The Agenda 2007 Proposals: Evolution or Revolution?

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Abstract

On 10 February 2004 the Commission published its proposal for the financial perspective 2007-2013. A week later it adopted the third report on economic and social cohesion. These two documents form the basis of the so-called ‘Agenda 2007 reforms’. They will be the greatest challenge for the enlarged EU after the intergovernmental conference, since they will determine the financial basis for EU policy-making until the middle of the next decade. The Agenda 2007 proposals certainly hint at courageous reforms, because they place a previously unheard-of emphasis on performance and quality. Under the proposals, structural operations should generate value for money, and the funds should focus on projects which generate added value at a European level. Overall the Commission’s proposals point in the right direction, because they balance, on the one hand, solidarity for the new Member States and weak regions in the old Member States with, on the other hand, investments in future tasks. Moreover, they constitute a paradigm shift. For the first time, the Common Agricultural Policy will not be the dominant expenditure category.

Now it is up to the Member States to examine the proposals politically and find a compromise between sometimes very divergent interests. It is to be hoped that, during the debate over expenditure limits and division of funds, national interests do not outweigh European interests.

After more than two months delay, the European Commission presented its proposals for the financial perspective 2007-2013 on 10 February 2004. A week later it published the third report on economic and social cohesion (the ‘third cohesion report’), in which it presented concrete proposals for reform of the cohesion policy of the European Union (EU). This so-called ‘Agenda 2007 reform’ will be the greatest challenge for the enlarged EU after the intergovernmental conference, since it will determine the financial basis for EU policy-making until the middle of the next decade. Although this will be the fourth financial perspective since the introduction of this instrument in 1988, the negotiations are likely to be much more difficult than previous ones. The 25 Member States sitting at the negotiating table have huge national and regional economic disparities, and with worrying public deficits in a number of Member States the net payers will be less inclined to dig into their coffers and the former and new net beneficiaries will call for greater solidarity. To cut this Gordian knot will require very good negotiating skills.

Given this political environment, it would not have come as a surprise if the Commission had opted for a modest proposal simply extending the status quo into the next decade. Yet the Agenda 2007 proposals are of a new type, since they aim to underpin the Lisbon and Gothenburg strategies with financial resources. The proposed modifications to structural policy are less apparent, but nevertheless will undoubtedly have a major impact at regional and local level.

The political priorities of the financial perspective 2007-2013

Originally the publication of the Agenda 2007 proposals was planned for the end of last year, but the 20 Commissioners needed more time than expected to agree on a joint proposal. Unusually in the decision-making process, the Commissioners were openly divided over this important reform package. That this was so gives some indication of the strong pressure already brought to bear on the Commission in this early phase of negotiations. Although the controversy among the Commissioners happened mostly behind closed doors, it became apparent that it touched the very principles of EU cohesion policy. Some voices questioned the very basis of the policy. Would it not be more efficient and effective if the EU transferred competence for regional policy back to the Member States? The economically stronger Member States could then pay directly to the economically weaker ones, which in turn could utilise

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the resources for their economic development. Why must money be channelled through Brussels and back to the capitals and the regions? Does this not lead to friction losses?

However, in its proposals[1] the Commission not only rejected this complete overhaul of cohesion policy, but also proposed to strengthen the Union's financial resources in this area.

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Before analysing the Commission's ideas for reforming cohesion policy, a few words should be said about the overall structure of the next financial perspective. When drawing up the financial perspective, the Commission was faced with very divergent views between the Member States. Some, such as Austria, France, Germany, the Netherlands, Sweden, and the United Kingdom (UK) called for setting an upper expenditure limit of 1% of Gross National Product. They wanted spending to be focused on two political priorities: competitiveness (as laid down in the Lisbon agenda), and cohesion focusing on the regions most in need. Other countries, such as Luxembourg and Belgium – but also the European Parliament – called for political goals and objectives to be set, and then for a decision to be taken on the expenditure level necessary to achieve them.[2]

The Commission's proposal for the next financial perspective starts out by formulating "a real sense of political purpose".[3] Only in a second step does the proposal list the financial means to achieve these goals. The proposal for the financial perspective defines three political priorities:

1. the EU must contribute to achieving sustainable development
2. the EU must make the concept of European citizenship a reality
3. the EU must play a role as a global partner.

In particular, the first priority results from the major challenges which the EU will face in the next decade. According to the Commission, these will be the need to strengthen sustainable development and to increase the competitiveness of the EU. Both of these challenges aim to modernise the internal market against the background of the Lisbon and Gothenburg strategies. They require a multiplicity of different activities. In addition to the internal market, cohesion and Common Agricultural Policy, this priority includes the policies which the current financial perspective lists under heading IV "internal policies". In the present financial perspective, 2000-2006, internal policies scarcely take up 7% of the total expenditure. Among others, the Commission's proposal suggests an increase of expenditure under this heading to 16.3% of the entire commitment appropriations for that period. Although this will strengthen the importance of policies such as research and education, the expenditure is still not comparable to the expenditure under the Common Agricultural Policy and the cohesion policy. Overall, this first priority will receive almost 90% of EU funds. However, the other two priorities will also gain in terms of financial importance. In 2013, the European citizenship priority will receive 3.62 billion euro (2.3% of the EU budget) and the global partner priority 15.73 billion euro (9.93% of the EU budget). Although spending on both of these chapters will increase in comparison to the year 2006, the increase remains relatively modest when compared to the first priority.

Reforming EU Cohesion Policy: Old Wine in New Bottles?

New Priorities and financial allocation

As regards structural funds' spending, the Commission suggests three priorities, which are different from the current three Objectives. Priority 1 – "Convergence" – aims to support growth and job creation in the least developed Member States and regions. Regions with a Gross Domestic Product (GDP) of less than 75% of Community average are eligible for support. Thus the Commission did not follow the proposal to link eligibility to national criteria as suggested by the Sapir report.[4] Changing the system of direct transfers, which would only depend on national GDP, would also contradict the cohesion principle as laid down in Article 158 of the EC Treaty and Article III-116 of the draft Constitution. In fact, Priority 1 mostly reflects the current Objective 1, in both its scope and eligibility criteria.

Another Commission proposal can also be expected to be highly controversial in some Member States. The Commission has proposed special rules for regions affected by the statistical effect of enlargement. The regions concerned would still fall under Priority 1, yet with a degressive support scheme from 80% to 60% of the support level of "normal" Priority 1 regions. This support scheme would end after 2013, without further phasing out arrangements stretching into the next programming period. This arrangement also implies that the regions concerned would continue to benefit from the favourable state aid regime set out in Article 87 (3) of the EC Treaty.

Under Priority 2 – "Regional competitive ability and occupation" – the Commission distinguishes two kinds of programmes. On the one hand are programmes primarily geared to anticipate and promote regional change, which would be implemented by the regions and regional authorities. On the other hand are national programmes supporting structural reforms in the labour market and strengthening social inclusion in line with the objectives of the European Employment Strategy.

As opposed to current provisions, the Commission suggests that a list of regions eligible for Priority 2 support should no longer be adopted. It would be up to the Member States to establish the "appropriate balance between the geographical and other forms of concentration".[5] Concentration would be assured via thematic concentration and a minimum financial volume of programmes. This would mean that, apart from those covered by Priority 1, all regions would in principle be eligible for Priority 2 support.

Priority 3 – "European territorial co-operation" – integrates the Community Initiative INTERREG into mainstream structural funds support. This Priority would be geared to promote the harmonious and balanced development of the Union's territory.

In designing these Priorities, the Commission's overall approach resembles more of an evolution than a revolution. Yet there are some subtle changes, the implications of which are yet to be seen. For instance, a major change in strategic orientation of the Priorities is that the Lisbon and Gothenburg strategies would become the strategic anchor of future EU cohesion policy. In the past, Member States tended to ignore the European Employment Strategy for instance, and only included its objectives in the structural funds programming document retroactively. The Commission proposals imply that this would no longer be possible.

In addition the Commission suggests integrating the other three Community Initiatives into the mainstream programmes.[6] While INTERREG is proposed to become Priority 3, the support of cities which currently takes place under the Community Initiative URBAN would become part of the mainstream programmes.[7] For this purpose each Member State would suggest a list of cities for which special measures would be undertaken. The number of cities suggested by each Member State would at least be the same as currently supported under the Community Initiative URBAN. In order to facilitate the integration of the urban dimension in Priority 2, the Commission suggests extending the priority themes to include typical urban activities such as support to urban sustainable public transport. As regards the Community Initiatives EQUAL and LEADER, the Commission suggests including them in the mainstream programmes. This implies that the aspect of equal opportunities between women and men would play a much less prominent role in future structural operations than it currently does, in particular because the Commission does not suggest strengthening the gender mainstream principle with a view to programming and implementing the funds. If the formal proposal does not include stronger wording on this issue, the structural funds operations are in danger of falling behind the present acquis communautaire.

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Also, the division of funds does not imply a fundamental revolution as proposed by some Member States[8], but follows the current approach to concentration. By far the largest share (78%) would go to Priority 1 regions. This would be an increase of the relative share in comparison to the present programming period of about 10%. Priority 2 would receive a share of 18% and the third Priority 4%. By the end of the programming period in 2013, cohesion policy would take up 32% of EU expenditure, which is currently nearly 51 billion euro. Over the entire period 2007-2013 the commitment appropriations to cohesion policy would be equivalent to 0.46% of the Gross National Income (GNI) of EU27, including funding for rural development and the fisheries sector.[9] This percentage corresponds to 336.3 billion euro over the period of seven years. It is interesting to note that the Commission used different statistical data for calculating the expenditure and the eligibility. While expenditure is based on EU27 data, the eligibility calculations for Priority 1 are based on EU25 statistics. If the Commission had also used EU27 statistics to calculate eligibility, the coverage of Priority 1 regions in the old Member States would be much less than the third cohesion report implies.

Of this amount, approximately half would be allotted to the 10 new Member States. Since their population constitutes only about 27% of the total population of the European Union, the division of funds clearly implies a concentration on their weakest regions. In the light of the huge development gap between most of the old and the new Member States, some people have argued that more funds should be spent in the latter. However, since the Commission suggests maintaining the limit of transfers to 4% of the Member States national GDP, the share for the new Member States could hardly be increased.

The Programming Process

As regards the programming phase the Commission proposes a fundamentally reformed approach. Currently, Member States prepare a development plan and submit it to the Commission which adopts a Community Support Framework and Operational Programmes. On the basis of these documents, Member States submit Programme Complements to the Commission. This multi-step programming approach has been heavily criticised, both by the Member States and the Commission. The cohesion report suggests streamlining the procedure and applying a different rationale.

Firstly, during the programming phase, the Commission aims to strengthen the strategic orientation of the structural funds and increase synergies between the structural interventions and the Lisbon and Gothenburg agendas. The Commission suggests adopting an overall strategic document for cohesion policy. This would be adopted by the Council following the opinion of the European Parliament and on the basis of a Commission proposal. Adopted in advance of the programming period, it would outline clear priorities for Member States and regions on structural interventions. (A similar proposal was made by the Commission during the Agenda 2000 negotiations). At that time it suggested incorporating into the general structural funds regulation a strategy part which specified the use of the funds. At that time this proposal failed to gain a consensus and, following the adoption of the Agenda 2000 package, the Commission published guidelines for the integrated use of structural funds and the cohesion funds.[10] This document did not, however, have any legal implications for Member States' use of the funds. They could thus disregard them if they wished, even if the Commission tried to impose its views during the programming document negotiations.

Given the strategic importance of this paper, the fact that the European Parliament will only be consulted needs to be criticised. The proposal should rather be adopted jointly by the European Parliament and the Council, as a framework directive. Following the subsidiarity principle it should, however, leave Member States and regions sufficient flexibility to use the funds according to their own needs. It should furthermore not replace the Commission's responsibility for the monitoring and control of the correct use of the funds. On the basis of the strategic document, each Member State would submit a development strategy which would constitute the framework for the operational programmes. Unlike the Community Support Framework, the development strategy would constitute a strategic document and not a management tool. At operational level, Member States would submit national or regional operational programmes to be adopted by the Commission. The Programme Complement would be abandoned.

Secondly, the structure of the operational programmes would change. In the past the Commission used to be one of the fiercest advocates of an integrated approach. That implied that Member States were not allowed to finance one development priority with only one fund. They were obliged to use at least two funds per development priority. The rationale behind this was that the Commission aimed to achieve a comprehensive regional development strategy by obliging the regions and Member States to include the different funds with different scopes in one operational programme and priority. However, this did not really work out at Member State or regional level and led to a patchwork approach. In its third cohesion report, the Commission suggests abandoning this integrated use of funds at programme level. In future, a programme would only be financed by one fund. This innovation would certainly be considered as progress, since it would considerably simplify the delivery system. With the new approach the Commission aims to distinguish the process of setting an overall strategy from that of setting development strategies at Member States level. Strategic guidance would be achieved through the strategy paper and by linking all programmes to the Lisbon and Gothenburg agendas.

Thirdly, the Commission aims to put pressure on Member States to take the partnership principle more seriously during the programming and implementation phases. Tripartite agreements between the national, regional and local authorities should contribute to better coordination of the different levels of governance. The third cohesion report does not mention any role of the Commission in negotiating the tripartite agreements, yet it is hard to imagine that the Commission would not – in one form or another – control Member States' implementation of this provision.

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The delivery system

Another area where the Commission opted for an evolution rather than for a revolution is the delivery system. Although the proposal lists very ambitious goals such as "simplification based on more subsidiarity" and "a stronger accent on performance and quality" the real changes are not as far reaching as these ambitions might suggest. However, the third cohesion report is very sketchy about the delivery system, and the formal proposals might therefore reveal some revolutionary suggestions.

One of the ideas presented in the third cohesion report is to simplify the control of the principle of additionality. The Commission suggests verifying the application of this principle only within the convergence Priority. Within the other two Priorities, the Member States would be responsible for ensuring the respect of this principle. In practice this means that the Commission would mostly control the new Member States, which in their vast majority would benefit from Priority 1. At the same time, it would lessen its controls in the old Member States, which would mostly fall under Priorities 2 and 3.

Therefore this proposal may be interpreted as a first step towards a differentiated administration. On the one hand, this innovation can be positively evaluated in the sense of reducing bureaucracy. On the other hand, the change could also have negative effects, if it led to different standards being imposed on new Member States and on old ones. Therefore, loosening controls under Priorities 2 and 3 would have to go hand in hand with penalties for breaching the principle.

In order to strengthen performance and quality the Commission proposes introducing a new instrument, the so-called Growth Adjustment Fund, with a maximum budget of one billion euro per year. An additional one billion could come from the structural funds if Member States did not make use of them within the n+2 provisions.[11] The Growth Fund is intended to “optimise the delivery of the growth and cohesion objectives”.[12] So far, the working mechanisms of the fund have been only vaguely defined. This gives rise to two questions:

This Growth Fund does not so far seem to have either a clear focus or task.

Firstly, the proposal does not mention which institution – the Council alone or the Council together with the European Parliament and/or the Commission – would decide about the distribution of the funds. The proposal only makes clear that the allocation would take place on the basis of an evaluation of the European Council during its spring summit. Without doubt, in the light of the very long-term planning of the financial perspective, such an instrument is surely useful. Yet democratic procedures have to be respected and the European Parliament should not be bypassed in the process. The current financial perspective already includes such a flexibility instrument, although financially much more modest with an annual budget of no more than 200 million euro.[13] However, the use of the present flexibility reserve must jointly be decided by the two arms of the budgetary authority, i.e. the Council of Ministers and the European Parliament.

Secondly the suggestion leaves open the question of how exactly this Growth Fund would be combined with existing programmes. Would it for instance work as some sort of additional funding for research or infrastructure programmes?

Although the two billion euro is a considerable amount of money, it would not be sufficient to have a major impact on any of the Member States’ growth policies. Two billion euro may be enough to exert a stabilising effect in a small Member State; in a big Member State it would not even have that impact. Therefore, this Growth Fund does not so far seem to have either a clear focus or task. Given that a number of Member States question the Commission’s proposed spending level, the Growth Fund seems likely to be a victim of the forthcoming negotiations.

To increase the quality of structural funds management, the Commission suggests a roadmap, which should “bring together goals, objectives, instruments and indicators as well as a stringent timetable to assess whether agreed benchmarks have been reached”.[14] The priorities outlined in the roadmap should be complemented by action plans at Member State level. Although this roadmap would apply to all Community instruments, it would have special implications for the structural funds, because not reaching the roadmap targets would imply the loss of funds. The new revised performance reserve proposed by the Commission implies that those Member States which reached their roadmap targets would receive a share from the performance reserve. However, the exact working mechanisms of the reformed performance reserve have yet to be spelled out in the formal proposal.

Another reform with a potentially great impact concerns the measure geared to support rural development. In the present programming period, support for rural development is split between the Common Agricultural Policy and the structural policy. This requires different funding schemes and different programming documents under the two headings. Not surprisingly, this has sometimes led to friction between the programmes and support schemes and certainly to synergy losses. The Commission proposes to fundamentally change this structure and move rural development entirely under the Common Agricultural Policy (CAP). The new heading 2 would include CAP (i.e. market-related expenditure and direct payments), rural development and – as a new element – environmental policy. Of these three elements, only the first, i.e. market-related expenditure, has been set as a result of the Brussels European Council compromise of 2002. It is yet to be seen how the funds would be split between rural development and environment.

Furthermore, it is to be hoped that the merger of rural development into one heading would ensure that not only farmers would benefit from support under the rural development support scheme. In order to survive and develop a healthy and stable economic basis, rural areas need a comprehensive development plan involving different types of social and economic actors. In any event, this change implies that there would be no need to designate eligible areas for rural development support any more.

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Similarly, the Commission suggests moving the fishery fund under the Common Fisheries Policy. This means that, out of the formerly four structural funds, only the European Regional Development Fund (ERDF) and the European Social Fund (ESF) would remain under the structural policy heading. The Commission proposals claim that this limitation to two structural funds, plus the Cohesion Fund, would constitute a major reform step in the structure of the fund.[15] However, this reform is more cosmetic than structural, and the number of funds would remain the same. The only change would be that they would come under the authority of the respective policy concerned.

Conclusion

Overall, the Commission's Agenda 2007 proposals put a stronger accent on performance and quality and hint at courageous reform. Structural operations should generate value for money, and the funds should focus on projects which generate a European-level added value. The Commission's suggestions point in the right direction, because they balance solidarity for the new Member States and weak regions in the old Member States on the one hand, with investments in future tasks on the other hand. In comparison to previous financial perspectives this constitutes a paradigm shift. For the first time, the Common Agricultural Policy would not be the dominant expenditure category.

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With regard to EU cohesion policy, the Commission has opted for an evolution instead of a revolution. This seems to be a wise approach, since the Agenda 2000 reforms have already introduced provisions which the Member States still have to get used to.

The Commission has started the debate on the Agenda 2007 reforms. The formal proposal on the reform of structural policy will follow in summer this year. Then it will be up to the Member States to examine the proposals politically and find a compromise between diverging interests. It is to be hoped that, during this debate over expenditure limits and division of funds, national interests do not outweigh European interests.

NOTES

1 Although in the following the article talks about the Commission proposal, it should be made clear that the third cohesion report does not constitute a formal proposal in the sense of Art. 250 EC Treaty. The Commission indicated that the formal proposals will be submitted in June/July this year.

2 Agence Europe No. 8681, 6 April 2004 & Agence Europe No. 8692, 24 April 2004.

3 European Commission, "Building our common Future: Policy challenges and budgetary means of the Enlarged Union 2007-2013", COM(2004) 101 final, p. 3.

4 Sapir Report, "An agenda for a growing Europe: Making the EU economic system deliver", July 2003, p.149.

5 European Commission, "A new partnership for cohesion: convergence, competitiveness, cooperation, third report on economic and social cohesion" (Third cohesion report), Brussels February 2004, p. XXXVII.

6 The current four Community Initiatives are: URBAN, EQUAL, INTERREG, LEADER.

7 Third cohesion report, p. XXXi.

8 For instance, Germany and Sweden had proposed to basically only keep Objective 1 and abolish the other two Objectives.

9 Agence Europe, No 8648, 19.2.2004.

10 European Commission, "The Structural Funds and their coordination with the Cohesion Fund – Guidelines for programmes in the period 2000 to 2006", OJ C 267, 22.9.1999 p. 0002.

11 N+2 rule stipulates that Commission commitments in respect of the allocation of assistance shall be carried out on an annual basis throughout the financing period. If the commitment in question, "n", is not subject to an acceptable payment application by the Member State by the end of the second year following the year of commitment ("n+2"), the assistance is automatically decommitted, and cannot usually be recommitted. Council Regulation No 1260/1999 laying down general provisions on the Structural Funds, OJ L 161/1, 26.6.1999, article 31.

12 European Commission, "Building our common future", p. 37.

13 Interinstitutional Agreement of 6 May 1999 between the European Parliament, the Council and the Commission on budgetary discipline and the improvement of the budgetary procedure, OJ C 172/1, 18.6.1999, Part I, Section F.

14 European Commission, "Building our common future", p. 30.

15 European Commission, Third cohesion report, p. XXXV. ❑