Opinion of the European Economic and Social Committee on the 'Proposal for a Regulation of the European Parliament and of the Council on the Cohesion Fund and repealing Council Regulation (EC) No 1084/2006'

COM(2011) 612 final — 2011/0274 (COD)

(2012/C 191/07)

Rapporteur: **Mr CEDRONE**

On 25 and 27 October 2011 respectively, the European Parliament and the Council decided to consult the European Economic and Social Committee, under Articles 177 and 304 of the Treaty on the Functioning of the European Union, on the

Proposal for a Regulation of the European Parliament and of the Council on the Cohesion Fund and repealing Council Regulation (EC) No 1084/2006

COM(2011) 612 final — 2011/0274 (COD).

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 3 April 2012.

At its 480th plenary session, held on 25 and 26 April 2012 (meeting of 25 April), the European Economic and Social Committee adopted the following opinion by 180 votes to 9, with 7 abstentions.

1. Conclusions and proposals

1.1 Broadly speaking, the Committee endorses the Commission's approach as regards the new proposal for a regulation on the Cohesion Fund. It particularly supports the efforts to harmonise procedures relating to the various funds with those laid down by the general regulation, although it does highlight a number of key points (set out above) which need further discussion and improvement, especially in view of the EU's current situation resulting from the financial and sovereign debt crises.

1.2 The Committee is pleased that the fund can be used to promote the production and distribution of renewable energy sources, to promote energy efficiency, to protect the environment and promote climate change adaptation, to restore biodiversity and to renew the urban environment. This could have a positive impact on other sectors such as tourism. These are all factors that support sustainable development.

1.3 The Committee salutes the Commission's decision to reduce the number of interventions at this time of crisis by concentrating the thematic areas, a key means of reducing waste, concentrating resources on specific activities and boosting the multiplier effect that can generate growth and jobs.

1.4 The Committee supports the proposal to fund the Connecting Europe Facility while avoiding the possibility of its becoming a specific fund, as this could lead to unnecessary duplication.

1.5 The Committee is also seriously concerned by and expresses major reservations regarding the current proposals on the conditionality principle (specifically the macroeconomic proposal). This should not be oriented towards punishment, acting as a means to penalise offenders; instead, it should focus on responsibility and reward, thereby avoiding undermining and compromising the convergence objective.

1.6 The Committee considers that it is vital to improve coordination of the array of funds, as well as between cohesion policy as a whole and the EU's other economic policies (including the CAP) within the reinforced framework of a common budget policy. This would produce a multiplier effect and boost the effectiveness of investments. The aim should be stronger cooperation on economic policy (including cohesion policy) in order to establish common economic governance, at least in the euro zone; the Committee has repeatedly called for this and most unfortunately the December 2011 summit failed to deliver it.

1.7 It is also crucial to improve the currently unbalanced institutional partnership between the Commission, the States and the regions, so that the Commission again provides support and guidance. This partnership should be supported throughout every phase by the partnership defined in Article 5(1) of the proposal for a regulation setting out the common provisions, which even now is often limited to consultation and information, drawing up a code of conduct for the entire EU and parameters for assessing the partnership's added value.

1.8 The Committee considers that upstream and downstream simplification is an absolute priority, for the Cohesion Fund and for all the Structural Funds; administrative fees should be cut, possibly establishing a flat-rate fee for some types of project, and the 'only once' principle applied.

1.9 For countries hit hardest by the crisis, cohesion policy is one of the most important instruments that Member States have to reduce social, economic and geographical disparities and to re-ignite and ensure the continuance of growth.

1.10 **Co-financing:** the criteria for co-financing should be examined more carefully and reviewed; they should be linked to the real budget conditions of local and regional authorities so as to avoid situations whereby the most vulnerable authorities have no access to any funding.

1.11 The Committee considers that the current backdrop of reform and debt adjustment organised in two stages (first austerity, as a threat, then growth) leaves no room for an investment and growth policy. It also considers that growth and austerity should operate in tandem. Cohesion policy should therefore be oriented in that direction, for example supporting businesses with a strong technological dimension and a strong impact on youth employment.

1.12 The Committee considers that the economic policies currently being pursued in the EU (austerity, budget restraint at national level, EU budget cuts, the fiscal compact, ECB restrictions, etc.) are sparking a recession with unpredictable effects, at a time when what is needed is the opposite, i.e. steps should be taken at the same time, if not beforehand, to support growth and jobs with a more courageous and incisive proposal. A significant contribution to this end could come from the Structural Funds (and in part, on a temporary basis, from the CAP), as already suggested at the summit on 30 January 2012, albeit in a limited form.

1.12.1 What is needed in other words, is a European 'new deal' for growth [1], a plan involving major targeted projects in a few key sectors that are able to get the EU economy moving again in a relatively short period of time. This plan should be seen as complementary to the Europe 2020 Strategy which is geared more towards delivering in the medium term. Such a plan could be:

— financed by using, with immediate effect, residual funds from 2007-2013, to which part of those planned for 2014-2020 could be added, as soon as possible, for a limited time;

— carried out via projects on which work could start at once, or via an accelerated, subsidiarity-based procedure, or via a drastic provisional amendment to the current regulations, which would allow for swift implementation;

— supported and bolstered by EIB intervention in the form of a bond issue (Article 87 of the new regulation). This would have a multiplier effect on investment, as it would attract capital from outside and would produce a positive effect on sovereign debt and on the euro, which it would strengthen.

1.12.2 This growth plan should be implemented using the same criteria for at least the first three years of the forthcoming planning period.

2. Introduction

2.1 In several of its previous opinions, the Committee has stressed the principles and importance of economic and social cohesion policy and solidarity, as enshrined in the Treaty and reiterated in Commission texts.

2.1.1 This principle is now more relevant and possibly in greater danger than at any time ever before; not even enlargement policy, when the old Member States feared losing funds and the new Member States were concerned about lacking adequate funds to cope with the demands of cohesion, presented this degree of risk.

2.2 Despite this, the Committee welcomes the Commission's attempts to factor in the background to the changes to the regulations, such as the proposal on the future EU budget, the 2020 strategy and the sovereign debt crisis which followed on from the financial crisis and is threatening the very survival of the internal market and thus of the EU itself.

3. The new cohesion policy: background, questions, comments and strategic points

3.1 In June 2011, the Commission adopted a package of proposals on the multiannual financial framework that will form the basis of the EU's finances from 2014 to 2020. Primarily, this framework will support the Europe 2020 strategy, which should release funding in addition to the budget, possibly also through the EIB (project bonds and/or eurobonds).

3.2 It must also be borne in mind that, with the ongoing economic crisis, many Member States have been forced to adopt draconian recovery measures and thus to freeze public and private investment in infrastructure, with serious implications for growth and jobs. Furthermore, when drawing up their programmes, Member States tend to give priority to national projects over cross-border projects with a European dimension.

3.3 The background to the discussion on the new regulations on cohesion policy is thus highly specific and exceptional and should be treated as such. For instance, analysis is needed on whether we can continue with such a splintered cohesion policy and whether conditionality is a sufficient and useful response to the need to improve cohesion and help those Member States that are most deeply mired in crisis.

(1) See EESC opinion *Growth and sovereign debt in the EU: two innovative proposals;* (OJ C 143, 22.05.2012, p. 10).

3.4 In view of the extreme problems confronting the EU, with limited resources to earmark for growth, might it not be better to avoid adding to the proliferation of regulations and controls that ought to be drastically reduced in number and finish projects that are already under way? Resources should be optimised and streamlined by means of a 'European new deal' in the form of an extraordinary European plan for growth ([2]).

3.5 While no radical changes will be made to the EU's current strategy, which the summit of 8 and 9 December 2011 failed to tackle, cohesion policy also requires a thorough overhaul. The most worrying thing, however, is that it will no longer be able to fulfil its key mission of reducing the economic and social divide between the EU's regions, a divide that will widen owing to the recession triggered by policies intended to curb the public deficit. It will thus need radical change and unitary economic governance.

3.6 The Committee wishes to make the following comments with regard to the methodology suggested by the Commission in its proposal to reform the regulations on the management of cohesion policy for the period 2014-2020, and in particular as regards the common provisions governing all Common Strategic Framework funds:

3.6.1 **Defining the Common Strategic Framework**: the Committee is waiting to examine the new proposal for a Common Strategic Framework, to be presented by the Commission in 2012. However it remains to be established, partly on the basis of the discussions on cohesion policy held by the European Council on 7 December 2011 ([3]), how the Commission intends to translate 'the objectives and targets of the Union priorities of smart, sustainable and inclusive growth into key actions for the ERDF, the CF, the ESF, the EAFRD and the EMFF'.

3.6.1.1 Previous Committee opinions stressed the need for cohesion policy, albeit aligned and necessarily consistent with the Europe 2020 strategy and its objectives, to maintain intact the characteristics of a policy designed to boost the social, economic and territorial cohesion of the Member States.

3.6.1.2 The link between these objectives is a key factor in the success of the Europe 2020 strategy, but the Commission has yet to explain quite how the link between the Common Strategic Framework strategies and the national-level reform programmes can be implemented in a functional, coordinated and financially sustainable way.

3.6.2 **Partnership agreements**: the Committee agrees with the European Parliament and the Committee of the Regions that the agreements must first be negotiated between Member States and regions and then discussed between the States and the Commission.

3.6.2.1 In the context of the negotiations to be opened with the Member States, the Committee stresses the importance of the multilevel governance approach suggested by the Commission; however, it also calls for a clearer definition of the institutional players (at both national and local level) that will be asked to draw up and sign the partnership agreements with the Commission, and for broad participation by civil society representatives in the preparation of these documents.

3.6.3 **Thematic concentration**: the Committee supports the Commission's proposal to reduce the number of financial interventions carried out under cohesion policy, by concentrating financial resources on strategic projects considered to be vital for the sustainability of cohesion and of the economic development processes to be activated in less developed, transition and more developed regions.

3.6.3.1 The choice of thematic areas in which to invest in the next seven-year planning period is a matter for the Member States' freedom to decide, although the decision should be made jointly with the Commission after careful assessment of proposals' consistency with the Europe 2020 strategy.

3.7 **Conditionality**: the Committee recognises that this is one of the issues on which there is broadest disagreement among the European institutions (Parliament, Council, Committee of the Regions, etc.) regarding the Commission's proposal, and considers that the meaning, purpose and methods of applying the concept of conditionality have not been explained clearly enough. Although some ex ante proposals (which should include social conditionality) could be considered appropriate, the Committee cannot support macroeconomic conditionality in its current form.

3.7.1 Without prejudice to the need to provide the Commission with a guarantee that Structural Fund resources are used in compliance with the principles, objectives and timeframes laid down in Community regulations, the Committee believes that the Commission should review its proposal in light of the following considerations:

— conditionality is a mechanism that should be designed and implemented in such a way as to help Member States to use resources in the way specified by the Commission, more than as a means to penalise the Member States;

— the focus on the principles of conditionality (ex ante, macroeconomic) should therefore primarily be directed towards measures that could encourage the Member States to spend those resources allocated to the regions that are furthest from the EU average better (in terms of effectiveness and efficiency) and more quickly;

([2]) Ibidem.
([3]) COM(2011) 615 final - 2011/0276 (COD).

— the Commission should focus more on the planning stage of programmes, that is to say the strategic planning stage when national and regional institutions' priorities and responsibilities with regard to territorial development are established. The Commission should be more active in helping countries and regions to use the funds;

— equal attention should be paid to the stage when ex ante conditionality is verified. During this stage, it must be verified that the Member States have the capacity to ensure compliance with the proportionality and subsidiarity principles when implementing cohesion policy. Here again, the Committee reaffirms that use of the conditionality principle is a valid means of encouraging the Member States to apply Structural Fund rules correctly. Only in truly exceptional cases, when the Member State clearly and repeatedly seeks to delay the reforms requested by the Commission is it possible to apply sanctions.

3.7.2 With regard to macroeconomic conditionality, the Committee shares the concerns expressed by the EP and some Member States regarding the possibility that regions and beneficiaries of Community programmes might be penalised as a result of non-fulfilment/inefficiency on the part of the central government in respect of policies to reduce the public debt. Alternative solutions should be found to avoid assigning responsibility for national budget policies to regional institutions and operators who have no influence over such decisions. Stronger coordination between and within Member States is therefore needed.

3.8 Above and beyond conditionality, cohesion policy therefore needs to tackle a number of core issues that are relevant to all the funds. These issues include the following:

— coordination and complementarity of the funds, and coordination between the funds and other European economic policies;

— institutional coordination of cohesion policies, including through enhanced cooperation;

— drastic simplification of the increasingly complex procedures and regulations, both upstream and downstream;

— real, decisive economic and social partnership (in addition to the institutional partnership);

— tailoring of co-financing on the basis of conditions in local institutions;

— a renewed role for the Commission with priority given to European and macro-regional projects;

— the performance reserve (reward payments) could generate an additional administrative burden and slow down the injection of resources into projects that are vital to cohesion;

— whether value added tax is applicable.

4. Key objectives of the Cohesion Fund

4.1 The Cohesion Fund was set up in 1993 for Member States with a Gross National Income (GNI) of less than 90 % of the EU average and is intended chiefly for infrastructure in the areas of transport, the environment, energy efficiency and renewable energy. Accordingly, investments are channelled towards setting up trans-European transport and energy networks, and supporting energy efficiency, the use of renewable energy and improving public transport.

4.2 The fund represents about 18 % of all cohesion policy spending and helps implement this policy in the spirit of the Treaty. However, the results have exceeded this goal: the Cohesion Fund has delivered added value on investments, promoting growth and jobs in target regions, despite a high level of dispersion owing to the excessive number of projects that have received funding (1 192 in the 2000-2006 period).

4.3 The new regulation breaks very little new ground: Article 2 merely identifies the scope of the fund, setting out two lists that cover what is and is not eligible for funding. Oddly enough, it specifies what is not covered, such as the decommissioning of nuclear power stations or housing measures. Article 3 sets out investment priorities, stipulating four areas of intervention with subcategories, but does not specify whether these are indicative or compulsory, although such indications would make the funds more flexible and easy to use. Article 4 and the Annex deal with indicators.

4.4 For countries hit hardest by the crisis, cohesion policy is one of the most important instruments that Member States have to reduce social, economic and geographical disparities and to re-ignite and ensure the continuance of growth.

5. The new proposal for a regulation: comments

5.1 Our comments, other than those under point 3.3, focus primarily on the selection criteria for projects, the resources attributed to the Connecting Europe Facility to fund the main transport networks, and the indicators.

5.2 As regards the selection of projects to be funded, without prejudice to their consistency and compliance with the guidelines adopted by the Parliament and the Council in this area (trans-European transport networks, environmental projects and energy projects), the Committee considers that the Commission should indicate both the specific types of activity eligible to receive Cohesion Fund resources and the criteria to help the States that receive this funding to select those projects best suited to the (overly numerous) objectives of the Cohesion Fund (eleven in all).

5.3 The Committee considers in particular that the resources used by the Cohesion Fund in previous planning stages have been spread over too many projects, thus reducing the intended overall impact on improving transport infrastructure. Account should be taken of the specific situation in each Member State in order to secure a more careful and concentrated selection of larger projects with a greater impact, in the transport, environment or energy sectors. This could make a more effective contribution to lessening the infrastructure gaps that still exist between Member States.

5.4 With regard to the resources allocated to the Connecting Europe Facility to fund transport, energy and communication projects (a total of EUR 50 billion, 10 billion of which from the Cohesion Fund which is already pursuing these goals (proportionality principle)), the Committee considers that further discussion of this decision is necessary, in order to explain why the Commission has chosen to:

— create another fund managed centrally by an executive agency that will have to coordinate with all the other strategic programmes (European and national) in the sector, as well as with the Common Strategic Framework for cohesion policy and the partnership agreements with the Member States. This will result in an apparently unnecessary overlapping of activities and competences;

— earmark resources for the fund that are substantial, albeit modest compared to the Commission's estimates of the resources needed to meet future requirements in terms of goods and passenger transport (EUR 500 billion by 2020), energy (EUR 1,5 trillion for the period 2010 to 2030) and communication (EUR 250 billion). These resources would be taken either from the Structural Funds or, to a smaller extent, from the Cohesion Fund. Such needless complications would reduce the sum available for transport and environment infrastructure. In view of the sheer number of regions that could have access to this funding, the impact of these resources could not have the multiplier effect (new projects and funding, partly covered by the private sector) that the Commission is hoping for; the end result would be further fragmentation of the funds. In order to achieve the desired result, the Committee also advocates drawing on funds from the private sector and avoiding fragmentation.

5.5 While the Committee welcomes the Commission's introduction of indicators, it considers that they are both generic and inadequate; for example, nothing is said about the environmental impact, and only quantitative values (indicators) are mentioned. The same applies to waste, kilometres of roads built, etc.

Brussels, 25 April 2012.

The President
of the European Economic and Social Committee
Staffan NILSSON

APPENDIX

to the Opinion of the European Economic and Social Committee

The following amendment was rejected during the plenary session but received at least one-quarter of the votes cast:

Amendment 1 – tabled by Ms Teder

Point 1.11

Amend as follows:

— *The Committee considers that ~~the economic policies currently being pursued in the EU (austerity, budget restraint at national level, EU budget cuts, the fiscal compact, ECB restrictions, etc.) are sparking a recession with unpredictable effects, at a time when what is needed is the opposite, i.e. steps should be taken at the same time, if not beforehand, to support~~ <u>the priority should be to promote</u> growth and jobs with a more courageous and incisive proposal. A significant contribution to this end could come from the Structural Funds (and in part, on a temporary basis, from the CAP), as already suggested at the summit on 30 January 2012, albeit in a limited form.*

Reason

The idea that correct and proper budget management in the Member States will lead to an economic recession cannot be accepted. The Committee should not include critical comments about Member States' efforts to balance their budgets in its opinion.

Outcome of the vote

For: 78

Against: 98

Abstentions: 18.