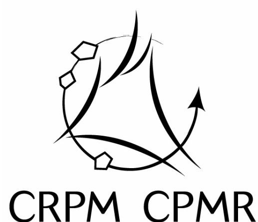

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TECHNICAL PAPER OF THE CPMR GENERAL SECRETARIAT

UPDATE ON THE COHESION POLICY PACKAGE 2014 - 2020

1. INTRODUCTION

The purpose of this note is to provide a comprehensive update on the latest state of play with regards to the negotiations of the post-2013 Cohesion Policy package, looking specifically at how the proposals put forward by the CPMR have been taken on board by the Council and the European Parliament.

The second part of the document attempts to make a projection of the Structural Funds allocations for CPMR regions for 2014 – 2020 (at the level of Member States) based on the European Commission proposal for the MFF for 2014–2020, and explains how these might impact on the negotiations. Last but not least, the technical note also provides a simulation of possible reductions to the Cohesion Policy budget along the lines of the issues paper presented in the Council at the last informal Ministerial meeting on 30 August in Nicosia, Cyprus.

Please note that all assumptions and figures provided in this note are estimates calculated by CPMR analysts and do not represent the official or unofficial views of the European Commission.

2. STATE OF PLAY

Since the publication of the Cohesion Policy package in October 2011 until now, the European Parliament and the Council have each been conducting internal discussions and negotiations in order to arrive at a position representing the views of their institution:

- The European Parliament adopted its negotiating mandate on 6 July
- The Council adopted two sets of agreements (also known as 'partial approaches') on 24 April and on 26 June covering all but a few elements of the Cohesion Policy package (see next steps below for more details)

The formal phase of negotiations between the Council, the European Parliament and the Commission began on 17 September, kick starting a new phase of negotiations. These are commonly referred to as 'trilogue' discussions.

At this early stage of the trilogue negotiations, it is useful to compare the views expressed by the CPMR on Cohesion Policy and the positions of the European Parliament and the Council. The tables below sum up the key elements of the positions of each institution of interest to the CPMR at this stage of the negotiating process.

What has CPMR influenced so far?

A number of key proposals from the CPMR are reflected in either the EP and/or the Council's position, or both. This concerns particularly the following points:

- Extension of scope of ERDF for more developed regions to cover all types of infrastructure;
- Recognition of transitions regions for the thematic concentration of priorities;
- Specific arguments on thematic concentration for ERDF funding in more developed regions and transition regions;
- The recognition of specific territorial features in the overall Cohesion Policy package;
- Ex ante conditionalities to apply only when relevant to structural funds;
- Structural funds allocation to recognise specific needs of regions with severe and permanent natural or demographic handicaps.

Thematic concentration

Council position	European Parliament position	CPMR position
Extension of the scope of the ERDF in more developed regions to cover all types of infrastructure	The EP is completely opposed to the Commission's limitations on support for infrastructure investments.	This is one of the key proposals for the CPMR. *NB: The European Commission does not support this position and will be defending its position to restrict the use of ERDF in more developed regions*
	Recognition of transition regions in the ERDF regulation, addition of the following text: "at least 60 % of the total ERDF resources at national level shall be allocated to four of the thematic objectives"	Another key proposal from the CPMR, which considered that transition regions should not suffer from the constraints as more developed regions in terms of thematic concentration
	Watering down of thematic concentration for ERDF funding in more developed regions, which can be focused on four priorities rather than three	This is in line with what the CPMR suggested in its **PPP Feb 2012**, i.e.: that funding should be focused on up to three priorities, the European Parliament suggested up to four priorities.
ERDF can now be spent on activities supporting sustainable tourism, culture and natural heritage, including the conversion of declining industrial regions.	The EP proposes an amendment to extend ERDF support in favour of sustainable tourism actions	CPMR has supported the Council position on extending the scope of ERDF to sustainable tourism

Partnership arrangements

Council position	European Parliament position	Links to CPMR position
Significant watering down of the partnership arrangements suggested by the European Commission (article 5 of the CPR)	Strengthening roles of partners, particularly local and regional authorities, in terms of the preparation and implementation of programmes	The European Parliament position very much supports the CPMR position on this subject
Removal of the Code of Conduct on partnership	Support and reinforcement of the Code of Conduct on partnership	Support to meaningful involvement of regions in the design and implementation of partnership contracts
Partnership Contract to be renamed Partnership Agreement	Keeps the same wording as the European Commission; Partnership Contracts	Same line as the European Parliament

Common Strategic Framework and strategic approach

Council position	European Parliament position	Links to CPMR position
The CSF should be an annex to the CPR	Similar position	Similar position *NB: the European Commission will keep some elements of the CSF as an annex to the CPR, whilst others will be adopted as a delegated act*
Strong support to the Common Strategic Framework as providing a strategic approach for the five following funds: ESF, ERDF, EMFF, EAFRD, CF	Similar position	Support to a meaningful implementation of the CSF to help integrate and coordinate European funding streams
Mention of the CSF as playing a potential role to establish a closer link between Cohesion Policy and the EU Economic Governance		Against CSF being used as an instrument to link Cohesion Policy and EU economic governance
The reference to the Country Specific Recommendations, as in the Commission Proposal, is still under discussion	Reference, throughout the text, to the National Reform Programmes, as long term strategic documents, in line with the approach of Cohesion Policy	In line with the European Parliament's position **(see PPP on CSF)**
No position	Support to multifund programmes and tasking the European Commission to help managing authorities in that respect	This is a key proposal from the CPMR
No position	Need for Cohesion Policy to follow an integrated approach to address regional demographic challenges and the specific needs of geographical areas most affected by serious and permanent natural and demographic disadvantages, as defined in Article 174 of the Treaty	European Parliament position emanates from CPMR Islands position proposal for amendment

Macroeconomic conditionality & ex ante conditionalities

Council position	European Parliament position	Links to CPMR position
No definite position as of yet, but strong support within the Council to apply macroeconomic conditionality for all CSF funds. Internal debate as to how macroeconomic conditionality would work in practice and whether it should apply only to commitments and not payments and whether a ceiling could be applied	Against macroeconomic conditionality (removal of the term throughout the EP negotiating mandate)	Against macroeconomic conditionality **(February 2012 PPP)**. Proposals evoked by the CPMR in the event that macroeconomic conditionality applied as a last resort echo some of the ideas discussed by Member States in the Council
Ex ante conditionality should apply to a priority of a given programme only when it has a direct and genuine link to and a direct impact on the effective and efficient achievement of the specific objectives for an investment priority or a Union priority	Ex ante conditionalities should only be applied when it has a direct link with structural funds	Both the European Parliament's and Council's position take stock of CPMR position on this issue

Reference period and structural funds allocation method

Council position	European Parliament position	Links to CPMR position
Reference period used to calculate structural funds allocation should use most recent data available (similar position as the European Commission)	Similar position	Reference period should be able to take into account the effects of the crisis
Extension of specific allocation for outermost regions and sparsely populated areas to islands		The Council proposal takes stock of the position from the CPMR
Allocation methods for each fund and category of region very much open for discussion	Use of additional indicators to calculate structural funds allocation taking into account the specific situation of regions with severe and permanent natural or demographic handicaps, including net adjusted income per inhabitant, school dropout rate, intraregional disparities (NUTS 3) and the demographic vulnerability index	European Parliament position emanates from CPMR Islands position proposal for amendment
	Single region Island States eligible for funding from the Cohesion Fund in 2013 and outermost regions shall receive an allocation under the Funds equal to at least four fifths of their 2007-2013 allocations.	European Parliament position emanates from CPMR Islands position proposal for amendment

Remaining issues to be debated

The Council is currently examining the issues of Community Local Development and the Integrated Territorial Investments, with a view to reaching an agreement on these two issues in October. The CPMR and the Core Group will work with the European Parliament and the Council on these two issues representing proposals from the regions.

3. PROJECTION OF STRUCTURAL FUNDS ALLOCATIONS

The General Secretariat of the CPMR prepared this note based on **the allocation methods which are available publicly in the Council** negotiating box.

Important points on the structural funds allocation method

- Although each Member State's allocation is broadly the sum of the allocations for its individual eligible regions, **the allocation of structural funds to regions does not have to follow a regional pattern. Member States ultimately decide on the allocation of their own national Structural Funds envelope, as long as certain prerequisites are fulfilled.**

- The allocation method for structural funds as spelt out in the negotiating box is subject to a great deal of interpretation (many Member States have produced different figures from the official figures of DG REGIO).

- It is worth noting that in addition the official calculation method, **the current general regulation provides for additional funding secured for a number of Member States. The additional funding was negotiated at the outset of the negotiations for the current programming period (2007 – 2013)**, and one can expect similar arrangements to be developed and agreed for the 2014 – 2020 period. As an example, Italian and Spanish regions benefit from an additional 1.4 billion euros and 2.6 billion euros respectively, in addition to the overall structural funds envelope for those two Member States. In some cases, special arrangements were secured for particular regions, such as Nord Pas de Calais and Corsica benefitting from an additional 100 billion euros. In total, 20 member States benefit from these special provisions and these amounts to over 8 billion euros in total. Those are all adjustments that were made at the end of the negotiations.

3.1 Overall considerations that affect the structural funds allocations

1. **The capping[1] threshold** (2.5%) has **an important impact on the size of the structural funds allocations for those Member States concerned**. For the 2007 - 2013 period, a capping mechanism was applied to limit the overall Member State share though the threshold was much higher than what is currently on the negotiating table (between 3.2% and 3.8% depending on Member States). It is important to note that without any capping mechanism, the Cohesion Policy budget would be higher by over 100 billion euros, making it very difficult to justify politically.
2. The **transition regions category** brings an additional perspective to Cohesion Policy as the needs of regions with similar levels of growth and prosperity are treated similarly thus allowing a long term perspective for Cohesion Policy as a policy that bridges disparities and allows economic development for all regions, a fundamental principle for Cohesion Policy CPMR has always promoted. However, an unfortunate threat in terms of the current negotiations is that the new category benefits a relatively small number of Member States**. With Spain, Germany, France and the UK being the largest beneficiaries of the transition regions category, there is an underlying risk that political support for the transition regions category may be relatively weak.** The UK and France in particular have not been openly in favour of the category and the UK has spoken against it for instance. It is quite contradictory given that partly thanks to the introduction of the **transitions regions category**, the UK would see a rise of a quarter in terms of its structural funds allocation in the next programming period, and France by 10 to 15%. Another large recipient of the transition regions category, Belgium, would see its allocation rise by about 20%.
3. The **less developed regions and Cohesion Fund recipients will continue to be the largest beneficiary of Cohesion Policy.** According to our estimates, Poland would see an increase of about 15% compared to the 2007 – 2013 period and would remain the largest beneficiary of structural funds. This can be explained by the fact that Poland would continue to receive a large proportion of the Less Developed Regions budget (about a third of the overall envelope allocated to these regions) and that only one Polish region would phase out of Convergence, despite the country's relatively healthy economic growth figures. Romania and Bulgaria's allocations would rise by about 50% and 8% respectively in the next programming period, despite one Romanian region phasing out of Convergence.
4. **Regions phasing out of Convergence (safety net recipients)** would concern mainly Greece and Spain, which would see their allocation drop by about a third, and Germany for which the structural funds allocation would be reduced by a quarter based on the current allocation methods. For all three of these Member States, the reduction can partly be explained by a large number of regions phasing out of the Convergence category. Spain would also lose out as it would no longer qualify for the Cohesion Fund.
5. Amongst CPMR Members benefitting largely from the **more developed regions category**, regions in Sweden, Ireland and Denmark would all see their respective Member State allocation rise under the Commission's proposals, with increases ranging from 25% to 35 %. This can partly be explained by the changes brought about in the allocation method for more developed regions for 2014 - 2020, which puts into perspective regional and national data with Europe 2020 targets. It is worth noting the special case of Cyprus which will lose its phasing in status granted for the 2007 – 2013, which explains a drop of 45% for the 2014 – 2020 period.
6. The impact of the **urban premium** is relatively limited, as it constitutes about 2.3 billion euros. The main recipients of the urban premium include Germany, UK and France. The **special allocation for outermost regions and sparsely populated territories** (about 930 million euros) benefits mostly France, Spain, Finland, Sweden and Portugal, but it has been cut by 50% in comparison with its actual level.
7. The methodology for the territorial cooperation budget is the same as the 2007 – 2013 period so there are no significant changes there. **France, Germany, Italy, and the UK will remain key beneficiaries**.

3.2 A variety of views dominates the negotiations in the Council

The existence of informal alliances within the Council between gathering Member States with similar interests and aspirations ('Friend of Cohesion', 'Friends of Better Spending') is a reflection of the variety of views within Member States on Cohesion Policy and its role. Factors influencing the stance of Member States in the Council on the Cohesion Policy budget include the following:

- **Ideological reasons:** some Member States are opposed to certain additions in the Cohesion Policy package due to ideological reasons, even if these same additions would benefit the Member State (for instance, the UK is opposed to the introduction of the transition regions category, despite the fact that the UK would stand to gain quite a lot with a high number of regions falling into that category). France is also felt that it is likely to give a higher priority to the Common Agricultural Policy than Cohesion Policy.
- **Cohesion Policy as a 'buffer' to reduce the size of the EU budget:** with Cohesion Policy taking up about a third of the EU budget, many Member States see Cohesion Policy as the obvious choice to make savings on the next MFF. Besides, the policy is suffering from a poor reputation of not delivering results where it is most needed, with absorption rates remaining very low in Bulgaria, Romania but also in some regions from the old Member States such as Italy.

3.3 What would a reduction in the Cohesion Policy budget mean?

Member States confirmed at the last informal Ministerial Council meeting that concrete scenarios were being explored to cut the size of the Cohesion Policy budget, with priority given to cut the allocation for the more developed and transition regions categories, which represents a real risk for CPMR regions. The options explored by the Council include a reduction of the capping rate, a reduction in the safety net for those regions phasing out of Convergence, and a reduction of the budget granted to the more developed regions category.

The Territorial Cooperation Budget could also be slimmed down and the urban premium taken out altogether. As mentioned in the issues paper presented by the Cyprus Presidency on 30 August in Nicosia at the last informal Ministerial Council meeting, the 10 billion euros earmarked from the Cohesion Fund to the Connecting Europe Facility are also under threat.

Based on those elements, the General Secretariat of the CPMR conducted a simulation to project the projected impact of cuts on the Cohesion Policy, **following an extreme scenario**. The following elements were taken on board:
- Reduction of euros per inhabitant for more developed regions category from 22.6 euros to 17 euros
- Reduction of the capping rate to 2.3%
- Reduction of safety nets from two thirds to 55%

These assumptions are illustrations showing how slight variations in the allocation methods can have an important impact on overall budget and Member States allocations.

PRELIMINARY ANALYSIS

The chart below represents the Member States that would be most affected by the simulation conducted by the CPMR according to the percentage of reduction. Only Member States for which there is a least one CPMR region is included in the chart. Cyprus and Greece are not represented in the charts as both Member States would fall under the provision that stipulates that no Member State can receive less than 55% of their 2007 to 2013 allocation.

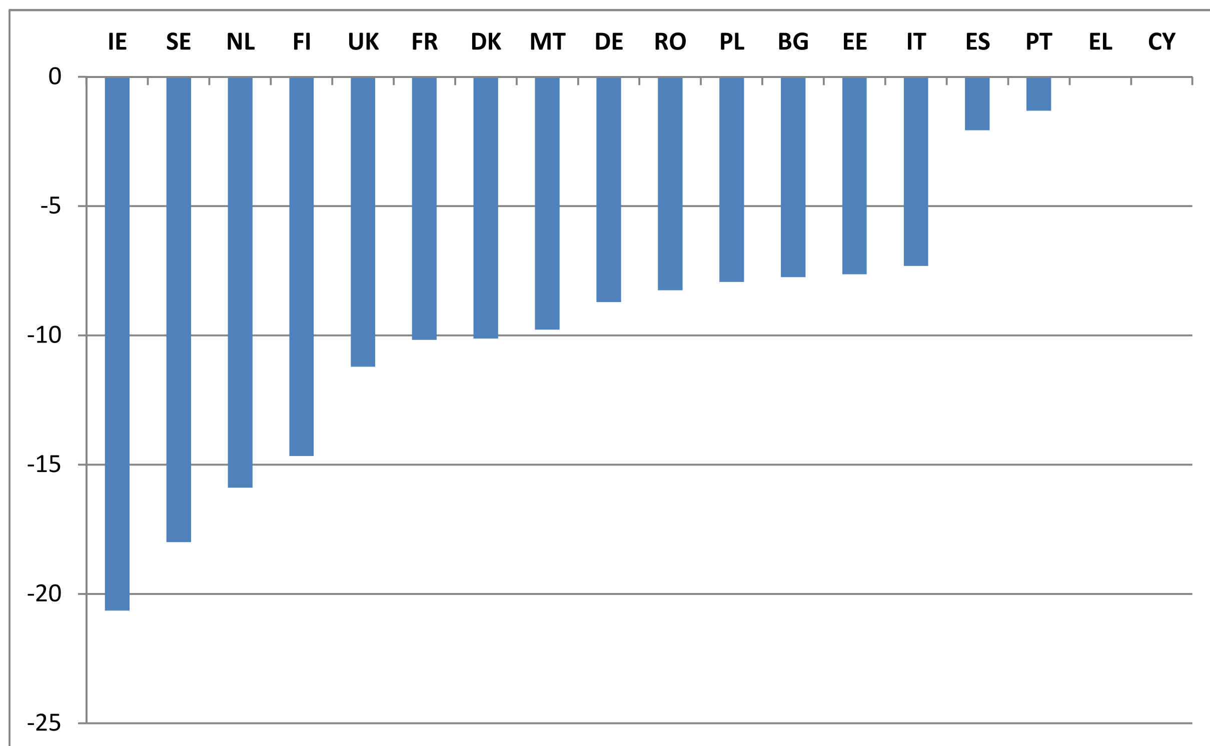

Chart 1 – Indicative representation of Cohesion Policy cuts by Member State according to CPMR simulation, according to percentage of cut

The reduction of euros per inhabitant to 17 (as opposed to 22.6 currently applied) for the more developed regions category would have the largest impact on CPMR regions, with Member States with large proportions of more developed regions would see their allocation drop substantially. This is particularly true for Ireland, Sweden, the Netherlands and Finland which would most lose out on a percentage terms, and with significant drops for the France, Germany and the UK.

The reduction of the safety net from two thirds to 55% would affect Germany the most in real terms, with Spain and Malta losing out too to a lesser extent.