

## **MEMORANDUM**

### **Position of the government of Catalonia on the 2007-2013 EU financial perspectives and the reform of European regional policy**

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Generalitat de Catalunya  
**Departament d'Economia i Finances**

## INTRODUCTION

The reforms currently underway on the EU's financial perspectives and the new structural fund regulations will have a great impact on the receipt of Community funds in Spain and Catalonia, and there is a risk that these funds may be suddenly and critically reduced.

The memorandum presented herewith seeks to highlight the importance of these reforms and make known the position of the government of Catalonia. It also aims to underscore the importance of having access to funds that have proven to be indispensable in achieving the objectives of cohesion, competitiveness and productivity that the EU itself is pursuing.

Since 1<sup>st</sup> May 2004, the European Union has had ten new member states, all of them from eastern Europe. With this change, the objective of greater integration among European states and regions in the institutional realm has made great leaps forward.

With the twenty-five member European Union, new opportunities for free exchange have opened up for its 450 million inhabitants with far-reaching economic and social consequences which will no doubt be positive on the whole.

To aid in counterbalancing the increase in the economic disparities among Union members and continue to pursue the policy of territorial cohesion, the European Commission has presented its proposal for the financial perspectives and new regulations for the period 2007-2013.

This proposal, which maintains the ceiling of own resources at the current level of 1.24% of the EU's Gross National Income (GNI), has been met with opposition from the wealthiest countries in the EU, which suggest a reduction in own resources to 1% of the EU's GNI.

At its meeting held on 16<sup>th</sup> and 17<sup>th</sup> December 2004, the European Council began to examine the Commission's proposal, and it encourages future projects to take into account the variety of positions of the member states, indicating that they must conform to the strategic pluri-annual calendar with the aim of reaching a political agreement during the month of June 2005.

This, then, is the time for European regions, the main beneficiaries of the Union's cohesion policy, to take part in this debate.

## General stance

Membership in the European Union has provided major impetus to the transformation of Catalonia. In terms of the Catalan economy, EU membership has served to definitively open up to the outside an economy that prior to joining was already conducting a great deal of trade with Europe. Starting in 1986, the Catalan economy's ratio of openness to the outside world (total of exports and imports of goods and services in terms of the GDP) has risen from 50.4% to 99.6%. At the same time, an accelerated process of convergence has taken place between the per capita GDP in Catalonia and the average per capita GDP of the fifteen-member EU. Whereas in 1986 Catalonia's GDP stood at 83% of the EU-15 average, it now stands at 103%. Despite the fact that in budgetary terms Catalonia's financial balance with the European Union is negative, standing at around 0.4% of the GDP (i.e., Catalonia is a net contributor to the Community budget), it should be borne in mind that Community resources are a crucial source of financing for public investments and have made a very positive contribution towards the modernisation of our country.

### *The EU's contribution to economic growth in Catalonia*

European regional policy has been a major catalyst in terms of transport infrastructures, improvements in the environment and water resources, as well as in the development of the knowledge and information society, enhancement of the potential in the field of research, science and technology, and local and urban development. The instruments within the European Union's structural funds policy have also made possible improvements in the training and retraining of workers and the implementation of active employment policies, especially for people at a greater disadvantage when looking for work. Catalonia has also benefited from the growth in demand from the rest of Spain, which in turn has been favoured by the receipt of European funds.

During the period 2000-2006, Community aid to Catalonia from structural and cohesion funds reached approximately 4,440 million euros, a 20% increase compared to 1994-1999. This figure represents 0.4% of the GDP. The associated public expenditures, that is, the EU's contribution plus contributions from Catalan public administrations and the state of Spain, reached 7,794 million euros.

Today Catalonia views its future within Europe with confidence, and it appreciates that a new stage is beginning which entails solidarity with the countries and regions that have recently joined the Union. In the short term, the enlargement means an increase in economic and social disparities, and efforts must thus be stepped up to gradually achieve a Europe with regions that are similar in terms of income and productivity.

### *Solidarity with the enlargement*

Albeit with new co-ordinates and different stakeholders, Europe today is facing a challenge similar to the one it faced when the stages of the Economic and Monetary Union were being outlined. The end of the internal market from the early 1990s, which most benefited the more prosperous countries in the Union,

brought with it a concomitant strengthening in European regional policy: resources were doubled compared to previous periods. This political decision led to positive outcomes as can be seen in the fact that the less prosperous countries have experienced above-average growth.

Currently, the Union must face the challenge of the newly-joined eastern European member states with an appropriate allocation of financial resources. It is clear that these resources must be higher than those needed in a fifteen-member Union. Despite the fact that policies must be aimed primarily towards the enlargement countries, Community aid to the EU-15 countries must not be overlooked. To this end, it is highly important that the financial cost of the enlargement be distributed equitably between the countries that are currently net beneficiaries and those that are currently net contributors to the Community budget. The cohesion policies must continue to check the existent disparities in Europe as a whole and encourage balanced economic development.

#### *No to the renationalisation of regional policy*

The idea of devolving part of the Community structural actions to the states themselves – known as renationalisation proposals – is inconsistent with the Union's treaties currently in force and with the draft European constitution. Now is the time to strengthen the Union's policies, not to weaken them. For this reason, in light of the proposed renationalisation, it is crucial to back the European Commission's policy which entails applying resources equivalent to 1.24% of the EU's GNI to the budget in the period 2007-2013.

#### Convergence objective

It is deemed a sound idea to focus the majority of resources on the convergence objective, which is aimed at the less favoured regions, that is, at the regions that do not exceed the threshold of 75% of the per capita income in the EU-25. It is also desirable to maintain a significant volume of aid to regions affected by what is referred to as the "statistical effect", that is, those regions that would fall beneath 75% of the per capita income in the EU-15 had the ten new states not joined the EU.

#### *Concentration of aid in the convergence objective*

As in former periods when the European structural funds were being programmed, it is deemed advisable that those regions that are naturally emerging from the former Objective 1 due to their economic growth not suddenly lose their level of Union aids, and that as a transitory measure they receive less aid than regions in the convergence objective yet more than those in the competitiveness objective.

#### *Transitory period for the cohesion funds*

The countries and regions that are beneficiaries of the cohesion funds cannot suddenly lose their access to this source of Community aid. In accordance with the Spanish government's position and the June 2004 statement by the Committee of the Regions on the *Third Report on Economic and Social*

*Cohesion*, a political solution must be sought for those states that will not be eligible in the future as a consequence of the enlargement. This issue is especially important for Spain, which during the current period receives 66% of the EU's cohesion funds.

On the other hand, the government of Catalonia states that the proposal for new regulations must explicitly state that all the regions in states receiving cohesion funds or comparable financing must be able to be beneficiaries in this phasing-out process.

### Competitiveness and employment objective

The European Union is facing significant challenges which affect all its regions, such as the globalisation of exchanges, the acceleration of economic and social changes, the consolidation of a knowledge-based economy, an ageing population, increasing immigration and difficulty in finding high-quality jobs. The Commission's position entailing aiding regions and their authorities via the ERDF must be bolstered in order to anticipate and promote economic change in industrial and urban areas, thus strengthening their competitiveness and their ability to attract investments, in accordance with the Lisbon and Gothenburg strategies. The competitiveness and employment objective is fundamental for European construction, and it must help in spurring on the foremost regions in their role as engines of European economic growth.

#### *Defence of the competitiveness and employment objective*

To this end, the prospect of a possible reduction in the Community budget to under 1.24% which might severely affect the competitiveness and employment objective is quite worrisome. The government of Catalonia expresses its concern on this point and believes that it is necessary to promote the initiatives needed to maintain the percentage of 1.24% before the Community institutions, namely the Commission, the European Council and the Parliament, as well as before the state governments, as this is the main guarantee of preserving the European regional policy of the Objective 2 regions. Today, Catalonia is the European region receiving the most Objective 2 structural funds, and as such it would particularly be harmed by their possible enfeeblement, which would turn it into one of the European regions that would have to most bear the cost of the enlargement, within a Spanish state that is already bearing the greatest cost, without even considering the possible cutback in the Commission's proposal.

#### *Priorities: Innovation, technology, sustainable transport, growth in rural areas and URBAN projects*

The main priority of the new regional competitiveness and employment objective will be innovation and the implementation of regional strategies with this purpose in mind. Policies must be developed that produce innovative products and processes; entrepreneurial spirit and skills must be fostered; new economic poles must be created throughout the land; and research, development and innovation must be promoted. To this end, a key piece of the puzzle involves successfully putting universities in touch with the private sphere and encouraging partnerships between them. Sustainable, environmentally-

friendly transport and improved communications in rural areas are also priority areas of action. Finally, the next generation of structural fund programmes will include special attention to neighbourhoods with socio-economic problems.

#### *Eligibility for research and environmental infrastructures in the ERDF*

The government of Catalonia express its concern, however, with the limitations in the spheres of application of the new ERDF regulations proposed by the Commission within the competitiveness objective. It proposes that building and equipping research and development centres and environmental infrastructures also be regarded as spheres of eligibility. Broadening the spheres of applicability is justified because there are regions that have yet to strengthen certain infrastructures in order to improve the competitiveness of their enterprises.

#### *Regional programming of the European Social Fund*

By means of the European Social Fund, the European Commission proposes a policy aimed at aiding people to prepare themselves and adapt to the economic evolution in accordance with the European Employment Strategy priority by backing policies targeted at achieving full employment, workplace quality and productivity and social inclusion. This objective is regarded as a high priority, while at the same time interest is expressed in the programming of European Social Funds actions taking place, as with ERDF, from regional public authorities.

#### *Co-ordination in the programming of the ERDF and the ESF*

Competitiveness and employment must go hand in hand. Thus, the ERDF and ESF programmes must be interlinked. To this end, it would be advisable for there to be more flexibility when defining the programming and setting the percentages of participation in each of these funds.

#### *Keeping the regional aid map in areas within the competitiveness and employment objective*

Finally, concern is expressed about the proposal to eliminate the regional aid maps for regions within the competitiveness and employment objective. It is proposed that the new regional aid directives explicitly include regional public aid as provided for in the Treaty, article 87.3, section c) for regions that are to be beneficiaries of the future competitiveness and employment objective.

### European Territorial Co-operation

#### *Predominance of the cross-border strand in INTERREG*

The decision to upgrade the Community INTERREG initiative to the category of objective of European regional policy for the period 2007-2013 is positive and fits well within the goal of streamlining objectives and initiatives in the future. Nevertheless, unlike in the previous period, the Commission's proposal for the general regulations of the structural funds does not place cross-border co-operation as a priority item. Catalonia regards as appropriate the proportion established in the current period, which consists of recommending that member

states ensure that between 50% and 80%, as a general guideline, of their total allocation from INTERREG be devoted to cross-border co-operation and at least 14% to transnational co-operation.

This approach is justified due to the strategic importance of cross-border relations and because participation by regional and local governments is more feasible in the cross-border strand than in the transnational strand. In the current period, 2000-2006, regional authorities remain sidelined in the programming and management of these programmes. In the upcoming stage, however, this dysfunction must be rectified.

#### *NUTS II eligibility in the INTERREG cross-border strand*

Catalonia requests that the eligibility zones for cross-border co-operation be expanded to the NUTS II delimitation. We must leave open the possibility of participation by the entire territory of the cross-border regions regardless of whether they adjoin the NUTS III they border on. We must attend to the potential demand from beneficiaries that are within the border areas yet outside NUTS III eligibility given that cross-border complementarities extend to a broader territory.

#### *Legal cross-border instrument for transnational co-operation*

The government of Catalonia proposes creating a legal instrument for transnational co-operation, thus overcoming the existent limitation in the Commission's proposal, which solely provides for cross-border co-operation. This instrument would facilitate co-operation among the Euro-regions and eliminate the current barriers between states.

### Programming and monitoring procedures

#### *Keeping the Docups as programming instruments*

Catalonia commends the simplification of the programming procedure in the period 2000-2006 brought about by the Docups, yet this procedure vanishes in the Commission's preliminary regulatory proposals. The new "national strategic reference frameworks", resembling the former Community Support Frameworks, could make the allocation of funds less flexible and raises doubts as to the possibility of having different management and certification authorities for each programme within a single state. In any event, the government of Catalonia aspires to exert the authority of management and certification in the new period, just as other European regions do currently, while it applauds the Commission's initiative in promoting participation by the local sphere.

#### *Limitation and co-ordination of the monitoring mechanisms*

In the period 2000-2006, there has been a disorganised proliferation of different monitoring mechanisms and bodies for the structural actions. In the new programming period for the structural and cohesion funds, it is necessary to limit and improve the co-ordination of these monitoring systems.

## Direct calls for aid by the Commission

*Greater participation in competition, in EU calls for aid*

The EU is expanding its financing for projects allocated via tenders to 13% of its budget, which will mainly be devoted to spheres of the knowledge economy. It is undoubtedly a challenge for Catalonia to compete in this terrain with the more developed regions in Europe, and it thus must prepare itself more actively for the calls corresponding to heading 1.a *Competitiveness for growth and employment* of the 2007-2013 financial perspectives. To accomplish this, it would be desirable for the European Commission to give higher priority to projects presented in the regions that make the greatest efforts in policies aimed at competitiveness and innovation.

The Commission's proposal is deemed to properly reflect the needed balance between the regional funds for competitiveness and employment and those from heading 1.a *Competitiveness for growth and employment*, which must be taken into account given a possible reduction in the 2007-2013 Community budget.