

Outlook opinion of the Committee of the Regions on ‘Success factors for local and regional restructuring strategies’

(2007/C 305/07)

THE COMMITTEE OF THE REGIONS ISSUES THE FOLLOWING RECOMMENDATIONS

- It is important to recognise that the restructuring process in cities and regions is a constant phenomenon accompanying our socio-economic lives. Restructuring should be treated as an opportunity for tackling existing and future economic problems.
- The CoR recommends the constant monitoring of these processes across the whole European Union, to be carried out by bodies independent of all the stakeholders. The European Union and the Member States should encourage the creation of local and regional partnerships between administrative authorities, businesses and the social partners, thereby promoting cooperation for local development in a globalised world, particularly in peripheral areas, where there is a danger of a loss of cultural heritage.
- Local and regional level restructuring must ensure that objectives can be achieved which are in line with EU policies, whilst at the same time maintaining high levels of employment to secure an appropriate standard of living. The current restructuring process should also be a first step in a modernisation process which seeks to create an economy focused on the future and based on knowledge and innovation; This objective cannot be achieved without increasing investment in human capital.
- An integrated approach to the restructuring of rural areas ensures (or should ensure) a minimum level of access to services of general economic interest, in order to attract business and skilled workers and stem depopulation. It is also imperative that ERDF, ESF and an EAFRD funding should be used to support innovative action rather than to prop up the status quo. One important instrument in addressing the immediate problems which can be caused by re-structuring is the European Globalisation Adjustment Fund.

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Policy recommendations

THE COMMITTEE OF THE REGIONS

Socio-economic and political background to the opinion

1. On 16 October 2006 the European Commission asked the Committee of the Regions to draw up an outlook opinion on effective restructuring strategies for Europe's cities and regions. The Commission believes that the Committee's opinion will provide valuable input for formulating the Commission's approach to the restructuring processes essential for the European economy.

2. The European Union is currently undergoing a period of fundamental economic change, involving the restructuring of the entire economies of cities and regions. As a result, local and regional authorities are facing new challenges which they must respond to in order to maintain the socio-economic and environmental balance.

3. Restructuring should be treated as an opportunity for tackling existing and future economic problems and for alleviating and eliminating their negative effects. Because of its grasp of grassroots reality and its ability to respond in an appropriate, rapid and flexible manner, the local and regional sphere is the most effective in implementing restructuring policies, especially when these processes are not in response to structural problems.

4. Local and regional level restructuring must ensure that objectives can be achieved which are in line with EU policies i.e. competitiveness and innovativeness, whilst at the same time maintaining high levels of employment to secure an appropriate standard of living for EU citizens.

5. These challenges particularly concern cities and regions, i.e. local authorities, which have significant scope for transforming strategic guidelines into concrete courses of action and for mobilising local social organisations and businesses to take such action.

6. The aim of this opinion is to contribute a number of additional factors to the debate on current local and regional restructuring processes, which have become a continual and inevitable process and a constant accompaniment to our social and economic lives.

7. The main reasons behind the restructuring process which local, regional and national authorities need to manage and preferably predict and anticipate are:

- the expansion of the globalisation process,
- security and combating terrorism,
- energy and climate change,

- the opening up of the world's economies to international trade,
- the development of the EU's internal market,
- the introduction of new innovative technologies,
- higher standards in the field of environmental protection,
- the growing importance of services of general interest,
- changes in consumer demand.

8. Restructuring may take place at various levels and in various fields:

- at inter-sectoral level,
- at sectoral level,
- at enterprise level.

9. Irrespective of the approach adopted for a given branch or sector, restructuring processes mainly occur at local level. This is because it is local and regional communities which are the most affected by these processes.

10. Due to the pace of events that make restructuring necessary, these processes very often consist of sudden, forced action taken by businesses in order to adapt to the requirements of the global economy and the changing consumer market.

11. As a result of an increasingly globalised economy, crises in or deficits of short-term business or sectoral competitiveness are growing in importance. Such crises are unpredictable and, by constantly chipping away at the economic fabric of regions, can cause serious damage to them.

12. For the same reason, we are witnessing increasingly frequent relocations, understood as the abrupt transfer of an economic activity from one region to another. These unexpected decisions are based on strategic and financial criteria, and others such as the cost of production factors, but sometimes tend to be encouraged by regional incentives and policies to attract investment.

13. This type of ad hoc restructuring yields unsatisfactory results, in spite of the existence of solid legal instruments and professional managers in many countries. Such processes are unable to prevent far-reaching negative social and regional changes and lead to short-term solutions being favoured at the expense of more permanent and stable solutions. Such action often results in serious social and regional problems. The relocation benefits for businesses often have serious repercussions for the regions left behind.

14. The challenge is not to curb inevitable restructuring but rather to embrace it, albeit in such a form that, as far as possible, enables regions, municipalities and individuals to be compensated and even to appreciate the opportunities in the long run.

15. Particularly affected by ad hoc restructuring were those countries which joined the EU in 2004 and 2007. This was in large part due to different levels of economic development and advancement in the field of new technology and innovation among the EU 27. In many cases, the expected economic effects were achieved but at the cost of adverse social consequences caused primarily by the short period of transition.

16. If we assume that restructuring processes are continuous, we need to analyse cases of restructuring in the EU 15 countries, using the anticipation method, enabling the earlier recognition of impending difficulties, thus partially eliminating or at least alleviating the negative effects of restructuring.

17. The success of a given restructuring process, particularly the anticipation of problems, is to a great extent dependent on dialogue between the company, the third sector, employees and their organisations (for example trade unions), local or regional authorities, centres of higher education and research institutes as well as government bodies such as regional development agencies. The outcome and success of the restructuring process is very often dependent on the quality of this dialogue.

18. Local and regional authorities play an important role in this process. It is possible to define three types of action in the event of impending restructuring:

- strengthening and, where necessary, diversifying the local economic and social base and infrastructure,
- taking action to retain major employers and to strengthen SMEs as motors for jobs,
- making the region, city or local area more attractive.

Both the above action and restructuring process require appropriate statistical data, information resources and a special strategy for gathering and sharing information with all participants in the restructuring process.

19. The information policy should take particular account of those small and medium-sized enterprises which, given their specific situation, have greater difficulty in accessing information resources which make it possible to anticipate market changes.

20. The SME sector deserves special protection during both the restructuring process and the anticipated period of change. Intervention is most needed at these stages, in order to strengthen and develop the managerial, organisational and strategic skills and abilities that can sustain SME growth, breaking out of the original, traditionally family-focused mould and introducing a model for control and management that is commensurate with global competition. The examples examined show that the subcontracting strategy has proved to be the most effective method, but only in those cases where it was possible

to go beyond standard market relations and establish partnership-based cooperation between businesses or firms within a network, particularly at regional level.

Conclusions

21. The restructuring processes analysed show that there is no single approach to this process and that it is in large part dependent on the type of local authority concerned (region, city, local district), the economic sector, the nature of the area in question both in terms of its location (peripheral areas), land use (agricultural, light industry, heavy industry) as well as the level of economic development of the country in which the restructuring area is located.

22. The current restructuring process should also be a first step in a modernisation process which seeks to create an economy focused on the future and based on knowledge and innovation. This objective cannot be achieved without increasing investment in human capital through better education and by improving skills. And this requires effective and productive investment in the local or regional labour market, which will make it possible to anticipate the challenges posed by the rapid economic and social restructuring process.

23. Broadening and increasing investment in human capital and adapting education and training to meet the new skills requirements arising from restructuring involve additional costs; appropriate mechanisms are needed to ensure that these costs are shared by business, public-sector bodies and private individuals. Particular support should be given to comprehensive training strategies that provide the skills needed in a knowledge-based and innovative economy. Sharing experience and establishing partnerships between cities and regions in the area of education and training is essential for the effective implementation of these processes.

24. As the above examples show, activity in the area of human capital investment is an extremely important part of the restructuring and regeneration of urban and rural areas. It is a key task for the organisations involved in restructuring at local level. Issues such as professional and economic mobility or balancing supply and demand on the labour market at local level have a decisive impact on the effectiveness of restructuring. The mobility of job seekers and those facing unemployment, particularly low-skilled workers, should be promoted through the provision of personalised job seeking services and work experience and training courses to adapt the skills of job seekers and those facing unemployment to the requirements of the local labour market. This is especially relevant to young people, who have particular difficulty finding jobs.

25. Activities based on the principles of the European Youth Action programme, covering career guidance, assistance with completing education and access to appropriate training courses, can facilitate the smooth transition from education to employment in areas affected by restructuring.

26. Such action should help combat adverse developments in urban and rural areas, including, for instance, rural depopulation. This is a problem not only because it may mean that rural areas cease to function as communities, resulting in a loss of cultural values, traditions and local character, but also because of the risk of a loss of hydrogeological balance. The most effective means of halting these processes is through action funded by ERDF (European Regional Development Fund), ESF (European Social Fund) and EAFRD (European Agricultural Fund for Rural Development) programmes. An integrated approach to the restructuring of rural areas ensures (or should ensure) a minimum level of access to services of general economic interest, in order to attract business and skilled workers and stem depopulation. It is also imperative that ERDF, ESF and an EAFRD funding should be used to support innovative action rather than to prop up the *status quo*.

27. One important instrument in addressing the immediate problems which can be caused by re-structuring is the European Globalisation Adjustment Fund which offers short-term assistance to regions affected by the relocation of economic activity caused by globalisation. The Committee of the Regions has welcomed the creation of this instrument and has recommended to increase its volume to EUR 1 000 million/year. The Committee of the Regions expects its first annual report on the results achieved by the European Globalisation Adjustment Fund in 2007 (report to be released in 2008) to analyse thoroughly whether the intervention criteria set in Article 2 of Regulation 1927/2006 EC enable an appropriate execution of the Fund and offers its contribution to any future debate about a possible review of these criteria.

28. As a result of restructuring many regions are becoming increasingly dependent on tourism. Here the integrated approach, making use of natural resources and cultural heritage, focuses on quality, with the primary objective of satisfying the customer. The success of such processes depends to a high degree on the development of communications, connecting restructured areas to major national and European networks, and using new technologies, including broadband Internet access, for communication in the broad sense, and on appropriate education and training measures.

29. Cultural richness and natural resources should become key instruments used in these processes. On occasion, they are the major assets in the restructuring process, particularly in

sparsely populated peripheral areas. They make dynamic growth in tourism possible, which then becomes a lever for local development.

30. Around 60 % of the EU's population lives in urban areas of 50 000 or more inhabitants. Most jobs, businesses, higher education institutions and other centres of socio-economic life are located in towns and urban areas. These are areas which not only offer opportunities but also harbour dangers. In addition to activities specifically related to the economy, restructuring carried out in European cities also includes action to regenerate urban areas in the broader sense.

31. As the examples show, it is only by comprehensively tackling economic, social and spatial problems that it will be possible to achieve the results expected by residents, local authorities and the EU. It is easier to find partners for restructuring in urban areas, but only by maintaining partnerships between the public, private and third sectors, and by using a variety of sources of financing has it been possible to bring the process to a successful conclusion.

32. Those cities that have maintained a dominant position in their regions, for example by virtue of their size or history, have adopted a strategy of renewal as the driving force behind the region. Their position today makes it possible for them to support restructuring throughout the region, both through direct partnerships as well as through organisations located in these cities.

33. Action to increase competitiveness and promote enterprise, innovation and the development of services has made it possible to attract and keep a highly skilled workforce. This has significantly improved the range and standard of services for local residents. Appropriate planning, design and maintenance of urban spaces have led to a fall in crime in cities, which has made streets, parks and children's play areas more attractive. A high-quality urban environment is an essential part of effective restructuring as it helps guarantee an attractive environment for work, living and investment.

34. Experience shows that those cities which have promoted cluster formation have managed to increase their competitiveness significantly. Relations between urban and rural areas should be maintained at an appropriate level by creating a level playing field in development conditions, thereby reducing differences between rural and urban areas.

35. A diversified approach to regional-level restructuring processes should be monitored by networks that bring together regions with similar types of restructuring (peripheral region networks, mining region networks).

36. It is also important that businesses, partners in the restructuring process, have increased access to sources of financing. In addition to subsidies and the available EU funds, these should also include bank guarantees, mutual guarantees, loans and micro-credits. The European Investment Bank and the European Investment Fund can play a major role in this process.

37. No single restructuring model can provide a guarantee of ultimate success. However, in spite of the diversity of the various restructuring processes, it is possible to identify a number of factors that are a characteristic of successful restructuring processes:

- constant monitoring of economic processes for early anticipation of restructuring,
- anticipation cannot solely be limited to forecasting but must also create probable scenarios in preparation for their realisation,
- the presence of organised social and civil society dialogue, including the flow of information between parties taking part in the restructuring process,
- the existence of structures linking together academic institutions, scientific and research institutes, industry and administrative authorities at all levels,
- the existence of easily accessible high-quality education and training structures,
- regular public reviews of the quality, effectiveness and outcome of the action taken,
- the existence of diversified sources of funding for the restructuring processes, covering all stakeholders, which leads to more effective action,
- the extent to which the region or city is capable of implementing a territorial policy that is able to maintain the capacity of local businesses to produce goods, provide services and distribute them,
- the awareness of the local community of the need for constant change, expressed in the form of local or regional identity. This ensures an integrated approach to sustainable development from an economic, social and environmental perspective, which represents an additional factor for attracting new investment,
- a highly proactive attitude on the part of the regional and local authorities, supported by leadership skills and the availability of competition and finance-related instruments,
- a locally-generated, comprehensive project, tailored to the local situation, combining various aspects on a case-by-case basis: economic development, education, social integration, culture, spatial planning, etc.

The Committee of the Regions' recommendations

38. It is important that the European Commission recognise that the restructuring process in cities and regions is a constant phenomenon accompanying our socio-economic lives.

39. Urges local and regional authorities to develop genuine forward planning in their areas, encompassing monitoring, support for the existing economy and the inclusion in regional strategies of local action in this field, on the basis of broad-ranging and shared city-regions projects.

40. In connection with this, the Committee of the Region recommends the constant monitoring of these processes across the whole European Union, to be carried out by bodies independent of all the stakeholders, and covering businesses, social partners and local and regional communities by region and by sector. This system should include an analysis of socio-economic changes at local, regional and national level, taking into account rural, peripheral and upland areas, and also analyse future economic trends on the labour market.

41. Recommends the publication of restructuring best practices for use in other cities and regions of the European Union. Such publications should be ordered according to areas with similar types of restructuring (agricultural areas, peripheral areas, regions with heavy industry, mining, and light industry, textiles, urban areas).

42. The European Union and the Member States should encourage the creation of local and regional level partnerships between administrative authorities, businesses and the social partners through the use of financial instruments, thereby promoting cooperation for local development in a globalised world. This will make it significantly easier to anticipate restructuring processes.

43. The Committee of the Regions calls on the European Commission and the Member States to pay particular attention to the flexibility of EU funding mechanisms, especially the ESF, to ensure, that funding is available to respond quickly to situations appearing suddenly and without warning. In these cases the need for funding for incubators, recruiting activities, help and advice for start ups and focused training is immediate. Within three months the possibilities of those losing their jobs due to restructuring to find new employment are greatest and decline substantially after that. The application mechanisms for the different EU-level instruments should take this need for responsiveness into account. The measures for speedy responses to the hardship which can be caused by restructuring should also include assistance to cover the immediate social needs of the individuals concerned (housing, health-care, counselling etc.). People affected by restructuring need social support to enable them to start new activities and to adapt to restructuring.

44. Recommends taking advantage of the cross-border location of certain cities and regions in the restructuring process and urges the removal of all procedural obstacles impeding the flow of labour and capital, and hindering the restructuring process.

45. Recommends that the European Commission, within the framework of the possibilities offered by the EU structural funds, adopt an integrated approach to co-financing restructuring processes from European funds, which will make it possible to tackle both economic and social problems, whilst implementing the European Union's policies.

46. Calls on Member States to remove the legal barriers and other obstacles to the creation of public-private partnerships (PPPs), which can provide effective and active support for the restructuring processes.

47. Calls on the European Commission and other institutions which provide joint financing for restructuring processes to increase supervision over the effectiveness of spending, particularly in the area of 'soft projects' financed by the ESF.

48. Calls on the European Union to take account of aspects relating to the restructuring processes in the European Union's current policies and when drafting new policies, from the anticipation stage to completion.

49. Urges the Member States to use financial instruments compatible with EU law for businesses affected by the restructuring process, particularly in peripheral areas, where there is a danger of a loss of cultural heritage or local or regional identity, and where restructuring concerns the SME sector, for which this process is particularly difficult.

50. Expects to be consulted by the Commission when the Community guidelines on State aid for rescuing and restructuring firms in difficulty, due to expire in October 2009, will have to be reviewed in 2007/2008.

51. Particularly recommends that Member States and all businesses involved in the restructuring process ensure the preservation of local traditions and culture, which can also be an asset in current or future restructuring.

52. Recommends making use of the European Commission's new *Regions for Economic Change* initiative and the networks of cities and regions which are being created as part of this initiative, and which are co-financed by the European Regional Development Fund, whilst continuing to anticipate restructuring processes and promote best practices for helping cities and regions adapt to the changes brought on by globalisation.

53. Recommends that the Commission be particularly vigilant with respect to the application of regional incentives in relocation operations.

Brussels, 11 October 2007.

The President
of the Committee of the Regions
Michel DELEBARRE

APPENDIX 1

Short summary of the case studies of city and regional restructuring

What had initially seemed like a transitional crisis of adaptation in the 1970s and 1980s actually turned out to be a recurring event in the social and economic life of modern Europe. It came to be a permanent process, requiring businesses and their environments to adapt to changing market conditions, i.e. a constant process of restructuring. For the purposes of the opinion on restructuring in the cities and regions of the EU drawn up at the request of the European Commission, we analysed the information received on the development of these processes along with other information contained in numerous documents. The conclusions and recommendations have been included in the opinion.

Scotland — United Kingdom — an example of strong competition on the global market

The number of workers employed in industry fell from 276 000 to 227 000 during the years 2002-2006, whilst production for export decreased by 36 % over the same period. Most firms transferred their production to new EU Member States or to India and China. The Framework for Economic Development in Scotland (FEDS) is focused on ensuring productivity and competitiveness on the global market. The PACE programme set up by the Scottish authorities (Partnership Action for Continued Employment) has made it possible for all organisations in the private and public sectors to actively avert mass redundancies. Restructuring has hit the Scottish labour market, particularly industry, very hard. However, the growth in the numbers employed in service industries and in the business sector has meant that Scotland now has one of the highest rates of employment in the EU, while unemployment is at its lowest level for 30 years. Moreover, the Scottish economy is reaping the benefits of the globalisation process. Scottish banks have expanded abroad, which has strengthened their standing among their competitors.

The Basque Country — Spain — restructuring of a region and its cities

Local industry, structured around the shipbuilding, steel and heavy industry, went into decline in the 1980s. The Basque government, employers and trade unions decided to restructure and modernise these sectors of industry. Nine clusters were created, which together made up 45 % of the Basque country's GDP. Today they remain the driving force of the region's economy. After a process that has lasted some twenty years, the Basque country's GDP is currently the third highest in Europe, after regions in Luxembourg and Ireland. Unemployment, which was 25 % in 1990, currently stands at 4,5 %. Much of the capital invested has been in innovation; private funds account for 66 % of total investment (the average in Spain is 48 %; the figure for Europe is 54 %). The restructuring process was linked with the redevelopment of the region's cities, including the capital, Bilbao. Culture and local identity played a major role in this process, which led to a high degree of social acceptance of the process itself.

Crete — Greece — from agriculture to tourism services

Restructuring in Crete, which was financed by the national government and European funding, is based around cooperation between businesses and research institutes (the University of Crete, Heraklion research institute) and aims to help people move from the agricultural sector to the services sector. This aim has only been achieved in part. The main reason for this has been the vertical structure and top-down nature of the action. Strong centres were strengthened further, marginalising peripheral areas lying deep within the island's interior, which only widened the gulf between the sub-regions and did not result in any growth in competitiveness.

Tawira — Portugal

Restructuring based on redevelopment, leading to the development of tourism services, an increase in investment in this sector, which helped finance the preservation of the region's historical and architectural heritage, which in turn led to a further increase in tourism and an in-flow of private capital. This process was financed from the PITER, URBICOM, INTERREG and PROALGARVE funds.

The regions of Austria

Restructuring involving transition from a one-sector economy to a diversified industrial structure based on R & D projects, as well as transition to the tourism sector and business-related services. This process is supported intensively through the constant development of opportunities for vocational education and training.

Porto, Portugal

A restructuring process begun only recently, made necessary by the relocation of numerous government bodies and firms to the capital, as well as by a shrinking population and the collapse of traditional retailing in favour of supermarkets. The aim of the restructuring process is to breathe new life into the city centre, to develop cultural services and to redevelop the city's housing. 2004 saw the launch of the PortoVivo initiative, which aims to attract private investment to the town. This major restructuring and redevelopment project has a twenty year time frame. The renovation of over 5 000 buildings is planned during this period, which will help preserve a valuable cultural and historical heritage, and will in turn develop the services sector, thereby creating new jobs.

Liberec, Czech Republic

A restructuring process which was triggered by a change in the political system aims to bring the economy into line with EU standards. Mainly financed by the State and regional budget and EU funding. This has led to support for the SME sector and the development of PPPs. The main problems are debt and the state of public finances.

Wrocław, Poland

The last seventeen years have seen a change in both the city's economy and in its appearance in general. The redevelopment of both the city centre and specific areas of the town has drawn private investors to the city. Hotels and restaurants have appeared. The open policy of the city authorities, its partnership with its twin towns, regional authorities and central government, as well as the cooperation between the city and its immediate neighbours have led to new branches of industry being established in the city's surrounding area. The Wrocław Technology Park and the city's centres of education and industry have launched many initiatives in the field of R&D. Unemployment has fallen from 18 % to 6 % over this period; one drawback has been rising prices, e.g. property prices have soared by 400 %.
