

## Opinion of the Economic and Social Committee on the 'EU's Economic and Social Cohesion Strategy'

(2002/C 241/29)

On 12 July 2001, the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an own-initiative opinion on the EU's Economic and Social Cohesion Strategy.

The Sub-Committee on the EU's Economic and Social Cohesion Strategy, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 14 June 2002. The rapporteur was Mr Christie.

At its 392nd Plenary Session (meeting of 18 July 2002), the Economic and Social Committee adopted the following opinion with 84 votes in favour and six abstentions.

### 1. The Structural Funds in Context

1.1. Since 1988, the EU structural operations have been guided by the four principles: concentration of effort, programming of economic assistance, additionality on the part of Member States, and partnership in the design and implementation of regional economic assistance measures. Successive reports by the Commission — the most recent being the Second Cohesion Report — have established that the measures implemented by the structural operations have made steady progress in narrowing the economic and social disparities between the EU regions. Unsurprisingly, the convergence gains have been most marked in those regions eligible for assistance under Objective 1 of the Structural Fund regulations. While per capita incomes in the EU's richest regions remain significantly higher than that recorded in the poorest regions, the data does show that per capita income in the EU's poorest regions has moved closer to the EU average since 1988.

1.2. The impact of the 1988 reforms has been considerable, particularly with respect to the EU's least-favoured regions where significant gains in economic cohesion have been achieved.

1.2.1. With respect to economic cohesion, as measured by regional disparities in per capita income, the Structural Funds have achieved considerable progress in meeting their aims. The data presented by the Commission in its Second Cohesion Report reports that per capita income in the EU's three poorest Member States (Greece, Portugal and Spain) has risen from 68 % of EU average in 1988 to 79 % in 1999. Nonetheless, even if economic convergence continues at this rate, the Commission estimates that it will take a further 20-30 years for the capita income disparity between these countries and the current EU average to be eliminated, such is the long-term nature of this process.

1.2.2. Social cohesion, as measured by changes in regional unemployment, has proven to be a more difficult problem to address. Notwithstanding the strong job creation experienced

by the Union since the mid-1990s, which has seen the rate of unemployment decline from over 11 % to around 8 %, regional disparities in unemployment widened over the course of the 1990s following from the reduction which occurred in the high employment growth years of the late 1980s. As the Second Cohesion Report notes, unemployment in regions where rates were lowest averaged 3 % in 1999 (much the same as in the early 1970s), it averaged 23 % in regions where rates are highest (much higher than in the early 1970s). The first progress report on economic and social cohesion reports that whereas the employment rate in the EU's top 10 % of regions averaged 77,2 % in 2000, it stood at only 46 % in the bottom 10 %.

1.2.2.1. One bright spot has been the slight decline in the number of people classified as long-term unemployed (those unemployed for more than one year) which has fallen from 49 % to 46 % of the total unemployed between 1997 and 1999. However, as with other aspects of unemployment, long-term unemployment varies markedly across the EU ranging from over 60 % in Southern Italy, a number of Greek regions and in Belgium to under 20 % in some regions in Austria, the United Kingdom and Finland. The level of long-term unemployment is particularly difficult to reduce, even during periods of relatively robust economic growth.

1.2.2.2. Unemployment among young people is a further feature of the EU labour markets. In Spain, Finland and Italy youth unemployment was over 30 % in 1999, while in some regions of Italy and Spain it exceeded 50 %.

1.2.2.3. Although female unemployment has fallen since the beginning of the 1990s, standing at less than 10 % in 2000, there remains a wide gender gap in many Member States and regions. It is clear that this particular problem is set to worsen with enlargement, and gains in female employment remains a source of considerable growth potential for the EU as a whole.

1.3. Developments in EU labour markets indicate the challenges that remain if the EU is to meet the employment targets set at the Lisbon Summit two years ago. At that time, the EU set the objective of raising the employment rate to 70 % by 2010 (from 63,8 % in 2000), and to increase the number of women in employment to 60 %. These targets have since been further endorsed by EU Heads of State and Government at the Nice and Barcelona Summits.

1.3.1. Indisputably EU economic and social cohesion policies are central to the realisation of the Lisbon employment targets. EU structural policies are a key mechanism for enhancing the economic growth potential in the lagging and industrial declining regions and thereby raising the employment creation possibilities in those regions.

1.4. Over the short term a number of concerns remain with respect to sustaining progress towards greater economic and social cohesion.

1.4.1. First, maintaining a high rate of job creation depends on the continuation of relatively strong economic growth in the EU economies. The downturn in the USA economy, coupled with the economic aftershocks from the 11 September terrorist attacks and continuing uncertainties in global financial markets, have adversely affected the EU economies such that forecasts of economic growth over the next year have been revised downwards. Current data suggest that EU economic growth in 2001 was 1,7 % compared to an initial forecast of 3 %.

1.4.2. Second, despite the high level of unemployment, labour shortages recently have emerged in many EU economies. This points to the emergence of a 'skills gap' which can best be addressed by forward-looking policies, involving all actors including employers and employees, designed to match the skills of the workforce to the changing circumstances of economic development.

1.4.3. Third, concerns are expressed by some over the lack of flexibility of EU labour markets which it is argued act as a disincentive to firms hiring additional labour in the fear that they may not be able easily to down-size once economic conditions change.

1.4.4. Fourth, regional disparities in unemployment may increase should the incidence of sectoral economic shocks increase, a particularly strong likelihood in regions with a

heavy dependence on agricultural and fisheries' activities. Further reforms in the Common Agricultural Policy shall, inevitably, produce further job losses in rural areas and this will be bound to widen social disparities between those regions and the EU average.

1.4.5. All of the factors noted above highlight the continuing need for strong Structural Fund policies to be applied within the disadvantaged regions of the EU.

1.5. Progress towards greater economic and social cohesion at the EU level represents the EU's principal effort to address problems of poverty. Although the EU effort through the Structural Funds is only one small element in the overall package of measures targeting poverty — most of which are national measures — it remains the case that the economic activity-promoting and job-creation aspect of the Structural Funds are a visible and effective element in the broad fight against poverty across the EU.

1.5.1. Among the primary factors linked with low incomes on a persistent basis are unemployment, low educational attainment, and a high incidence of economic dependency within the family. While other, demographic factors are also significant and lie beyond the scope of EU policy, it is to be expected that continued economic growth and higher levels of employment may reduce the proportion of people with low income. It is in this environment that the EU Structural Funds are most likely to contribute effectively to the fight against poverty and social exclusion.

1.6. It is clear from this overview of the context and achievements of the Structural Funds that they remain a central aspect of EU policies aimed at raising the rate of economic growth, promoting employment, and fighting social exclusion in the less advantaged regions of the EU. It is also evident that a considerable amount with respect to economic and social cohesion remains to be achieved within the regions of the EU.

1.7. But the significance of achieving a greater measure of economic and social cohesion can be seen by considering not only the positive gains that accrue to EU society as a result, but also by reflecting on the consequences of not enhancing cohesion. In that event, that is where EU economic and social cohesion policies are scaled down, an essential condition for developing the cohesion of our society would be lost and the material welfare of the marginalized and excluded groups in society is likely to deteriorate; this may well undermine the

present degree of political solidarity across the EU. As the current debate on 'governance' makes clear, the EU has to demonstrate its relevance to the fundamental needs of its citizens. Any weakening in the EU efforts to achieve greater economic and social cohesion is bound to damage the credibility of the EU as a political and economic system capable of meeting the aspirations of the ordinary citizen.

## 2. The Broad Challenges Facing EU Economic and Social Cohesion Policies

2.1. A key element in the forthcoming debate over the future of the Structural Funds will be the rationale for maintaining or enhancing the role of the EU in the delivery of economic and social cohesion policies. It is the view of this Committee that the EU should retain its central role in the design and delivery of Structural Funds. Not only will this ensure that the successes achieved by the structural activities thus far will be consolidated and further progressed, it will also be appropriate in the context of the challenges to economic and social cohesion that are likely to emerge in the future.

2.2. Enlargement. The forthcoming enlargement of the EU will bring within the Union up to ten countries generally characterised by low levels of per capita income, unemployment problems, and economic backwardness (although there are notable exceptions within and between the candidate countries). And while membership of the EU will, of itself, improve the economic prospects of these countries (as well as the EU 15) — through enhanced trading opportunities and via foreign direct investment — in the absence of positive economic assistance as is available through the Structural Funds it is highly unlikely that the economic catch-up process will be sufficiently rapid to meet the legitimate aspirations of the citizens of these countries. Moreover, the benefits of the Structural Funds extend beyond their financial aspect and include additionally key economic development lessons that have been learned since their reform in 1988. It is essential that the EU retains the ability to oversee regional economic development efforts to ensure that best-practice techniques are applied to the new Member States.

2.3. Globalisation. Inevitably the phenomenon of globalisation will continue to intensify. This is likely to have two effects on the EU in the context of the activities of the Structural Funds. In the first place it is set to change the structure of EU employment in all productive sectors as global corporations adjust their buying and selling strategies in the light of the new opportunities that will arise from the progressive liberalisation of international trade in both goods and services. Accordingly, the EU may well find the challenges of economic adjustment

— the challenges to economic and social cohesion — progressively increasing over time. Second, the share of corporate investment occurring within the EU may fall as both domestic and foreign corporations move to exploit more profitable investment opportunities elsewhere. To the extent that EU outward investment increases, and/or inward investment decreases, the challenge to employment and income growth within the EU will increase.

2.3.1. In this context, and given the relative weakness of individual Member States to devise policy capable of redressing consequent economic imbalances, the provision of a collective and coordinated cohesion effort at the EU level will become increasingly important.

2.3.2. In particular, the Committee stresses the need for Structural Fund measures that will reduce regional imbalances in competitiveness and productivity levels. Only then will all regions across the EU be able to take advantage of the opportunities arising as globalisation progresses. This is in line with the Lisbon strategy, and points to human-resource development as the central element for a future economic and cohesion strategy.

2.4. Core-Periphery Imbalances. If we are to consider enlargement and the process of globalisation together, there is an acute risk that the overall economic consequence will be to exacerbate the centre-periphery dynamic within the EU as a whole. This is a topic which the Committee has discussed before, and the Committee notes that it is one that has been explicitly recognised by the Commission in the Second Cohesion Report.

2.4.1. Economic dualism is often used to describe an economy characterised by a prosperous, high employment and dynamic economic core which is flanked by a slow-growing, high unemployment and economically sluggish periphery. In effect, this describes a situation in which two distinctly different (and potentially divergent) economies co-exist within a unified economic territory. The problem in such cases is that, left to themselves, market forces are more likely to consolidate than to reverse the process that leads to economic dualism. The risk is that economic dualism will undermine the longer term productive potential of the area as a whole in that it destroys the productive and competitive potential of the periphery. It might also produce an unacceptable divergence in economic and social cohesion.

2.4.2. While there are benefits to companies from locating within the central economic area, the aim of economic and social cohesion policies is to increase the relative attractiveness of the peripheral regions. This is not best achieved by imposing restrictions on the location decisions of corporations, but rather by continuing to develop and apply policies which raise the competitiveness of the peripheral regions — investing in human capital, modernising economic infrastructure (communications and transport systems), and undertaking measures that raise the general amenity of the locality (research and educational facilities, improving the environment, etc.).

2.4.3. The compelling argument supporting the further refinement and further development of EU structural policies is that the economic benefits of globalisation and enlargement will, otherwise, be enjoyed only by a few central regions within the EU. At the same time, the many peripheral regions (including the very disadvantaged mountain areas and island communities) are set to lose — not necessarily in absolute terms, but certainly in relative terms. While the spatial dispersion of economic activity across the EU has not altered significantly over the past 20-30 years, the combined effects of European monetary union, enlargement to the CEECs and the rapid acceleration of globalisation is almost certain to lead to an increased concentration of economic activity over the next decade or so. Consequently, there is a strong case for extending structural actions at the EU level to meet these new and potentially dramatic challenges.

2.5. Macroeconomic Stability. Progress towards economic and social cohesion will be made considerably easier against a background of macroeconomic stability and sustained economic growth. Completion of the third stage of economic and monetary union has led to greater economic and political stability in the EU overall, and has boosted the EU's role in the global economy. In future, however, the only way to advance the requisite European economic policy will be through more effective broad economic policy guidelines from the European Commission and more coordinated procedures with binding decisions. The Community-level macroeconomic policy mix — implemented in a way that reflects Member States' differing structures — must therefore be reinforced and complemented by active structural policy at all levels. In the event of an asymmetric shock impacting (unevenly) across the EU, economic stability may be jeopardised within a few countries in order to maintain stability for the majority.

2.5.1. To date, the EU has not developed any economic policy instrument explicitly geared to stabilising the levels of employment and/or income at the level of the Member State or the region. Given the 'one-size-fits-all' nature of Euroland

monetary policy and the SGP-imposed constraints on stabilisation policies in Member States (i.e. restricting the size of the budget deficit), the demands on EU structural policies may intensify over the medium term. As they presently exist, these funds are ill-equipped to respond to sudden disturbances in employment or income levels within Member States. This may lead EU citizens to question the role of the EU in contributing to, or failing to respond to, unexpected economic disturbances.

2.5.2. While the Lisbon conclusions and the open-method of policy coordination have much to commend them, ultimately the EU may need to consider a higher commitment to structural actions (and possibly extend these to include a stabilisation function) in order to provide appropriate assistance to Member States or regions experiencing economic problems that otherwise cannot be adequately tackled.

2.6. European Social Model. The European social model and the social market economy remain central elements in the economic and social arrangements of the European Union. By providing for the participation of all actors in the economic and social decision-making process, these arrangements serve to advance the principles of solidarity and social inclusion among the citizens of the EU. Crucially, the European social model is the principal framework for fighting poverty and social exclusion within the EU Member States. Any steps to radically change these arrangements risks damaging cohesion and placing additional burdens on EU structural actions.

2.6.1. At the same time it is important that the arrangements of the European social model continue to support the operation of EU labour markets by encouraging the enterprise culture that is necessary to fuel the process of economic growth. Employment, and so private and public sector investment, remains the main weapon in the fight against social exclusion and poverty, especially among groups in society which traditionally find difficulties in finding employment — especially women, the young, and the long-term unemployed and other marginalized or disadvantaged groups in society. EU labour-market policies should continue to develop in a manner consistent with a vibrant market-based economy capable of meeting the challenges of intensified international competition.

2.6.2. Therefore it is important that, where necessary, reforms to EU labour-market practices continue where this will deliver higher levels of employment and progress the aim of economic and social cohesion. Ultimately this will permit EU structural actions to concentrate fully on regions most in

need of support. This view is consistent with the conclusions to the Lisbon Summit where the Heads of State and Government committed themselves to modernising the European Social Model.

2.7. Monetary Union. Although monetary union will provide considerable economic advantages to the EU, there remains a risk that regions subject to adverse economic shocks will experience difficulties in combating a resultant increase in local unemployment. At the same time, the requirements of the Stability and Growth Pact may limit the extent to which national governments are able directly to assist the 'shocked' region. In this context, Structural Funds may have a greater role to play in the future than has been the case thus far.

### 3. The Future of Economic and Social Cohesion Policies

3.1. It is clear that a wide range of challenges confront the EU economy and society, and that the discussion concerning the future of the Structural Funds post-2006 has to be framed accordingly. To help consider the Committee's response to these challenges, it is useful first to consider five underlying questions that have to be addressed in the forthcoming policy (and political) debate, viz.:

3.1.1. Is the EU prepared to commit itself post-2006 to sustaining the efforts it has made since the policy and financial reforms of 1988 to achieving a greater degree of economic and social cohesion across the Union as a whole?

3.1.2. Is it willing to continue with the same underlying approach to economic and social cohesion post-2006 as that which has prevailed since 1988; an approach which is built upon the four principles of concentration, programming, partnership and additionality?

3.1.3. How can it incorporate the lessons learned from the past in the design and implementation of future cohesion policies — that is, best-practice arrangements?

3.1.4. What role is to be played by the Commission in future cohesion policies? Is the EU to retain the current arrangements, with the Commission jointly managing the design and implementation of the policy along with Member States, or are Member States to acquire an enhanced role in this policy process?

3.1.5. What role is to be assigned to the economic and social partners in any reformed arrangements for the design and implementation of cohesion policies?

3.2. Cohesion in the future. Economic and social cohesion is a Treaty obligation for the European Union, and should not be compromised by short-term considerations. It has long been the view of the Committee that this implies that Member States should be prepared to finance an EU budget to the extent that is required to achieve this goal. This may require a revision to the ceiling on Structural Fund expenditures as a share of total expenditure set at the Berlin summit. Moreover, it is clear that the employment objectives set out in the Lisbon summit are consistent with, and may be promoted by, EU Structural Fund activities — particularly those measures specifically designed to improve the economic competitiveness of the backward regions and those regions experiencing industrial decline.

3.2.1. Regions with low levels of per capita income require considerable fiscal transfers to allow for similar levels of private and public consumption within, and between, Member States. If we are to avoid long-term dependency, arrangements must be in place to ensure the poorer regions have the conditions required for their economic development and to ensure their population has access to a similar quality of public services which other regions enjoy.

3.2.2. The implication here is that EU structural actions post-2006 must be properly financed, appropriately targeted and properly managed, if they are to continue to be successful. The current ceiling on the global total of Structural Funds that may be applied to a Member State (of 4 % of national GDP) may need to be revised in the light of the extent of the regional economic development needs in the applicant states. At the same time, of course, it is essential that these countries have the capacity to absorb Structural Fund assistance in economic development programmes that contribute positively to regional economic development, and which do not distort local labour and/or capital market conditions.

3.3. The four principles of economic and social cohesion. On the basis of the evidence presented by the Commission — both in the Second Report on Economic and Social Cohesion and the First Progress Report on Economic and Social Cohesion — the Committee takes the view that the four underlying principles of the Structural Funds must be retained, and developed, during the post-2006 funding period.

3.3.1. Of these four principles, it is the future of concentration that is likely to be the most controversial. Given the challenges of enlargement, there appears to be an emerging consensus — which this Committee shares — that Objective 1 of the Structural Funds be retained post-2006 and not only for the candidate countries. However, the 75 % per capita GDP threshold for Objective 1 eligibility may have to be revised upwards to ensure that regions currently eligible for assistance, and whose need will continue beyond 2006, are not rendered ineligible due to the statistical effect of enlargement, which will lower the EU average per capita GDP level and thereby push some current beneficiaries above the eligibility threshold.

3.3.1.1. In the ensuing review, particular attention should be given to the special needs of the EU's island, mountainous, sparsely populated and ultra-peripheral regions.

3.3.2. Also, the future of Objective 2 will require to be considered. Since the Agenda 2000 reforms, Objective 2 includes not only industrial areas in decline, but also urban areas, rural areas and areas dependent on fisheries. This Committee considers that the Objective 2 category of support should be retained, although the degree of support (e.g. the rate of assistance from the Structural Funds, the definition of eligible projects) may have to be revised.

3.3.2.1. The case for continuing to recognise Objective 2 territorial support rests not only on the continuing economic development problems that are likely to confront those regions eligible for support. It is also based on a recognition that EU Structural Funds represents a key device for retaining domestic regional policy support, and for engaging private finance in the regional economic development effort. Further, EU policy is an important mechanism for Member States to incorporate 'best-practice' approaches to regional economic development within their own policies. In both these respects, EU structural policies provide considerable value-added to Objective 2 regions.

3.3.3. It is also essential that the EU commitment to human-resource development through the horizontal measures under Objective 3 of the Structural Funds remains a priority. It is through these measures that the EU will be able to raise the rate of employment and economic growth over the long term and achieve the aims set out at the Lisbon summit.

3.4. Best practice techniques of regional economic development. As implied above, the EU structural policies and their accompanying Regulations offer scope for disseminating best-

practice regional economic development policies throughout the Union. While no single approach is likely to work in all Member States due to differences in local economic conditions and potentials, nonetheless the Commission has at its disposal considerable evidence on what approaches work best and least efficiently. It is in the common interest that the Commission utilises this information in designing the post-2006 Structural Fund Regulations and in the administrative measures accompanying these regulations.

3.4.1. An example of this will be the lessons learned from the economic development of the new German Laender, and the relevance of that experience to the CEEC applicant countries.

3.5. Role of the Commission. To what extent should the role of Member States' governments — both national and sub-national — change in the design and delivery of the Structural Fund programmes? The Committee remains convinced that ultimate oversight of the Structural Funds at the EU level is an important aspect in the success that the funds have had to date, particularly in the Objective 1 regions. As has been stated above, not only is the Commission able to exercise responsibility for the disbursement of common funds, it has a crucial role to play in ensuring that regional development programmes are consistent with the aims and objectives of the funds and that best-practice techniques are used by all recipient authorities.

3.5.1. Pro-active regional policy on physical and human capital under the aegis of the Structural Funds is indispensable for the catching-up of poorer regions. This requires the ongoing evaluation of efficiency and of long-term impacts, and the focus of evaluation should not principally be on short-term employment gains. The Commission is the most appropriate institution to undertake this task, and to ensure a proper degree of coordination between the structural policies and other EU policies.

3.6. Subsidiarity. At the same time, there is a clear need for full and effective subsidiarity in the design and management of Structural Fund programmes. This points to a full and active participation by sub-national governments and the economic and social partners and not — at least not solely — a greater role for national authorities. The Committee sees no merit in any proposal that effectively returns control over the Structural Funds to Member State governments, as was the case prior to 1988.

3.6.1. Indeed, the rules governing the Structural Funds should continue to reflect common EU priorities in the design and delivery of structural actions. It might be that a greater degree of conditionality (as in the case of the current performance-linked reserve) in the uses to which the funds may be put will be appropriate in the future. For instance greater emphasis might be placed by the Commission on the outcomes (e.g. rates of return in employment and growth terms) that the funds are expected to generate. In a situation of greater demands being placed on limited resources, it is vital that the returns to the application of the funds are maximised.

3.7. Modulation of assistance. The Committee would ask the Commission to consider greater modulation in the rates of assistance available under the Structural Funds, particularly with respect to Objective 1 regions. Since it may not be possible to fund totally the greater Structural Fund demands within an enlarged EU, it may be necessary to involve the private sector (and private sector finance) more fully in regional development activities. One method for so doing is to encourage, within the terms of the post-2006 Structural Fund Regulations, a greater reliance on public-private sector partnerships where this is both possible and contributes to the objectives of EU policy. It is likely that this will be more appropriate in, for example, current Objective 2 regions, and less appropriate in Objective 1 regions within the candidate countries.

3.8. Role of national policies. Structural Fund measures will work best where these are accompanied by the reform of national policy and practices that either fail to exploit, or suppress the scope for, regional economic growth. National policies play a more important role, and it is unrealistic to expect EU actions to offset the impact of national policies which serve to widen regional economic and social disparities.

3.8.1. Within the macroeconomic policy framework of European monetary union Member States retain control over domestic budgetary policies, although subject to the conditions set out in the Stability and Growth Pact (SGP). There is a risk that, in the event of a cyclical downswing or an asymmetric shock, a particular Member State will be unable to continue to meet the SGP guidelines.

3.8.1.1. During those periods the social expenditures of government rise whilst tax receipts fall, and this can result in an increase in the public sector deficit close to — or above — the 3 % of GDP ceiling imposed by the SGP. In this event, governments are required to lower public spending and/or raise levels of taxation, both of which will exacerbate the economic downswing leading to greater pressure on economic

and social cohesion. It is therefore important that Member State budgetary policies typically are in balance, or surplus, to ensure that there is sufficient fiscal flexibility to permit counter-cyclical policies to be followed during an economic downswing. Otherwise the aim of economic and social cohesion will become considerably more difficult to achieve.

3.8.2. The development of national educational resources broadly defined is central to the cohesion effort across the EU. In the absence of adequate education and training, the returns to EU structural actions are likely to be lower than potentially is possible. This Committee considers that greater attention should be given to the development of national education and training policies, and human-resource development generally, in the preparation of regional economic development plans, and the integration of this with actions financed under the Structural Funds, in order to maximise the benefits from EU regional policy. This is especially important within the Objective 1 regions, where there tends to be under-investment in educational resources.

3.8.2.1. In addition, the Committee urges that greater attention is given to the delivery of education and training within eligible regions. If the economic development potential of individual regions is to be exploited, it is essential that there is sufficient involvement of both the private and the public sector in delivering education and training, much of which occurs within firms and other non-state actors.

3.8.3. The conclusions to the Lisbon European Council introduced the idea of a new, 'open' method of policy coordination between Member States, the aim being to ensure a coherent approach between Member States with respect to the strategic aims of the Union. This Committee regards economic development policies as an instance where the 'open' method can be applied. Not only will this encourage the dissemination of best-practice economic development policies, it will also contribute to the delivery of coherent economic development strategies both within and between Objective 1 and 2 regions. Further, extending the 'open' method to regional policies is fully consistent with the principle of subsidiarity, but it should not be used to replace EU financial commitments to the Structural Funds.

3.9. Enlargement. Enlargement will alter radically the context within which EU cohesion actions operate. If we consider only enlargement to include the central and east European applicant countries, this will increase the territory of the EU by over one-third; the population by 36 %; but will only add some 5 % to the wealth of the EU. Accordingly, after 2004 the EU will comprise up to 10 new Member States with a per capita income of below one-half of the current EU average.

This will present fundamentally new problems of cohesion to the EU and will result in intense pressure to considerably increase the resources applied to EU cohesion policies.

3.9.1. Arguably one of the key issues that yet has to be resolved is the capacity within the candidate countries to effectively administer the Structural Funds as required by the relevant Regulations. It is therefore essential that the Commission devotes resources to assisting these countries prepare the required procedures and administrative arrangements ahead of enlargement.

3.10. Transition Issues. The challenges of enlargement are not only financial. Beyond that, it is likely that some regions currently in receipt of support under the Structural Funds will no longer be eligible for assistance. This raises not only both political problems; it also involves potentially considerable economic difficulties for regions that remain under-developed and unable to generate sustainable employment on a sufficiently large scale.

3.10.1. This Committee has taken the view that it would be wrong automatically to graduate-out of Structural Fund eligibility any Objective 1 region unable to meet the criterion of achieving self-sustaining economic growth and employment opportunities but which nonetheless records an average per capita income above 75 % of the EU average.

3.10.1.1. In that event, the Commission should introduce appropriate phasing-out arrangements, or should raise the eligibility threshold beyond 75 % in order to meet the legitimate needs of the under-developed regions of the EU as a whole. While the 75 % threshold was chosen in 1988 as appropriate to the economic conditions of the EU at that time, there is no virtue in retaining that threshold in the face of the scale of change that will follow this prospective enlargement. It is essential that a discussion of the resolution to this problem takes place in good time. There are many important issues at stake in this matter, and the Commission and Member States should aim to reach a consensus position which best meets the needs of the Objective 1 regions.

#### 4. The Future Cohesion Debate

4.1. It is clear from this report that the economic and cohesion policies will confront a number of important challenges over the next few years. Nonetheless, it is vital that there is no overall diminution — financial and otherwise — in the EU's efforts towards promoting cohesion as this remains a

fundamental obligation under the terms of the EU Treaties. Accordingly, it is the Committee's view that the discussions concerning the EU's future cohesion policies should begin now. Certainly it would be inappropriate for these discussions to be compressed into a short time-frame whereupon the likelihood would be that financial considerations rather than economic and social ones would dominate the outcome.

4.2. In order to inform its deliberations, on 29 April 2002 the Committee conducted a series of hearings at which a number of organisations presented evidence concerning their views with respect to the future of EU economic and social cohesion actions.

4.2.1. The general tenor of the comments made by the representations participating in the hearing were broadly in line with the Committee's views as set out in this opinion. In this concluding section we review the various issues addressed.

4.3. There is a clear consensus that territorial assistance under Objective 1 of the Structural Funds should continue after 2006. It is accepted that this poses a financial challenge to the Member States, but it is widely agreed that this is a challenge that has to be met. The economic and social cohesion needs of the candidate countries are considerable, while there will remain a significant number of regions across the current EU15 whose need for support will continue beyond 2006. Otherwise the gains made thus far from the application of Structural Fund assistance are liable to be reversed.

4.3.1. Accordingly, it is essential that regions currently eligible for Objective 1 support, and whose eligibility post-2006 is jeopardised solely by the statistical impact of enlargement on EU average per capita GDP, continue to receive assistance. This can either take the form of raising the 75 % threshold, or providing satisfactory transitional support over the medium term. If the latter option is taken, however, the period of transition must be linked to real improvement in the economic conditions within the eligible regions.

4.4. The direct financial implications of enlargement with respect to economic and social cohesion, coupled with the continuing need of current EU15 regions for Objective 1 support implies that the current ceiling of 0,45 % GDP placed on the Structural Funds almost certainly will need to be raised. The Committee supports this as an inevitable consequence of enlargement. Any new ceiling that is fixed should respect the Treaty obligation to achieving a greater degree of economic and social cohesion.

4.5. No clear view has yet emerged with regard to the future of Objective 2 support post-2006. Whilst it is clear that the overall financial commitment to Objective 1 will have to be raised, it is not universally accepted that this should be at the expense of Objective 2 support.

4.5.1. A number of representations to the Committee have pointed to the importance of this facility, especially with regard to unexpected economic shocks that destabilise particular economic sectors within specific regions and as a device for facilitating economic diversification within regions hitherto dependent upon the declining traditional industries. Both enlargement and the accelerating trend towards globalisation are likely to exacerbate this problem for current, and candidate, Member States.

4.5.1.1. Serious consideration should be given by the Commission to creating a facility within the EU budget to be used to help stabilise regional income in the event of an unexpected economic shock which the Member State may not be able to respond to due to the domestic fiscal constraints imposed by the Stability and Growth Pact. This facility need not be large, as it would be used only exceptionally, and could be deployed only under strict conditions determined by the Commission and the Council acting jointly. This could be described as being an enhanced 'own-initiative' facility.

4.5.2. There are two fundamental points the Committee would note. First, that some Structural Fund facility should continue to exist to enable the EU to respond to unanticipated economic shocks that threaten to destabilise severely a particular region. This may be dealt with by an extension and further consolidation of the Community Initiative scheme. Second, that the highly specific needs of the geographically disadvantaged regions (for instance, peripheral, rural, mountainous, and maritime regions) continue to be supported from the EU Structural Funds.

4.5.3. Just as is the case within the Objective 1 regions, economic disadvantage is closely associated with social disadvantage and it is essential that efforts at the EU level continue to be directed to disadvantaged regions generally, and not entirely to the dominant sub-set within this group.

4.5.4. However, there may be room for adopting alternative mechanisms for dealing with certain aspects of economic and social cohesion problems within the Objective 2 regions. In particular, the Committee recommends that research is conducted into the possibility of adopting the 'open method' of coordination in this area. This would see Member States adopting specific policy targets with respect to measures of

economic and social cohesion (benchmarks) and then directing domestic economic policy to this end. Not only does this have the advantage of lessening the burden on the EU budget, it ensures that decisions are taken at the most appropriate level within the EU governance arrangement.

4.5.4.1. If an 'open method' is adopted in this policy area, it is vital that it utilises the key lessons learned over the period since the 1988 reforms which have resulted from the widespread adoption of an EU-method of structural policy support — especially partnership and programming. It is essential that any increase in the role of Member States in the context of EU cohesion efforts should continue to observe the underlying principles of that policy; principles which have been central to its success.

4.5.5. While the Committee encourages an examination of the appropriateness of the 'open method' to tackle some part of the economic development problems of current Objective 2 regions, any such move should incorporate the various 'best-practice' arrangements for the delivery, implementation and monitoring.

4.6. Economic and social cohesion policies, in whatever guise, should continue to prioritise investment in policy areas necessary to enhancing the long-term economic growth potential of the region. Public policy through the Structural Funds will continue to have a key role to play in three areas within less favoured regions:

- investment in economic infrastructure;
- investment in education and training programmes;
- investment in technology and technology transfer.

4.7. The Committee encourages that a broader review of economic and social cohesion be undertaken in the lead-up to the next period of structural policy actions. Since the reforms of 1988, economic and social cohesion has been defined according to narrow economic criteria — per capita income levels, and unemployment data. While both indicators have the merit of easy availability, objectivity and comparability, neither captures crucial aspects of social deprivation that must be addressed. The Committee commends the work by the Social Protection Committee to define appropriate indicators for social inclusion and underlines that additionally the territorial dimension is taken into account in such indicators.

4.8. There is broad consensus that Objective 3 interventions are a crucial aspect of a successful strategy for achieving economic and social cohesion, and that these measures should be retained under future reforms to the structural policies. An important task within this Objective is to develop efficient pathways of integration into employment for the most disadvantaged groups in society. Within this context, consideration should be given to the role of enterprise — or entrepreneurship

— in the delivery of training and re-training measures. While difficult to measure, there is general acceptance that cultural and educational attitudes towards entrepreneurship play an important role in releasing the economic development potential at the regional level. The Committee urges that such considerations form part of the review process, both at the EU level and at the level of the Member State.

Brussels, 18 July 2002.

*The President*  
*of the Economic and Social Committee*  
Göke FRERICHS

---

**Opinion of the Economic and Social Committee on the ‘Amended proposal for a Council Decision concerning the rules for the participation of undertakings, research centres and universities in the implementation of the framework programme 2002-2006 of the European Atomic Energy Community (Euratom)’**

(COM(2001) 823 final/2 — 2001/0327 (CNS))

(2002/C 241/30)

On 28 May 2002 the Council decided to consult the Economic and Social Committee, under Article 7 in conjunction with Article 3 of the Euratom Treaty, on the above-mentioned proposal.

The Economic and Social Committee decided to instruct the Section for the Single Market, Production and Consumption to prepare the Committee’s work on the subject, and to appoint Mr Malosse as rapporteur-general.

At its 392nd Plenary Session (meeting of 18 July 2002), the Economic and Social Committee adopted the following opinion unanimously.

## 1. Introduction

1.1. The delay in making the referral is regrettable, the EESC having exclusive powers regarding consultation on Euratom Treaty matters. The EESC attaches great importance to these powers, in view of the controversial nature of nuclear energy within society and the need for proper information and consultation.

1.2. Atomic energy raises serious public involvement issues, on account of the need to exploit new, non-polluting sources of energy and the major risks and waste processing problems inherent in the nuclear sector. The EESC calls for a clear statement of intent to strengthen performance and safety/

security evaluation models in this area by means of permanent information, consultation and training structures. The aim is to launch a process of better governance with a view to identifying the best strategic options, and to addressing public concerns about the use of nuclear energy and its long-term impact.

## 2. Rules for participation in the 6th RTD framework programme (Euratom)

2.1. On 21 February 2002 the EESC issued an opinion on