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Foreword

This pamphlet examines the issues that need to be considered for the future of EU Cohesion policy after 2006. This may seem a long time away but the debate about the future of EU Regional Policy for the 2006–2012 period really starts now. It will continue throughout 2003 and 2004. Brussels can seem remote to many people but the decisions made in terms of the regional aid budget and the principles that will underpin the new European regional policy and programmes will impact on many localities in the UK.

During 2000–2006 the UK has benefited from Objective One funding for South Yorkshire, Wales, Cornwall and Objective Two funding for many parts of England, Wales and Scotland with transitional status for Northern Ireland and the Highlands and Islands. During 2003 there will be a mid-term review that will assess how well we are using the European funds in this current programming period and which will allow us to examine the case for continued funding.

However, bigger decisions about the future of Europe are on the horizon. In the UK a referendum on the Euro will be followed by the 2004 European Parliament elections and the scene will then be set for the applicant states of Central and Eastern Europe which are expected to join the European Union after 2004. European enlargement will focus attention on the need to re-think and reform the EU Structural Funds beyond 2006. This paper begins to set out the issues that need to be addressed in the EU discussions ahead, and presents a likely timetable and countdown to the new programmes.

CLES continues to play a role in monitoring and evaluating the impact of the Structural Funds in local economies and will continue to participate in the debate on the principles of the new policies after 2006, both here and with European local authority partners.

In the UK, devolution and English regional governance are changing the direction of EU Regional Policy. The Structural Funds are coming under ever closer regional scrutiny. The Regional Development Agencies are already making the case for closer regional control of European funds, with better integration into the new regional strategies in the UK.

As the European debate on 2006–2012 unfolds, the UK will need to focus on its policy outcomes without losing sight of the wider opportunities which European enlargement will bring for many UK companies and regional economies. This report will provide a useful starting point for the negotiations ahead.

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The future of EU regional policy 2006–2012: Issues and responses

Introduction

The European Treaty requires the European Commission to publish a report every three years on the way in which European regional policy has assisted economic and social cohesion by reducing disparities between member states and between regions. The *Second Cohesion Report (European Commission 2001a)* was published on 31 January 2001.

The context of the debate is the proposed expansion of the European Union (EU) and several of the 12 candidate countries of Central and Eastern Europe (CEE) are expected to join the European Union around 2004. Enlargement will change the current balance between richer and poorer regions, and can be expected to lead to a re-distribution of structural funds in favour of the new entrants in the next programming period post 2006.

The UK government is currently arguing that the European Commission should undertake a fundamental examination of the principles underpinning the structural funds to assess whether they really are the best form of intervention for the enlarged EU and the new member states given that most of the accession countries have very low rates of GDP (10 of the 12 have rates below 67 per cent of the EU average and the lowest is at 22 per cent).

This paper is based on a presentation to the School for Policy Studies, Bristol University on 22 June 2001 and contributes to the debate concerning how best to manage EU regional policy to accommodate these changes successfully by ensuring effective targeting and use of resources in the future. It is very early to be considering the future of cohesion policy for the EU after 2006, but it is important to consider the principles that might underpin the next phase of EU regional policy and the position that the UK government might adopt during the negotiation process.

Following the publication of the *Second Cohesion Report* a meeting of the Cohesion Forum took place in Brussels during May 2001. This forum brought together national and regional representatives from member states, candidate countries, the European Parliament and the Committee of the Regions to consider the challenges facing cohesion policy in the future. This paper examines some of those debates from a UK and Scottish viewpoint.

The challenges that must be addressed

The debate that has now started concerns the possible future direction of EU regional policy after the next wave of enlargement of the European Union. There are a number of interconnected factors that will influence the decisions to determine the shape of the new policy that can be expected to be taken in a few years time.

These issues include:

- EU enlargement
- Intergovernmental Conference (IGC) 2004
- the impact of
 - the Sixth Environmental Action Programme
 - UK entry into EMU
- the impact of World Trade Organisation (WTO) negotiations on the Common Agricultural Policy (CAP)

The Stockholm Council held in June 2001 agreed to conclude the negotiations on enlargement by the end of 2002, with the first states joining the EU before the end of 2004. Therefore a number of accession states will be involved in the debate and decisions concerning the future of EU cohesion policy. Will this pace be affected by the Irish referendum?

Enlargement has a number of implications for the current members of the EU; some are positive and some negative. It is anticipated that 20 per cent of world exports will derive from the enlarged EU. 100 million extra people will have joined the EU, adding one half per cent GDP to EU15 GDP. The provisions of the Single European Market will also have been extended into the accession states, provisions with which firms based in EU15 are familiar, making the opportunity to trade, invest and to establish joint ventures significantly easier than if these states were to remain outside the EU.

The key factor that will determine the options available for the post 2006 direction of EU regional policy will be the pace and nature of EU enlargement. EU enlargement aims to increase the EU from 15 to 27 member states including the 10 CEE countries together with Cyprus and Malta. At first sight it would appear that all EU resources could be expected to flow eastwards to support the accession states.

The effect of accession by 12 new member states would be:

- to increase EU population by 38 per cent
- to increase EU GDP by 11 per cent
(however the average GDP of 10 of the 12 applicant states is 67 per cent of the EU average and the lowest of the 12 is only 22 per cent of the EU average)
- to increase the land area of the EU by one-third; and
- to decrease the estimated GDP per head (PPS) of the current EU 15 by 14 per cent.

The impact of EU enlargement is complicated by a number of factors including:

- the timetable and sequence of accession. For example, the timing of the entry of Poland with 36 per cent of CEE population (56 per cent of first wave) and 35 per cent of CEE GDP (46 per cent of first wave) would be significant in financial terms
- the scale of policy derogation's that are agreed for accession countries and current EU member states will affect the pace at which new member states have to adjust to the full force of the EU *acquis* (or legal obligations)
- the adjustment process which has already begun within the accession states. While progress is uneven, the accession negotiations show that a number of the accession states are close to complying with all entry obligations (Czech Republic and Slovenia) and the use of PHARE and TACIS is contributing to the preparations for accession in a number of other states. The scale of financial transfers required might not therefore be as significant as first anticipated
- the impact from other global trends, such as the WTO agreements for open markets, the reduction of state aids and ending of agricultural subsidies within the EU and future environmental agreements to address climate change through the Rio+10 meeting (2002).

As with all EU policy debates there are political parameters to the future of the EU structural funds and the funding of EU enlargement. The issues being considered include:

- the likely size of the EU budget and the proportionate share allocated to finance EU regional policy
- changes to the way in which decisions are made on EU regional policy.

A decision taken in the margins of the negotiations on the Nice Treaty agreed that qualified majority voting would not be introduced until 2007 after decisions on the next phase of EU regional policy have already been taken. This effectively retains the member state veto over changes to the current EU regional policy, though as budget decisions are not expected until 2004–2005 the decisions can be expected to involve the first wave of accession countries, a major complicating factor.

The budgetary parameters that will affect the structural funds and enlargement are complex and concern the sequence of accession as, if the richer accession states enter the EU first, the immediate impact on the current EU regional policy is more limited. The pressures to reform EU regional policy increase as more of the accession states reach the point where entry to the EU becomes a realistic possibility. However, the current situation in the accession countries and the EU 15 is not static:

- the GDP of the CEE countries is increasing relative to that of the EU, that is, their economies are converging with those of the EU
- the absorption limit establishes a ceiling for the financial transfers that an accession state can receive. This is currently 4 per cent of the value of their GDP and would not mean all of the EU structural funds moving to the east. On even the current EU regional policy, funding would remain for the current EU member states
- on the current 75 per cent EU GDP threshold used for determining Objective 1 areas in the 2000–2006 period a substantial number of beneficiaries would fall within the accession countries and a number of currently eligible areas have seen growth rates that will take them off the eligibility map. Would there be transitional status for these areas?
- the use of a ‘safety net’ was adopted for the 2000–2006 period to limit the loss of Objective 2 coverage from the 1994–1999 period in a number of EU member states, notably the UK. Would it be possible to adopt a similar approach for the 2006 period?

The next EU treaty reform or Intergovernmental Conference is to take place in 2004 and presents the opportunity to address whether new competences might be appropriate for the EU level.

The Sixth Environmental Action Programme (6EAP) (*European Commission, 2001b*) that has now been agreed by the European Council (Stockholm June 2001) will have an impact across all EU policies especially the structural funds and the Common Agricultural Policy. 6EAP has four themes covering climate

change, biodiversity, health and the environment, sustainable resource use and waste management (particular impact on recycling and energy saving), and a series of seven thematic strategies that are to be developed of which two are notable and will address land use issues and the urban environment (including public transport).

Entry into the EMU by the UK after a referendum might occur within the current programming period (2000–2006) and is a question of technical changes; can the UK deal with the challenge of such an external shock? The 1977 McDougall report (*European Commission, 1977*) advocated that to constitute an effective regional policy the structural funds needed to comprise 10 per cent of the EU budget. This is unlikely.

Serious pressure can be expected to be applied on the EU through the next World Trade Organisation (WTO) talks. WTO pressure leads to the limited reforms of EU agricultural policy approved in the Agenda 2000 budget package for the EU (Berlin Council, March 1999) and can be expected to lead to a further decoupling of the commodity price support regime and a move to ‘environmental cross-compliance’ and support for rural development. Given that the CAP comprises 50 per cent of the EU budget this pressure is significant. The UK is already championing (as shown in the *English Rural White Paper (DETR, 2000a)* and the UK response to the EU sustainability strategy) a recycling of production subsidies as aids to promote farm diversification and countryside management.

Issues to be addressed in the EU discussions

There are some central issues that will have to be addressed through the talks between the EU member states, the European Commission and the European Parliament on the shape of EU regional policy after 2006. The issues include:

- the size of EU budget devoted to structural funds
- the absorption limit
- the need for a full evaluation and debate on policy principles – what is the value added of an EU policy in this area?
- the balance that should be struck between EU level and member state/regional level actions
- the significance of the growing level of policy linkages at the EU and UK level

- the importance of other funding sources such as the European Investment Bank for the regional regeneration effort.

Should the proportion of the EU budget devoted to regional policy remain at 0.46 per cent of EU GDP? The size of the structural funds needs to be viewed alongside other financial interventions (such as the CAP and the state aids regime – currently 2 per cent of EU GDP) and together with the question as to which states are net recipients of the EU budget and which are net contributors. Over the 2000–2006 period the UK will receive around £10bn that together with the co-financing that must be committed equates to a total structural funds package of £20bn. This is a significant level of investment. In contrast, the regeneration budget for the RDAs will only rise to £1.7bn per annum after the November 2001 budget agreed in the second Comprehensive Spending Review is introduced from April 2002.

Should the so-called ‘absorption limit’ be raised from 4 per cent to 5 per cent of GDP? This is the limit placed on the level of budgetary transfers that can be awarded by the EU to accession states as a proportion of their GDP. The absorption limit will impose a real restriction on their ability to receive substantial financial transfers from the structural funds.

Should the purpose of EU regional policy remain as it is currently structured? Or have circumstances across the EU and within the UK changed such that it should either be re-nationalised or a greater level of decentralisation introduced? Which response is most appropriate for the regions of the UK? The added value of EU regional policy needs to be defined.

The policy linkages secured within the UK have grown steadily especially during the 1994–1999 round of programming and with a much greater level of intensity since the election of the Labour government in 1997 with a much stronger regional policy and regeneration agenda. The context of the programmes is important as they are concerned not just with spending levels but also the delivery of a number of policy objectives from the EU level and also within the UK. This relationship is now much more complex following the process of devolution and regionalisation that has occurred.

There are a number of other funding sources that should be examined in more detail – particularly the potential for the use of the EIB and the funding for the Trans European Networks (TENs) programme.

What should be the purpose of EU regional policy?

The debate on post 2006 regional policy should centre on defining what the purpose of EU regional policy should be. The *Second Cohesion Report* does not address this question in detail.

The *Second Cohesion Report* poses 10 questions concerning the future of EU regional policy:

1. What will be the role of cohesion policy in an enlarged EU of nearly 30 member states, in a context of rapid economic and social change? How is it possible to further economic convergence and preserve the European model of society?
2. How should EU policies be made more coherent? How should the contribution of other EU policies to the pursuit of cohesion be improved?
3. How should cohesion policy be modified in preparation for an unprecedented expansion of the EU? Should cohesion policy also address territorial cohesion in order to take better account of the major spatial imbalances in the EU?
4. How can cohesion policy be focused on measures that have a high EU added value?
5. What should be the priorities to bring about balanced and sustainable territorial development in the Union?
6. How should the economic convergence of lagging regions of the EU be encouraged?
7. What kind of EU intervention is required for other regions?
8. What methods should be used to determine the division of funds between member states and between regions?
9. What principles should govern the implementation of EU intervention?
10. What should be the response to the increased needs with regard to the economic, social and territorial dimensions of cohesion?

Enlargement of the EU will create substantial financial pressures on the EU and requires a comprehensive response. How resources are to be used and targeted on the worst problems, worst affected areas, to secure the greatest opportunities

and the greatest possible outcomes is a critical issue that the debate on the key principles needs to address. Is there a case for securing a greater level of flexibility and differentiation between the support required for regions and countries with different needs?

An evaluation of the impact of the 1994–1999 round of programmes will shortly be undertaken that will also provide some indication of what has worked well and might be retained for the next funding period. A more comprehensive evaluation of the policy objectives of the current structural funds and the Cohesion Fund might be appropriate.

The key features of an effective EU regional policy for the next period are that it should be designed and implemented:

- to take a long term view and promote a sustained course of action by the partners
- to promote an inclusive and sustainable approach to regional development
- to be dynamic and capable of having revised objectives and priorities according to changes in the regional context
- to promote the adoption of strategies that are evidence based and subject to a review of their effectiveness
- to be comprehensive and address the interconnected factors active within the regional economy
- to support the design of regional strategies through partnership at both the national and local levels involving all key actors and the communities.

A realistic timetable

Reaching agreement within the EU15 and then with the accession states is likely to prove exceedingly difficult. The debate on what follows the current phase of programmes that end in 2006 could be termed a 'slow burn issue' with no decisions expected before 2005/6 at the earliest. There is time to consider the best options and the most appropriate negotiating stance.

During 2001, the *Second Cohesion Report* was published by the European Commission, the Cohesion Forum met in Brussels to debate on principles, the

Council working groups began to debate the *Second Cohesion Report*, and policy platforms were prepared by the European Commission.

The future timetable is likely to be as follows:

- 2003 – *Third Cohesion Report* published by the European Commission with detailed options
- 2004/2005 – Draft regulations and eligibility criteria proposed by the European Commission
- 2005 – EU budget framework agreed by the member states
- 2006 – New regulations adopted by the member states/European Parliament
- 2007 – New programmes operational(!)

Key EU policy connections

The structural funds should not be viewed in isolation; the connections that are made to other EU policies are highly significant and have grown in importance over the three previous phases of the programmes. Therefore the structural funds need to be considered alongside other EU policies that will also be reformed as a consequence of the EU enlargement process, in order to take a comprehensive view of the challenges facing the regions of the EU.

The most significant policy connections or 'flanking policies' that have a significant impact on the UK regions are:

- the Lisbon Council agenda that set EU objectives for achieving competitiveness and the knowledge economy
- the employment and social policy of the EU implemented through thematic programmes
- CAP and its reform from 2003
- EU competition and state aids policies
- EU policies for sustainable development

- EU policies for equalities
- emerging EU interest in urban policy and spatial planning.

There is a need to examine how best to align the structural funds and the Cohesion Fund with the Lisbon conclusions. The Lisbon Council set the objective of making the EU the fastest growing knowledge-based economy by 2010 together with an emphasis on competitiveness and innovation, investing in people, combating social exclusion, promoting sustainable economic growth and developing appropriate macro-economic policies. Improving overall competitiveness is a priority of the UK government. The Lisbon summit (May 2000) sought to achieve an employment rate of 70 per cent by 2010, with one of 60 per cent for women.

The employment and social programmes of the EU are significant in that they are horizontal and based on the implementation of annual action plans that cover the entire member state. The National Employment Action Programme (NEAP) is especially significant as it establishes the policy context for the application of the European Structural Fund (ESF) and has strengthened the commitment of the EU to lifelong learning.

Two of the key policies are the Common Agricultural Policy (CAP) and EU Competition Policy, particularly state aids. A review of CAP is due in 2003. In parts of rural Scotland the significance of CAP can be seen in the fact that the resources are six to seven times those of the structural fund programmes.

EU Competition Policy has provided significant levels of resources to the UK regions. For example, Regional Selective Assistance (RSA), the state aids spent in the UK regions defined by the UK government as Assisted Areas, have had considerable regional variations over the past 10 years. From 1989–1999, Scotland spent 30 per cent of the UK total RSA, Wales 18 per cent and NW England 15 per cent. It should aim to secure a framework promoting private sector involvement in economic development while discouraging dependence on state aids.

The significance of EU policies to promote sustainable development is highlighted by the incorporation into the Treaty of Amsterdam (*European Union, 1997*) of a new objective for the EU (Articles 2&6) stating: *'Union financial commitments are required to work simultaneously in the long term interest, towards economic growth, social cohesion and the protection of the environment'*.

The EU only focuses on addressing gender inequalities at the present time.

The EU concern with urban policy is beginning to increase. The European Spatial

Development Perspective (ESDP) is an intergovernmental planning policy that has had a big impact on the development of the INTERREG Community Initiative.

The European Commission has already made an assessment of how the ESDP priorities and the action plan for sustainable urban development have been taken into account in the programmes for Objectives 1 and 2 and in those for INTERREG III B and URBAN; and is examining how its own knowledge of spatial and urban problems might be improved, through developing the European network for spatial analysis.

The European Commission recognises that urban areas have a major influence on the development of regions and is concerned with how the competitiveness of cities can be enhanced by using the opportunities offered by the knowledge-based economy and addressing disparities within cities by regenerating deprived urban areas. The European Commission sees the need for further policy development work to:

- consolidate the urban audit with Eurostat, to help lay the foundations for a policy to regenerate cities and improve their competitiveness
- enhance the potential of towns and cities to drive regional development.

The focus of the UK

The policy choices adopted by the UK government will in part depend on those policy objectives that the UK believes it is appropriate for the EU policies to contribute to. There are a number of policy areas where the EU programmes are making a contribution within the UK regions. The issues that will shape the negotiating stance adopted by the UK will include:

- economic position
- training and skills
- accessibility and geographical features
- social inclusion and equal opportunities
- sustainable development.

The GDP of UK regions varies substantially, with the GDP (in 1999) for North East England, Yorkshire and Humberside, and North West England being the

worst performers and London, South East and Eastern England being the best performers. However, the gap between these regions has widened between 1989–1999. In this period, the GDP of the worst performers (North East England, Yorkshire and Humberside, and North West England) rose by 40 per cent and in contrast the GDP of the best performers (London, South East and Eastern England) rose by 50 per cent.

Learning and Skills Councils have been established and the UK government is placing a great emphasis on addressing social inclusion and creating equal opportunities.

The UK government has considerably strengthened its role on sustainable development through the adoption of the (then) DETR strategy *A better quality of life (DETR, 1999)*. This strategy defines sustainable development as a combination of effective protection of the environment; maintenance of high and stable levels of economic growth and employment; prudent use of natural resources; social progress which recognises the needs of everyone; and consideration of the long-term implications of decisions.

The UK government is also taking a much closer interest in the establishment of an effective urban policy, with the publication of an *Urban White Paper (DETR, 2000b)*, an urban summit due in 2002 and a *State of the Cities* report expected during 2005.

Key policy connections within the UK

The domestic context in which the EU structural fund programmes fit has been strengthened considerably and will have an impact on the purpose of future programmes. The multiplier effect of structural fund programmes in the past programming period through their co-funding with other policy instruments has been significant and should be built upon for the new period. But as EU regional policy no longer operates in a vacuum, what value added does EU regional policy bring into the more crowded UK domestic policy context?

The policy congestion and policy context within which EU policy will rest include:

- RDA strategies
- Learning and Skills Councils
- community planning and neighbourhood regeneration

- regionalisation within England
- strategies in devolved administrations
- (Scotland – Framework for Economic Development Scotland (*Scottish Executive, 2000*); Wales – (draft) Economic Strategy; London – Strategy for London (*London Development Agency, 2001*))

RDA strategies are required to address structural weaknesses and divergence. The EU structural funds represent a significant level of financial resources for economic development across the UK and, in England, the significance of the structural funds has been stressed through the strategies adopted by the RDAs.

The Local Government Act (2000), the National Strategy for Neighbourhood Renewal and its associated Action Plan (*Social Exclusion Unit, 2001*), as well as the *Urban and Rural White Papers* will help to achieve a more joined-up approach to policy and programme delivery, both domestic and EU. The National Strategy for Neighbourhood Renewal (*Social Exclusion Unit, 2001*) contains Public Spending Agreement Targets for crime, unemployment, education, physical environment, and the condition of social housing and health. The new Local Strategic Partnerships (LSPs) might represent a useful mechanism to enable negotiation between partners and to facilitate the better coordination and targeting of the structural funds.

In addition, the 10 year Transport Plan (*DETR, 2000c*) and the DTI strategy '*Opportunity for all in a world of change*' (*DTI, 2001*), address regional competitiveness and will influence how the new programmes are designed and implemented.

The devolved administrations have already recognised that the structural funds are an important factor that benefit the implementation of new regionally specific economic development policy. For example, the Framework for Economic Development Scotland (FEDS) (*Scottish Executive, 2000*) strategy acknowledges:

- the significance of the structural funds in Scotland as a regional and local level regeneration instrument
- that the structural fund programmes represent a source of expertise for economic strategy, partnership, management, project delivery and monitoring
- that the structural fund programmes represent a source of funding to support the policy objectives of FEDS, including the delivery of durable projects,

durable financial instruments, support for infrastructure and a close relationship to area strategies and the community planning process.

The level of political support that the structural funds have at a local level also gives them a status that other regeneration programmes do not have. The political visibility of these programmes in the UK has developed due to the lack of an effective regional policy for much of the 18 years prior to 1997.

Determining eligibility at the EU or UK levels?

There are a number of different ways of determining eligibility for structural fund coverage. These options include:

- EU-wide standard criteria to determine coverage
- EU framework with member state determination from a basket of indicators
- full re-nationalisation of the process.

The first option, of retaining the current approach that determines coverage based on EU-wide standard criteria, would be relatively 'rigid' as relying on the use of GDP for the determination of Objective 1 is inflexible. To ensure that EU regional policy adds value, the future of structural funds and wider economic development measures will depend on a careful assessment of need with a wider focus than GDP. It is possible that the European Commission might seek to use the emerging EU structural indicators agreed to at the Stockholm Council (June 2001), as a better range of indicators would help to illustrate the differentials that currently exist within EU15 and EU27 and enable more effective targeting of the policy.

While this approach is 'rigid' it is supported by both the European Commission and the Belgian government. This is unlikely to be agreed to by the other member states.

The second approach, to adopt an EU framework with member state determination from a basket of indicators, would not be a loss of solidarity within the EU but a refocusing of effort. This approach is flexible as the EU sets the framework and eligible areas are then selected by the member state. It would appear possible for the index of local deprivation to be used, including unemployment rates, other measures of social deprivation and skills levels. Effective use must be made of regional as well as EU-wide indicators to produce a more accurate picture of (changing) regional disparities.

The French planning department DATAR has argued that this is the best means to concentrate sparse funds into the most needy areas, that is, pockets of deprivation in urban areas and the difficult conditions of sparsely populated areas (connecting these areas to the SEM).

The final option, full re-nationalisation with sole determination of the areas to be covered being taken exclusively by the member state is considered to be a very unlikely outcome.

A realistic outcome for the UK

Clear economic problems remain within the UK and some level of EU support through its regional policy can be anticipated. It is important to be aware that, with the budgetary pressure on the EU caused by EU enlargement, some coverage of the UK might be secured but the level of resources allocated might be very small. In this situation, is the advocacy of the next few years going to be really worthwhile? A reasonable best guess at this stage might be that the UK secures the following outcome:

- Objective 1 areas might move into transitional status and so achieve a final phase of funding for a possible 'soft landing' and eventual loss of status.
- Objective 2 transitional areas cannot realistically be expected to retain their current status as this would be costly and is unlikely to be agreed due to the budget increase required.
- Objective 2 new areas might be determined with a horizontal/thematic coverage similar to the new employment and social programmes. This might be on the basis of two sub-stands, that determine their eligibility due to their:
 - urban and social conditions, or their
 - remote, mountainous and rural conditions

In this situation Objective 2 would have 'horizontal coverage' on a NUTS 1 basis, that is, a programme each for England, Scotland and Wales, broken down into a series of regional programmes at the NUTS 2 level. This would secure a close link to the emerging horizontal approach being adopted for state aids as well as the objectives established in the RDA and other strategies. The new Objective 2 programmes would thus be thematic rather than geographic. In this scenario, a horizontal Objective 2 programme might have a close and complementary relationship to the reformed CAP support for rural development.

- Objective 3 would remain UK-wide. This would be a continuation of the current approach where Objective 3, the main instrument for the use of the European Social Fund (supporting training and associated processes) is already horizontal and thematic, with a limited level of regional targeting.

- The next phase of EU initiatives?

- INTERREG and EQUAL
- URBAN and LEADER+

URBAN and LEADER duplicate the main programmes, while INTERREG and EQUAL would appear to have a clear value-added through their promotion of innovative approaches to interregional collaboration and equal opportunities. But is there a case for a new initiative that can deal with unexpected regional shocks? While there may be a strong case for this sort of initiative it needs to be borne in mind that the current structural fund programmes are intended to address structural weaknesses not cyclical problems.

It is also essential that we develop a model that can effectively assess regional performance, assess trends and the impact of issues such as a continuing decline in GDP in some parts of the UK. Better forecasting is an essential tool for effective policy making.

Implementation issues that need to be addressed

In addition to the questions around the policy choices that the policy seeks to address, there is a need to resolve a number of current implementation issues.

While much of the current process works well, the issues that should be resolved in advance of the next programming period include:

- the impact of the Strategic Assessment Directive (*European Parliament, 2001*)
- securing Single Fund Programming
- deepening the accountability to the member state/region
- deepening the partnership within the region
- securing strategic programming across the regions of the UK
- adopting horizontal regional programmes with concentration within them

- end the N+2 and Performance Reserve.

There is a need to consider the impact of the Strategic Assessment Directive on the preparation of the next round of programmes.

The Strategic Environmental Assessment Directive (SEA) will come into force by 2004 and can be expected to have a major impact on the context in which projects are developed and the way in which the programme should consider whether project proposals meet the legal responsibilities placed on public agencies.

The SEA develops the process already begun in the Environmental Impact Assessment (EIA) (*Council of the European Communities, 1985*). While the EIA assesses the detailed impacts of specific projects, the SEA makes a broader assessment of the wider programme or plan out of which the projects emerge or in which they fit.

The SEA aims to help achieve sustainable development by:

- including environmental goals in decision making
- avoiding or reducing the environmental impacts of plans and programmes
- considering the best environmental options and alternatives for plans and programmes.

The SEA strengthens and streamlines the EIA by:

- identifying potential impacts and cumulative effects of projects at an early stage
- addressing the justification and location of proposed projects
- reducing the time and effort needed to assess projects.

The SEA process involves:

- screening to determine whether a SEA is necessary
- scoping to agree what issues should be included
- impact assessment to appraise the proposed strategy, plan or programme and analyse the uncertainties
- review to check all relevant impacts have been assessed properly

- integration to ensure that the findings of the impact assessment are fully considered in planning and decision making
- implementation and monitoring to ensure that there is correct application and follow-up of plans and programmes
- consultation and participation to take into account the views of environmental authorities, other agencies, non-governmental organisations and the public.

The benefits of the SEA process are that

- it shows the likely environmental effects of plans, enabling environmental impacts to be avoided, reduced or mitigated and raising environmental awareness
- it identifies how plans can be improved and justifies the choice of options
- it identifies the most cost-effective way of achieving socio-economic aims while avoiding environmental damage
- it examines sub-components of plans to make sure they are compatible
- it monitors the implementation and effectiveness of plans
- it increases confidence that the plans and programmes will be effective.

Clearly much of the above is already built into the programme, but the SEA will need to be assessed as to how it will relate to the provision of the programme and its processes, the questions asked of partners and checking their compliance.

The scope of the SEA is defined in the Directive to ensure a common application across the EU. It is intended that the following areas are included:

- town and country planning or land use
- tourism and recreation strategies
- water resources
- transport systems
- energy supply

- waste
- industry
- telecommunications.

The current range of fund types is confusing and hinders effective coordination and programming. Currently we have to work with four funds when one fund with one set of regulations should suffice.

- FIFG – thematic
- ESF and EAGGF – country wide
- ERDF – regional/area focused.

There is a central concern with the issue of governance: between the European Union and the member states; between the EU and the region; between member states and regions.

The principles of concentration, partnership, programming and additionality remain significant and useful. They should remain the guiding principles for the new period. Subsidiarity might be added as a fifth key principle that reflects the concern with the principles of effective governance. While a horizontal approach might be taken to determine Objective 2, the design and implementation of programmes should remain at the regional level. It is essential that the EU policy supports those policies being implemented at a regional and local level from domestic UK programmes.

There is a real need to secure further administrative simplification to the EU structural fund programmes. A number of the administrative changes that were introduced for the 2000–2006 programme period has led to a very complex process that is overly bureaucratic. For example, the adoption of the N+2 procedures creates pressure to spend at the expense of approving projects that are better suited to the delivery of the strategic objectives of the programme.

The performance reserve is also an unwieldy mechanism. Holding back 4 per cent of the approved programmes within each member state is artificial and complicates programming significantly. Programme partners recognise that it is important to have clear baselines and benchmarks and the structural funds have acted as a spur to the development and implementation of better systems for monitoring and evaluation, but these systems remain detached from similar systems developed as part of domestic UK programmes. It is essential to join up the processes of programme development and delivery as much as the policies.

In contrast, the requirement of the structural fund regulations for an annual report and an annual review is considered to be helpful as it provides a real opportunity to ensure that the programmes remain relevant to the needs of the region and could be considered for incorporation within other domestic UK programmes.

Next steps

The Council of Ministers working groups have begun to meet and the European Parliament has also begun to consider its reaction to the *Second Cohesion Report* and it can be expected to wield considerable influence over the final outcome. Likewise, a number of the policy networks such as the CPMR and CEMR will influence the debate on the principles that the policy should reflect.

The European Commission publishes the *Third Cohesion Report* with detailed options in 2004 with final decisions expected to be taken by the EU institutions in 2006.

The IGC in 2004 presents the opportunity to consider whether the incorporation of an urban competence and the extension of the European 'acquis' to spatial planning would be of assistance to securing an effective horizontal regional policy where the needs of urban and rural areas can be considered and addressed in a balanced and holistic manner. The next European Urban Forum meeting takes place in autumn 2002 and presents an opportunity to examine the latest thinking from the European Commission on the significance of the urban agenda within the future of European regional policy.

The role of the DTI is to lead on the policy negotiations for the UK as a whole and to forge a single coherent UK line. This has become more difficult as a result of the existence of devolved bodies across the UK. Implementation is devolved whilst policy is reserved. However, the political visibility of these programmes means that this black and white distinction needs to be addressed with considerable subtlety.

Conclusions

There is time to consider the preferred policy outcome for the UK. UK and EU policies need to be addressed together. This paper is not calling for a re-nationalisation of EU regional policy, but a clearer process of decentralisation and for a fundamental rethink as to the purpose of that policy. The EU regional policy must remain supportive of the objective of UK regional policy or create a significant value added at the EU level that the member states alone cannot achieve.

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Glossary of abbreviations

6EAP	6th Environmental Action Programme
CAP	Common Agricultural Policy
CEE	Central and Eastern Europe
CEMR	Council of European Municipalities and Regions
CPMR	Conference of Peripheral Maritime Regions of the European Union
DATAR	Délégation à l'aménagement du territoire et à l'action régionale (French Government body)
DETR	Department of the Environment, Transport and the Regions
DTI	Department of Trade and Industry
EAGGF	European Agricultural Guarantee and Guidance Fund
EC	European Community
EIB	European Investment Bank
EMU	Economic and Monetary Union
EQUAL	an EU Community Initiative under the Structural Funds to promote means of combating inequalities in the labour market
ERDF	European Regional Development Fund
ESDP	European Spatial Development Perspective
ESF	European Social Fund
EU	European Union
FEDS	Framework for Economic Development Scotland
FIFG	Financial Instrument for Fisheries Guidance
GDP	Gross Domestic Product
IGC	Intergovernmental Conference
INTERREG	an EU Community Initiative under the Structural Funds to develop cross border co-operation and assist border areas
LEADER	an EU Community Initiative under the Structural Funds to assist rural areas
LSP	Local Strategic Partnership
NEAP	National Employment Action Programme
NUTS	Nomenclature of Statistical Territorial Units
PHARE	The main channel for the EU's financial and technical co-operation with the countries of Central and Eastern Europe.(originally Poland Hungary Assistance for Restructuring the Economy)
PPS	Purchasing Power Standard
RDA	Regional Development Agency
RSA	Regional Selective Assistance
SEA	Strategic Environmental Assessment
SEM	Single European Market
TACIS	Technical Assistance in the Commonwealth of Independent States (that is, the former Soviet Union)
TENs	Trans European Networks
URBAN	an EU Community Initiative under the Structural Funds to assist deprived urban areas
WTO	World Trade Organisation