy the political priorities of these countries.

Other Member States are more sanguine about the prospect of delay. It has been noted that agreement on the budget for the 2000-2006 period was only agreed at the Berlin European Council in March 1999 and it was still possible to launch the new programmes early in the 2000-06 period. For countries like Austria, Finland, Italy, the Netherlands, Sweden and the UK, the Structural Funds represent a relatively small part of total regional development spending, and any 'bottlenecks' in programme or project resources can probably be funded from national sources.

4. THE DEBATE ON THE NEW REGULATIONS

In parallel with the debate on the financial perspective, Member States have been discussing the draft Regulations on Structural and Cohesion Funds. This section provides an overview of the main issues to arise with respect to the 'General Regulation[55] based on an assessment of Member State positions and views on the various titles of the draft General Regulation'

4.1 Objectives and General Purposes of Assistance (Title I)

The starting point for the Regulation is to define the context for Cohesion policy, its objectives, principles and scope. As outlined in the Third Cohesion Report, the Commission's proposals are intended to provide greater simplicity, flexibility and proportionality in the management of Structural and Cohesion Funds. However, the debate in the Structural Affairs Working Party shows that several Member States – Austria, Germany, Netherlands, Sweden, UK – still have reservations about the Regulation being too prescriptive on the role of the Commission and the use of assistance under the three objectives. Most notably, Germany continues to voice its opposition to the principle of strategic planning as envisaged through the Community Strategic Guidelines and the National Strategic Reference Frameworks.

On the one hand, simplification and flexibility have been advocated by some of the older Member States as being essential to implement smaller and more innovative interventions under the Regional Competitiveness objective. They also support the proposal that monitoring, evaluation, reporting and control requirements should be proportional to the amount of public expenditure allocated; indeed, some (like Spain, Sweden and the UK) would like to see the application of proportionality extended and reinforced. On the other hand, some new Member States have reservations about the scope of the proportionality principle, and the prospect of differences in the control regimes being applied between Member States, especially where financial sanctions are involved. Several countries have doubts that simplification will actually be achieved, perceiving that the Commission's proposals for management, implementation and (especially) controls will lead to increased workloads.

Consensus has also still to be achieved on other principles. While some countries are content for the Regulation to prescribe the composition of partnerships (and, in some cases, would like these to be strengthened, as with the involvement of environmental partners), other Member States consider it sufficient for the text to refer to "any other appropriate body" in line with national rules and practices. The same is true with respect to equality and non-discrimination where there are differences as to whether the principle should apply to gender equality only or more broadly to race, ethnic origin, religion, disability, age and sexual orientation. Austria and the UK have also argued for a cross-cutting commitment to the environment under the principles of assistance.

[55] *Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, …*

4.2 Strategic Approach to Cohesion (Title II)

There has been a broad welcome (or at least acceptance) by most Member States of the principle of a strategic approach to cohesion. In part, this has been influenced by the publication of various drafts of the Community Strategic Guidelines (CSG) (discussed below) and the preparations of the National Strategic Reference Frameworks (NSRFs).

The approach is seen as useful by new Member States in order to prevent the politicisation of EU funding, and to ensure a clear focus on strategic economic development needs; Member States losing funding also see the value of a NSRF in assisting the effective and efficient prioritisation of resource allocation. The idea is viewed favourably as a way to help establish a necessary 'vertical hierarchy' to policy and policymaking (Netherlands) and to facilitate coordination with the Lisbon and Gothenburg Agendas (Italy and Sweden).

Other countries and regions have expressed concerns linked to the potentially increased concentration of implementation authority at national level, reducing the scope for regional and local roles (Austria, Germany, Spain, UK). More generally, Germany has repeatedly expressed fundamental reservations about the principle of the CSG/NSRF. Some other countries, such as the UK, have been keen to ensure that the Guidelines are brief, high-level and indicative. There has also been debate about the linkage between the CSG and the Broad Economic Policy Guidelines and the European Employment Strategy.

The main concern of Member States is the process of 'strategic follow up'. The original Commission proposal was to have a separate reporting process for Cohesion policy, with regular reports to the Council on progress; this was modified to triennial reporting in the year preceding the Cohesion Report (a solution favoured by France, the Netherlands and Spain). Austria and Italy supported the objective of strategic review but advocated (in a joint non-paper) that the process should neither duplicate existing reporting mechanisms nor create needless new bureaucratic tasks, but that (crucially) it should focus on explaining regional policy trends and strategic responses, ie. issues that would improve reciprocal knowledge and transparency. Other countries (eg. the UK) support the more recent proposal that Member States' strategic reporting should form part of the (annual) Lisbon reporting process to the Spring Council ie. indicating the contribution of the Funds towards implementing the National Reform Programmes under the Integrated Guidelines for Growth and Jobs.

4.3 Programming (Title III)

There are three main issues concerning the Articles relating to programming. First, with respect to the 'specific character of the Funds', Member States hold different views on the proposal for mono-Fund programmes. Many countries are supportive of the proposal given the potential reduction in complexity of planning, delivery, reporting and evaluation procedures. In countries such as Spain and Sweden, the mono-fund approach is felt to fit well with the separate management structures for ERDF and ESF.

However, in other countries, particularly in the new Member States, it has been noted that separate programmes may introduce new complexity because of the potential for separate

ERDF and ESF implementation rules, leading to inconsistencies between programmes and strategies; taken together with the separate rural development programmes. For example, Poland, the Czech Republic, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia view the proposal unfavourably on strategic grounds, as it breaks up the hitherto uniform system of structural measures pursued within development programmes planned in an integrated fashion. For a number of new Member States, the implied increase in operational programmes would lead to management and coordination problems. There are also doubts in some EU15 countries; in Italy the proposal is seen as weakening the strategic integration of policy – and running counter to domestic efforts to promote an integrated approach to regional development - and will require organisational arrangements to ensure effective coordination.

An associated concern is the limit on cross-financing of mono-fund programmes i.e. to allow each Structural Fund within certain limits to finance the type of actions usually funded by the other Fund. The current proposal of a 10 percent limit is considered to be insufficient by the future Cohesion countries. Several Member States have proposed extending the flexibility to 15 percent (Slovakia, Spain), 20 percent (Latvia, Lithuania) or event 25 percent (Hungary). By contrast, the federal German position is to limit cross-financing to 10 percent (or even prohibit it altogether).

Second, there are tensions over programme content. In general, there is support for the proposed eligible activities under the convergence objective among the new Member States. However, some would like to see a greater focus on lifelong learning (Czech Republic), infrastructure outside the Cohesion Fund (Hungary) and housing when tied to strategic goals such as labour mobility and tourism (Slovakia). Further clarification is also sought on the potential cross-cutting approaches to solve urban problems in future programmes (Czech Republic). In terms of the competitiveness objective, Hungary has proposed that health sector expenditure be included, at least in the Cohesion countries. A further activity which Hungary would like to see given recognition outside the Convergence objective is land reclamation and physical regeneration.

Many of the Member States likely to receive most of their EU funding under the Regional Competitiveness and Employment objective complain that the regulatory proposals for the operational programmes are too prescriptive, with reference to information requirements relating to the areas of assistance, monitoring indicators and implementing provisions. Some of these concerns are shared by the future Cohesion countries, relating particularly to the detail required on the financing contributions partners and major projects.

4.4 Effectiveness (Title IV)

Under the heading of effectiveness, there are clear differences between the Commission and many Member States on the scope of the regulatory requirements concerning evaluation, the performance reserve and contingency reserve. With respect to evaluation, the Commission is seeking to retain a comprehensive process of *ex ante* evaluation and (in the absence of a specific mid-term evaluation) to ensure that Member States carry out evaluation during the programming period where problems arise and/or programme modifications are required. However, several Member States take the view that the

Commission should be less prescriptive about evaluation plans and methods as well as questioning the scope of the evaluation requirements for smaller programmes or the Territorial Cooperation objective. Many of the future Cohesion countries object to the differences in the proposed evaluation obligations between Convergence programmes (where *ex ante* evaluation would be required for each OP) and Regional Competitiveness and Employment programmes (where the evaluation could be at national, Fund, priority of OP level). Some Member States also want to limit the degree to which the Commission can initiate its own strategic evaluations.

The proposal for a national performance reserve, comprising three percent of programme allocations, is also contested. Article 48 has already been weakened to make it optional for Member States, but it is still strongly opposed by Austria, France, Germany, Ireland, the Netherlands, Poland, Sweden and the UK. The Dutch view is that it is methodologically impossible to assess and compare programme performance; Sweden and the UK consider that it imposes additional administrative burdens without improving the quality of programmes. By contrast, Belgium, Greece, Italy, Portugal and Spain support the principle of the performance reserve; Italy, in particular, has positive experiences of the performance reserve in the current period, where the EU reserve has been supplemented by a national reserve, and is considered to have made a considerable contribution to programme management and building evaluation capacity.

The idea of a national contingency reserve appears to be less contentious. While some Member States (eg. Italy, Sweden) are opposed to the contingency reserve on the grounds that it would create an unnecessary additional administrative burden, others can see the potential merit in having a small reserve of funding to deal with unforeseen sectoral or local crises. Poland has suggested operating the reserve at the level of the NSRF to maximise flexibility.

4.5 Financial Contribution by the Funds (Title V)

The debate on the financial contribution of the Funds is mainly between the future Cohesion countries, which are seeking to have a Community co-financing rate of 85 percent as standard, and some of the net payers which are opposed to increasing the thresholds - and indeed would prefer to see the co-financing ceilings reduced. There is similar opposition (notably from Germany and the UK) to proposals for the possible modulation of assistance to benefit areas with specific geographical or natural handicaps, such as islands, mountain areas, former external EU borders and sparsely populated areas.

Underpinning the concerns of new Member States are fears that national budgets will not have sufficient resources to co-fund future EU spending. In some countries, national regulatory procedures are argued to be problematic in this respect. For example, in Slovenia, the national public finance regulation is reported to be overly rigid and difficult to operate in the context of the Structural Funds. The system of pre-agreed spending formulas for line ministries can create difficulties for domestic as well as EU expenditure when faced with budgetary pressures. The Slovak Republic has also noted particular co-finance concerns for sub-national government authorities. Another specific problem is the lack of well institutionalized and functioning aid schemes to co-finance EU funds (e.g.

Latvia). Whilst in Lithuania co-financing problems are not anticipated, it may be necessary to restructure the national budget to release funding.

Two other important issues under this heading are the treatment of private expenditure and the eligibility of VAT. First, several countries (eg. Belgium, France, UK) are opposed to the Commission's proposal that the contribution from the Funds should only be calculated in relation to total *public* expenditure, ie. private expenditure would be excluded. This is seen as being contradictory to the aim of using Structural Funds to attract private investment, as well as causing difficulty for financial engineering instruments that are built around private participation. Interestingly, Germany has recently changed its position on the issue, since it is concerned that, at a time of public spending constraints, managing authorities would be likely to over-use State aid schemes for co-financing Structural Funds programmes.

Second, many new Member States object to the proposed exclusion of VAT from eligible expenditure. Their concern is that this would severely affect the demand for EU funding from local authorities (which play an important part in absorbing Structural Funds). In a joint non-paper - issued by the Czech Republic, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia – they state: "It is hard to understand why when ten new Member States join the EU with relatively less capacity to raise public matching funds the Commission proposes to change traditional rules – in force for decades – leading to the reduction of their absorption capacity."

4.6 Management, Monitoring and Controls (Title VI)

There has been a general welcome to the proposals for a more devolved system for management, expenditure certification and audit. The key concern of Member States is to ensure that the compliance assessment process does not create onerous new obligations or the potential for protracted and complex disputes between national and EU audit authorities.

As noted above, there are also differences between countries on the proportionality of financial controls. While Member States such as the UK want a significant extension in the thresholds within which the Commission automatically relies on national audit controls, some of the new Member States (eg. Hungary and Poland) consider this to be discriminatory.

4.7 Financial Management (Title VII)

There are several definitional and procedural concerns on the part of individual Member States on the financial management Articles eg. with respect to advance payments and the budgetary commitment profile. The main difference of opinion concerns the proposal to continue with the automatic decommitment rule. Many of the future Cohesion countries are opposed to the N+2 rule on principle or specifically to its application to the Cohesion Fund. Several countries eg. Netherlands, Hungary, Portugal, would like to see more flexibility in its application. Others – such as Sweden and the UK – are more supportive of continuing with current practice on the basis that N+2 improves the efficiency of implementation and contributes to sound financial management.

5. STRATEGIC PLANNING AND PROGRAMMING

5.1 Community Strategic Guidelines

As noted above, the Commission's proposals for a new strategic planning framework are still being discussed and are contested by at least one Member State. In parallel with the negotiations, the Commission has been developing the content of the Community Strategic guidelines (CSG). A first working document was published as a non-paper in January 2005 as a starting point for bilateral discussions with the Member States over the period January-April, outlining 'ten issues of Community interest for Cohesion policy' (see Box 4)[56].

Box 4: Ten issues of Community interest for Cohesion policy

1. Delivering the goods – development of sustainable trans-European networks
2. Linking Europe – completion of ICT networks
3. Cleaner environment – improved living and business environment, especially water treatment
4. Kyoto+ - improvement of energy efficiency and diversification into renewable energy sources
5. Smart administration – development of administrative and institutional capacities
6. Enlarging the labour force - addressing demographic ageing and increasing employment rates
7. Towards an ideas economy – increasing RTD capacities and networks
8. Speeding up innovation – exploiting potential of universities, and promoting technology transfer
9. Access to finance – addressing market failure for groups unable to access commercial finance
10. Pacts with the cities and rural areas – enhancing the role of cities as motors for regional growth

Source: European Commission (2005) *op. cit.*

Following the bilateral meetings and a discussion at the Informal Meeting of Regional Policy Ministers in May, the Commission formally published its proposals for the Community Strategic Guidelines (see Box 5).[57] These were based on the Commission proposal for a new 'Partnership for Growth and Jobs' approved by the March 2005 European Council, and they focused the Guidelines on ways in which Cohesion policy could make a contribution to the Lisbon priorities. In this context, the CSG proposed targeting resources on three priorities: improving the attractiveness of Member States, regions and cities; encouraging innovation; entrepreneurship and the growth of the knowledge economy; and creating more and better jobs. Further, although not listed under the Guidelines, the Commission paper advocated taking more account of the territorial dimension of Cohesion policies.

[56] European Commission (2005) *Working Document of the services of the Commission on the Community Strategic guidelines 2007-2013,* Commission of the European Communities, Brussels.

[57] *Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007-2013,* Communication from the Commission, Brussels, 7.7.2005, COM(2005) 0299.

Box 5: Commission proposals for the Community Strategic Guidelines

1. Making Europe and its regions more attractive places to live and work

- Expand and improve transport infrastructure
- Strengthen synergies between environmental protection and growth
- Address Europe's intensive use of traditional energy sources

2. Improving knowledge and innovation for growth

- Increase and improve investment in RTD
- Facilitate innovation and promote entrepreneurship
- Promote the information society for all
- Improve access to finance

3. More and better jobs

- Attract and retain more people in employment and modernise social protection systems
- Improve adaptability of workers and enterprises and the flexibility of the labour market
- Increase investment in human capital through better education and skills
- Develop effective administrative capacity
- Help maintain a healthy labour force

Source: European Commission (2005) *op. cit.*

There has been a broad welcome for the CSG among Member States. In general, the Guidelines are perceived to be in line with national thinking on regional policy and, in some cases, with existing national practice, i.e. having similarities or complementarities with national development strategies. This applies particularly to Austria, Belgium, Finland, France, Netherlands and Sweden, where the CSG correspond to national strategic foci on innovation and increasing competitiveness. Several of these Member States see the CSG as being helpful for improving the alignment of national and EU regional policies.

Not all Member States are positive about the CSG. Ireland and Italy are in favour of the strategic approach proposed by the CSG, but are less keen on the 'excessive focus' on Lisbon (in some regions, there are likely to be problems of absorbing innovation and RTD instruments). The new Member States have also been critical of the focus on innovation and R&D and some consider that the CSG are not well-aligned with national development needs. Germany is particularly sceptical about the proposed relationship between Cohesion policy and Lisbon, perceiving it to be unnecessary and undesirable.

The breadth and generality of the CSG has been criticised by some Member States (Germany, Italy, Spain) – the Spanish view is that the Guidelines lack sufficient detail, and will not save time in negotiating the NSRFs and OPs. For other Member States, this breadth is seen as providing flexibility; indeed, the Dutch view is that the CSG are too detailed in some respects (e.g. the section on indicators is regarded as being more operational than strategic), and the status of the document is unclear. The UK also considers that the CSG are too prescriptive in some areas.

Lastly, some countries are concerned at omissions from the CSG. For Finland, there is insufficient attention given to the needs and priorities of sparsely-populated areas or the external borders, and there is little reference to the problems of ageing. The UK considers that community economic development should be mentioned, and recommends a greater focus on employment and skills. In common with other new Member States, Latvia and Lithuania want more stress to be placed on infrastructure investment, human resource development, tourism, and urban development. Hungary considers that the importance of labour market interventions (education, training, active labour market policies) is severely underestimated, and the emphasis on the TENs it too narrow.

5.2 National Strategic Reference Frameworks

5.2.1 Preparation of the NSRFs

Notwithstanding concerns about the CSG, all Member State are engaged in the process of drafting their National Strategic Reference Frameworks (NSRFs). In most cases, it appears that the Frameworks will have been substantially completed by the end of 2005. At one end of the spectrum, the NSRFs for Austria and Finland are particularly well advanced with a target date for completion of October 2005, whereas those for France, Italy and Sweden – which involve more extensive processes of analysis and consultation (see below) – are scheduled to be finalised in Spring 2006.

With respect to the preparation process, Member States divide into three broad groups. The process is mainly *top down* in the new Member States, the EU15 Cohesion countries, Demark, Ireland, Luxembourg and the Netherlands. In these countries, central government has the main role, with varying levels of formal and informal consultative input from sub-national and other interests. In Ireland, for example, the NSRF is being drafted by the Department of Finance, taking account of the views of the Regional Assembly executives in the process. A draft will subsequently be circulated to the social partners and regional assemblies before finalising it for Government approval. The same is true for the Netherlands, where the Ministry of Economic Affairs has been co-ordinating inter-ministerial discussions at national level with a view to developing a draft of the NSRF which can be discussed with the provincial authorities. In Denmark, the National Agency for Enterprise & Housing has hitherto undertaken the preparation of the NSRF itself, and the regions are only likely to be consulted during Autumn 2005 (partly because of regional institutional changes and local government reform). Similarly, in Spain, the Framework is being drafted by the Ministry of Economy & Finance, with various rounds of consultation with other government ministries and the regions; and in Portugal, the NRSF is being developed by a national working group, with some diagnostic input from the regions.

By contrast, in Belgium and Germany, the NSRF preparation process is mainly *bottom up*. In these federal countries, regional governments have the primary responsibility for regional development and Structural Funds. Regions are therefore taking the lead in drafting regional strategic frameworks, with the national government focusing on the overall strategic context when producing an overarching document. In Germany, the regional analytical and strategy development work is being undertaken by the *Länder*, drawing on their individual regional development strategies and policy priorities; the federal

government, led by the Federal Ministry of Finance is drafting an overall national document that provides a broader analysis and general political priorities. In Belgium, the Flanders and Wallonia regions are preparing their own Framework; the extent of devolved administration in Belgium requires them to consult with sub-regional authorities such as the provinces as part of the process. A September 2005 meeting with meeting with the Commission was arranged to clarify whether it will accept separate regional Frameworks or will expect a single Belgian document.

Other Member States have a more *collaborative* process through joint working arrangements involving central government and sub-national authorities. One of the more collective approaches to the NSRF is in Austria, where the Framework – termed the 'STRAT.AT' - is being elaborated by the Austrian Spatial Planning Conference (ÖROK). Under the auspices of the ÖROK sub-committee for regional development all federal ministries responsible for regional development as well as the nine *Land* governments and representatives of the municipalities are involved in the process. Likewise in Finland an 'NSRF Committee', with representatives of national ministries and the regions, has been established to draft the Framework through an iterative process of discussion through regional seminars and national meetings. The process is running in parallel to a phase of review and consultation on the post-2006 domestic regional development programmes, which should allow greater alignment of national and EU programmes.

In other Member States, the national government has taken a lead in defining the parameters of the NSRF but with an important role for sub-national authorities in determining the content of the Framework. In France, for example, DATAR has prepared a detailed road-map of consultation, with a view to ensuring a coherent and structured process of drafting both the NSRF and OPS in partnership between the national and regional authorities (see Box 6).

The approach in Sweden is similar. Although the overall strategic direction of the NSRF is being established by the Ministry of Industry, Employment and Communications, in consultation with other government ministries, the starting point for the NSRF are the regional priorities in the Regional Development Programmes and Regional Growth Programmes. A series of regional conferences is being held across the country in order to create a dialogue between the local, regional and national levels which will guide the preparation of the Swedish Framework.

In the UK, a two-part approach to the NSRF has been adopted. The first section of the Framework is strategic, comprising regional chapters from the Devolved Administrations and English Regions based on their domestic regional development strategies (eg. the *Framework for Economic Development in Scotland* and *A Winning Wales*), with 'light touch' coordination by the Department of Trade and Industry. It is anticipated that this section will be straightforward and sent to the Commission at an early stage. The second part of the NSRF would be more operational and drawn up by the Devolved Administrations and English regions with the detailed information on the anticipated policy priorities.

Box 6 : The National Strategic Reference Framework Roadmap in France

To develop the National Strategic Reference Framework, DATAR has prepared a road-map for 2005 with a view to facilitating the preparation of the new operational programmes whilst ensuring the participation and ownership of a wide partnership to draft the national framework and maintain a coherence between the three (community, national and regional) decision-making levels. This process will be articulated around a series of key stages.

- The preparation of an introductory document that will set the parameters for the debate (March 2005). This document will put questions to the regions which will be expected to provide their perspectives. This document will formulate the conclusions of the 'national strategic framework working group' convened by DATAR, with the SGCI, other ministries concerned and associations of elected officials, This group has met regularly since September 2004 to consider different key aspects of the future framework.
- The regional prefects will organise a consultation exercise involving key actors at the regional level to articulate answers to the introductory document (April to May 2005).
- These regional contributions will be synthesised during six inter-regional meetings bringing together the regional prefects, the regional councils, the regional economic and social councils and the ministries concerned (May to June 2005).
- Following these six inter-regional meetings, a first version of the national strategic framework will be established (summer 2005). Following the necessary examinations and validations by the national ministries, the modified first version of the framework will be forwarded to the regional prefects.
- The regional prefects will organise a regional consultation in each region, bringing together the European Commission, regional decision-making bodies (prefects, regional council, regional economic and social councils, etc.) and national associations of elected officials (September to October 2005).
- A second version of the national strategic framework will be established on the basis of these regional submissions. After examination and validation at the national level, a final version will be prepared (November 2005).
- This final version will be presented by the Prime Minister and the National Council for Spatial Planning (CNADT) will be consulted (December 2005).
- The national framework will be adopted at a special meeting of the cross-departmental council for spatial planning (CIADT), as soon as the financial perspectives are known (January 2006). The framework will then be submitted to the European Commission.

Finally, perhaps the most comprehensive process of strategy development is underway in Italy where the NSRF will not limit itself to Structural Funds but will include a range of other national government policies. Reflecting the recent trend in Italy for a more strategic and integrated approach to national and regional development, the NSRF will be a single reference point for: (a) EU Cohesion policy; (b) national regional policies implemented through the so-called Framework Programme Agreements *(Accordi di Programma Quadro)* and Institutional Understandings *(Intese Istituzionali)*; (c) rural development policies; and (d) other policies relevant to achieving the Lisbon and Gothenburg objectives. This entire policy framework will be aligned to the seven-year timetable of the Structural Funds.

The process of preparing the Italian NSRF involves multi-level, multi-institutional and cross-sectoral partnership, overseen by the Ministry of Development and Cohesion. It encompasses three parallel processes: the preparation of a joint national strategic document produced by a committee of national government ministries; regional strategic documents produced by each of he regional administrations; and a *Mezzogiorno* strategic document drafted by the Ministry of Economy & Finance based on diagnoses and strategic options of the constituent regions (Abruzzi, Basilicata, Molise and Sardinia). These documents, which involve extensive consultation among the national and regional stakeholders, will form the basis for the NSRF.

5.2.2 Content of the NSRFs

At time of writing (August 2005), the content of the NSRFs is unclear since many Member States are still at the stage of developing a first draft of the document. However, several trends and patterns can be identified.

First, Member States appear to be planning *closer integration of national and EU strategies*. This has always been the case for those countries benefiting from large Objective 1 funding, and will again apply in the case of the future Cohesion countries (especially the new Member States). However, in countries such as Finland, Italy, Sweden or the UK, there have often been significant differences in the past between the strategic objectives and priorities of national and EU regional development programmes and strategies. Indeed, EU programme priorities tended to determine national funding priorities rather than vice versa. This is now changing, partly because of the maturity of devolved or deconcentrated arrangements for regional development.

The comprehensive approach to integrating EU and national policies in Italy has already been outlined. In Finland, as noted above, the domestic regional development programmes are currently being updated, with a process of regional analysis and strategic planning (based on the January 2004 statement of national regional policy priorities). Having defined domestic priorities, the EU funding would be used to help finance the new programmes. The same is true in the UK, where the Devolved Administrations have established economic development strategies (recently updated or currently under review), as do the English Regional Development Agencies, and which will provide a coherent framework within which Structural Fund programme priorities can be identified. A similar process of aligning future

EU spending with national policy priorities under the Regional Development Programmes and Regional Growth Programmes is also underway in Sweden; and in France the DATAR approach to coordinated NSRF planning reflects a general recognition of the need to achieve greater coherence between national and EU interventions focused around a reduced number of priorities.

A second trend in the development of the NSRFs is the *targeting of resources*. This is a challenge for all Member States receiving less funding, but particularly so for some of the Cohesion countries whose eligible areas and funding allocations are likely to fall significantly in the 2007-2013 period. In Portugal, for example, the design of the NSRF (and OPs) is based on three priorities: (a) concentration – improving the efficiency of a interventions through a 'critical mass' of funding rather than dispersing a lower level of resources over a wide range of projects and areas; (b) selectivity – more rigorous procedures for evaluating the impact of planned interventions; and (c) sustainability – ensuring that the declining EU funding is used to best effect for achieving medium- and long-term impacts. The same thinking underpins the emerging NSRF in Ireland, where concentration and selectivity are guiding the planning for the smaller amount of funding expected; a further criterion is that the resources can be implemented easily to maximise the value for money of the available funding.

Third, an issue for those Member States likely to receive most or all of their funding under the Regional Competitiveness and Employment objective, is how to manage the *geographical dimension of the EU funding*. In the absence of an EU-level designation of assisted areas, there will no predetermined spatial focus for Structural Funds.[58] On the one hand, this gives Member States more flexibility, but it also increases the pressure on them as the arbiters of funding allocation. The Commission's advocacy of the territorial dimension in the use of Structural Funds adds further complexity. In the Netherlands, for example, there is uncertainty whether to have city-based programmes (favoured by the Ministry of Internal Affairs, which administers urban policy) or region-based programmes (preferred by the Ministry of Economic Affairs, which is responsible for regional policy); there is also the question of the treatment of rural areas, now being supported outside Structural Funds. In several Member States, there is an active debate between regional policy interests, recommending a continued focus on the 'problem areas' and sectoral policy groups preferring a broader 'whole region/country' approach to RTDI interventions.

Fourth, the *response to the Community Strategic Guidelines* is difficult to establish. Several countries – Austria, France, Italy, Netherlands, Sweden, UK - have made it clear that they will focus on the 'Lisbon agenda' of regional competitiveness, given the correspondence with national regional policy goals. In Austria, the early drafts of the STRAT.AT indicate a close alignment of the proposed NSRF with the Guidelines (see Box 7); the strategy proposes combining a horizontal approach to innovation and RTDI across the

[58] The ongoing debate over reforming the Regional Aid Guidelines creates more uncertainty, notably with respect to the role that business aid can play in regional development strategies.

whole of Austria (including networks and cluster programmes, which have proved to be successful to date) with regional and local strategies for endogenous growth.

Box 7: The Austrian National Strategic Reference Framework – STRAT.AT

According to a first draft of the 15th of June 2005 four main priorities will be covered:

1. Regional attractiveness: Comprises strategic fields such as infrastructure development (e.g. upgrading of public transport, optimisation of traffic flows aiming to reduce congestion in urban-hinterland areas), environmental protection (e.g. recycling concepts), risk prevention, reduction of fossil fuels, and health of employees.

2. Knowledge and Innovation: Possible strategic fields are R&D support and cluster development, cooperation between research and businesses, encouraging innovation and business creation e.g. in the field of renewable resources and environmental technology, access to financial resources e.g. venture capital markets, investments into the information society such as broad band infrastructure.

3. Employment creation: Strategic fields: More and longer employment and modernisation of social systems; increase of flexibility of employees; improving education (e.g. lifelong learning) and investments in human capital.

4. Territorial Cohesion: Strategic fields of intervention include Urban, urban-hinterland and rural areas, cross border cooperation, transnational cooperation and interregional cooperation. Due to the countries special geographical location, CBC is of particular importance.

The Lisbon orientation is also evident in the thinking underpinning the NSRF in some of the future Cohesion countries. In Portugal, the CSG priorities are closely aligned with those of the new government's economic policy programmes, especially the 'Technology Plan', and it is likely that the NSRF will have the same overall strategic objectives – innovation and knowledge, environmental sustainability, social exclusion, urban regeneration, polycentric territorial development and the administrative capacity of the public sector. (On the latter point, Portugal already has one of the few examples of a specific public administration OP.)

There are, however, limits to the extent to which the Lisbon focus of the CSG will be followed. In Ireland, RTDI capacity is considered to be under-developed and this will limit absorption of innovation measures (or at least require careful planning to build capacity). In Spain and Greece, national authorities consider that transport infrastructure still needs attention, although it is recognised that the balance of funding will need to shift. In Italy, also, the focus on Lisbon priorities is tempered by the need to continue supporting regional and local economic restructuring. As noted above, the 'equity dimension' of regional policy is still important in several countries, which intend to continue focusing resources on key regional problems, as in the case of the sparsely populated regions in Finland or border regions in Austria

5.3 Programming

The state of programme development is varied among the Member States. For those countries and regions which are reasonably certain of Convergence or phase-out/in funding after 2006, detailed planning on the content of the OPs is under way. However, among regions likely to be receiving Regional Competitiveness funding, progress has been more limited in the absence of agreement on funding. In most cases, programming is still at the analytical stage, and decisions on the strategic objectives or resource allocation have not been taken. Insofar as thinking on the OPs is emerging, several issues that can be identified (in some cases, reflecting the earlier discussion of NSRF preparations):

- greater coherence between national regional policy and EU Cohesion policy, either because of strategic policy goals (eg. Italy) or because of lower levels of anticipated funding (eg. Sweden, the UK);

- shifts in funding from infrastructure to other priorities, notably those associated with the knowledge economy, and more focused infrastructure spending (eg. on railways) (eg. Ireland, Portugal, Spain);

- a reduced role for State aid within programmes, depending on the outcome of the reforms of the Commission control of regional aid (notably in Germany and Italy);

- an increased focus on the Lisbon growth and jobs agenda, but uncertainty about the balance between 'traditional' regional policy priorities and the objectives of other policy sectors, as well as the scope for absorbing RTDI interventions; and

- uncertainty about the geographical dimension of interventions, in terms of the approach to zoning, the balance between horizontal and spatially focused measures, and the balance between support for the more favourable areas and disadvantaged regions/localities (eg. France).

Apart from the issues of programme content, there are reviews of programme management and delivery structures and systems under way in Finland, France, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the UK. Three broad trends are apparent.

First, there is likely to be a rationalisation of programme management. In Portugal, more simplified programme management at national level is being sought as a response to the 'excessive dispersion' of sectoral interventions and a lack of regional strategic planning in the current programmes. It is proposed that national interventions should concentrate on four thematic programmes (compared to 11 currently) in the next programming period (competitiveness, productivity, transport, environment and energy). Some rationalisation of implementation is also expected in Spain: there will be fewer multi-regional programmes than at present (possibly only two for the information society and urban development); Regional Competitiveness may be implemented through a single programme, depending on the views of the regions; and more resources may be allocated directly via project managers instead of through intermediaries.

With less funding available, some Member States are looking to merge or simplify programme management arrangements at sub-national level. In Belgium, the current 4 programmes being operated in Flanders are likely to be merged into a single programmes with horizontal priorities. A rationalisation of programmes can also be expected in the Netherlands, although (as noted earlier) it is not yet clear whether there should be city- or region-based programmes; a key issue is how to address the respective needs of the north and south 'wings' of the Randstad, which are difficult to accommodate within single programmes.

Second, some countries are looking for ways to improve the coordination of national and EU policies. This applies most notably to Italy, where a single, integrated approach to programming is being pursued to achieve complete alignment of all EU and domestic economic development policies. In some parts of the UK, it is likely that the current 'differentiated' system of programme management (with separate project appraisal and selection systems for Structural Fund project applications) will be subsumed into domestic resource allocation systems. The present system of competitive tendering may be replaced (at least in part) by delivery of the Funds through 'co-financing organisations'. The Swedish review of organisational arrangements is also exploring ways in which the current multiple systems for implementing national regional policy, ERDF and ESF could be better integrated or at least coordinated.

Lastly, the trend of decentralisation from national to regional level continues in some countries. In France, most regions have declared their intention to take on Managing Authority responsibilities from 2007 based on the August 2004 decentralisation law (although the respective roles played by the Regions and the State have yet to be formally discussed or approved by the government). This follows an experimental phase in the Alsace Region which has managed Objective 2 funding since 2003, as well as an extension in the management competencies taken over by regions for INTERREG and URBAN. In Ireland, it has been agreed that there will no longer be a national Managing Authority for ERDF. Although the Ministry of Finance will continue to be the Paying Authority, Regional Assemblies will draw up Regional Operational Programmes under NSRF guidelines and they will also have management responsibility for the programmes. (The Department for Enterprise, Training & Employment will continue to manage ESF.)

6. CONCLUSIONS

6.1 Complexity and opacity: the budgetary negotiations

The Brussels European Council produced no agreement on the future financial framework for the EU. At issue were the politics of the future budgetary structure of the EU, notably the UK rebate and further reform of the CAP. Nevertheless, with respect to Cohesion policy, the final Luxembourg negotiation box did go some way to reconciling the different views among 25 Member States. It reduced the level of overall spending compared to the Commission's proposals, while shifting Structural and Cohesion Funds resources more towards the poorest countries and regions and retaining a sizeable amount of funding for Regional Competitiveness and Employment.

This working compromise was no mean achievement, given the range of different viewpoints identified in the building blocks under the Dutch Presidency.

However, the proposed allocation methods marked a further and significant increase in complexity of the funding formula, with new coefficients and thresholds for allocations to the poorest regions, for the application of the absorption cap and for the transitional regions, and a long list of 'additional provisions' for special cases. The use, once again, of a safety net for the allocation of Regional Competitiveness funding reinforces the importance of precedent in determining the distribution of resources.

This level of complexity reflects the need for unanimity on the budgetary proposals, and the many Member State and regional interests that need to be satisfied. However, the allocation methodology is in danger of losing credibility given that, outside the Convergence regions, there is little relationship between the state of economic development problems and financial allocations.

Complexity also inhibits transparency – and therefore public confidence – the more so since the Commission has controlled the release of detailed information on its budgetary calculations in a large number of fiches, rather than publishing a single, comprehensive budget statement, with all the assumptions and calculations clearly stated. Indeed, some aspects of the budget figures remain opaque, such as the growth rate projections for determining the influence of the absorption cap in the new Member States. Since even national authorities have difficulty in replicating the Commission's methodology, it is impossible to have a rational multilateral discussion on budgetary options, giving the European Commission's powerful influence over the shape of the financial framework. Looking to the future, one of the objectives of any future budgetary reforms must be to introduce more transparency into the process.

6.2 Policy coherence between national and EU strategies?

The Community Strategic Guidelines and National Strategic Reference Frameworks are an innovation for EU Cohesion policy. Intended to give more strategic coherence for Structural and Cohesion Funds, they oblige Member States to provide a set of national policy orientations within which the operational programmes will fit. As noted previously, the

influence of this planning framework is contested: Germany is opposed to the concept as a whole, and other Member States have taken issue with the scope of the CSG (some countries consider them too narrow, others too broad) or the system and frequency of reporting to the Council.

Notwithstanding these concerns, most Member States have made considerable progress in preparing their NSRFs. In several countries, there has been extensive consultation between national and regional authorities, as in Austria and France. Many Member states are building on national or regional economic development strategies, such as the regional growth programmes in Sweden, the revised regional development programmes in Finland or the regional strategies of the Devolved Administrations and Regions in the UK. Most remarkable is the approach being taken in Italy, where a comprehensive and integrated framework, encompassing EU Cohesion policy, domestic regional policy, rural development policy and other relevant sectoral policies is being developed for the first time.

This suggests the possibility that there will be much greater national / EU policy coherence in the implementation of Structural Funds than has ever existed before outside the main Objective 1 countries. In part this reflects the fact that domestic regional development strategies are more common than in the past, but also that concrete steps are being taken to align the two policy areas, and that there is a shared regional policy commitment (to a greater or lesser extent) to the Lisbon agenda of growth and competitiveness. This would potentially avoid, or at least ameliorate, an important set of policy and institutional tensions that have caused significant difficulties in the negotiation and implementation of Structural Funds in previous programme periods.

6.3 Opportunities for new thinking in the delivery of policy?

For several of the Member States in the EU15, the implementation of the Regional Competitiveness strand of the Structural Funds in the 2007-2013 period will prompt a different approach to managing and delivering the programmes. On the one hand, there are the external pressures of a different funding regime, with less money, new thematic priorities, no EU-level geographical targeting and new (decentralised) financial management arrangements. As noted earlier, this is posing questions about the number and configuration of the programmes in each Member State, the balance between regional policy and sectoral policy priorities, the geographical focus of programmes and the organisational arrangements for delivering the Funds.

On the other hand, there are also internal pressures driving change. It is arguable that the availability of Structural Funds over successive programme periods during the past 15 years (and previously in the form of project funding) has led to some ‘institutional staleness’ in the use of the Funds. Some Objective 2 programmes have found it more difficult to generate new added value in the current programming period, as the once-innovative characteristics of the Funds have become embedded in domestic policy. In such regions, there is a need for a fresh approach, with new thinking about the implementation of EU Cohesion policy.

At the same time, in Objective 2 regions at least, the past 15 years has seen considerable progress in terms of restructuring and diversification, supported by the Structural Funds, and offering new platforms for development. In many Member States, processes of devolution and deconcentration have led to the establishment of stronger region-level economic development competences and institutions. The so-called 'institutional thickness' of many regions has increased, with networks of intermediaries operating in economic, social and environmental fields, and the principle of partnership has often been adopted within domestic policies also. There are, therefore, more policy and organisational options available to Member States in deciding how to use Structural Funds. For example, there is greater scope to employ more sophisticated and targeted interventions than in previous programme periods.

One important issue, however, is whether the new Regulations will provide a sufficiently facilitative environment for innovative approaches to economic development. During the current programme period, many regions have attempted to take a more strategic approach to the use of Structural Funds, with emphasis on the quality, strategic rationale and legacy potential of projects. There has been a progressive shift towards more 'pro-active management' in terms of communication with partners, project generation and monitoring. However, such ambitions have often been constrained by the complexity of Structural Funds administration. Innovative measures have suffered from lack of demand and low levels of absorption, with RTDI actors (for example) being put off by the bureaucracy of EU programmes. In some regions, the impact of n+2 has led to the prioritisation of spending over project quality. Financial control and audit have taken up a hugely disproportionate amount of time and effort relative to the resources involved, with multiple audit, control and reporting procedures. As the new Regulations are negotiated, the key question is whether simplification will actually be achieved.