



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 25.8.2003
COM(2003) 499 final

COMMUNICATION FROM THE COMMISSION

**THE STRUCTURAL FUNDS AND THEIR COORDINATION WITH THE
COHESION FUND**

REVISED INDICATIVE GUIDELINES

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LEGAL FRAMEWORK

Under Article 10(3), of Council Regulation (CE) n°1260/1999¹ laying down general provisions on the Structural Funds, the Commission on 1 July 1999 adopted general indicative guidelines² on the Structural Funds based on the relevant agreed Community policies. These guidelines were aimed at assisting national and regional authorities in the Member States in preparing their programming strategies under Structural Fund Objectives 1, 2 and 3 and in terms of their links with the Cohesion Fund. In this way the Commission made known its priorities in the light both of past experience in implementing the programmes and of Community policies linked to structural measures.

The said Article requires the Commission to revise these guidelines prior to the mid-term review. Such revision is a crucial stage in the seven-year programming period (2000-2006). It is aimed at allowing the Member States to adapt their programming documents while taking account of possible changes in the socio-economic situation or labour market and of the findings of the mid-term review referred to in Article 42 of the same Regulation.

The Commission asks the Member States to make revisions in duly substantiated cases. As a general rule **the 1999 guidelines remain valid**. The only objective of these revised guidelines is to offer Member States an complementary set of guidelines which will facilitate the identification of coherent and balanced priorities for the development of measures. The revised guidelines aim to implement the major changes that have occurred in those EU policies with possible impact on programming of the Structural Funds. They will be of help to the competent national and regional authorities in reviewing their measures.

Thus the mid-term review will lead to qualitative shifts in a number of priority fields. While the Structural Funds primarily seek to enhance factors of competitiveness, and hence investment, it is also clear that the economic climate has deteriorated markedly since the adoption of the indicative guidelines. Analysis suggests that the Community Support Framework is essentially made up of public investment. These have a limited impact upon national budget balances. Nevertheless, the budgetary situation in Member States could lead to greater selectivity of projects and programmes.

The mid-term review will also benefit from the major advances made in the context of the exercise carried out by all the relevant authorities aimed at simplifying, clarifying, coordinating and making more flexible the management of the Structural Funds. This question is dealt with in this document.

Also Article 7(7) of the Regulation requires the Commission to review, if necessary, the indexation of the allocations for 2004, 2005 and 2006 as a technical adjustment on the basis of the last economic information available. The Commission made the calculations for the annual technical adjustment of the financial perspectives for 2004. The divergence between the theoretical Structural Funds deflator (10.4%) and the effective cumulated deflator (10.7%) is particularly low. If adjustment to mid-term inflation were carried out on this basis, this would mean a Structural Funds supplement of 90 million for each of the last three years of the programming period, amounts which should be distributed *pro rata* to all the programmes co-financed in the fifteen Member States. Given the slight divergence recorded, the

¹ OJ L 161 of 26.6.1999 p.1

² COM(1999) 344 final of 1 July 1999

Commission concludes there is no need to carry out a revision of the indexation basis for the Structural Funds.

The **four main principles** identified by the Commission for revising the mid-term guidelines are as follows:

- the European Councils – the follow up by the Commission;
- the amendment of the legal framework of policies;
- the Community policies for which the Commission has proposed changes;
- the measures aimed at increasing the effectiveness of the Structural Funds' implementation.

It should be stressed that these guidelines constitute one of the elements of the mid-term review. It is up to the management authorities and the Member States to submit proposals for amendments of measures to be concluded in agreement with the Commission, notably taking into account the results of evaluations. The attention of the Member States is drawn to the fact that any changes to programming documents will have to include, if necessary, an update of the “state aid scoreboards”.

The Commission also adopted³ additional indicative guidelines for the applicant countries to take account of their specific situation as well as the reduced duration of their programming period for the Structural Funds.

³ COM (2003) 110 final of 12 March 2003

1. THE EUROPEAN COUNCILS - THE FOLLOW UP BY THE COMMISSION

Certain Community priorities were highlighted just after the start of the current programming period. The Commission considers that they should be developed further in the framework of the mid-term review, particularly in the light of developments at various European Councils.

Thus the European Council of Lisbon of 23-24 March 2000 defined a new strategic objective for the European Union in the coming decade of becoming "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". Achieving this goal requires an overall strategy "to enable the Union to regain the conditions for full employment, and to strengthen regional cohesion in the European Union".

The reprogramming of the Structural Funds is a potential opportunity to consolidate the Community contribution to this strategic objective, particularly through the cofinancing of investments aimed at improving employment, economic and social cohesion as well as the competitiveness of the Union's different regions. This aim could be pursued by adapting the programming documents so as to put more emphasis on competitiveness factors such as accessibility, knowledge society, innovation, research and development, the environment, employment, social integration and life-long education and training, especially in a context of economic and social restructuring resulting from technological changes and a process of economic catch-up in the Union.

Also the impact of the Lisbon objective on certain policies should be noted (following sections).

1.1. Employment and human capital investment

The new **European Employment Strategy** has been refocused as a key tool to underpin the Lisbon strategy in the enlarged EU. The new guidelines, adopted in July 2003, are designed with a medium-term horizon and are intended to remain stable until 2006. They pursue the three overarching objectives of the Lisbon reform agenda: full employment, including the Lisbon employment targets; the promotion of quality and productivity at work, reflecting the need for better jobs in a knowledge-based economy and the need to promote EU competitiveness; and fostering cohesion and inclusive labour markets, reducing social and regional disparities in relation to employment. Ten priority areas for action are also identified, underpinning the three objectives: activation and prevention; job creation and entrepreneurship; adaptability and mobility; human capital and lifelong learning; labour supply and active ageing; gender equality; integration of people at a disadvantage; making work pay; undeclared work; and regional disparities. The Guidelines call for effective implementation including at regional and local level; the importance of efficient and effective operational services is stressed in the context of an improved governance. Member States are invited to fully exploit the potential of Structural Funds to support the delivery of policies and to strengthen the institutional capacity in the field of employment.

The mid-term review provides an opportunity to better contribute to the priorities of the revised EES and to the achievement of the Lisbon targets while taking into account the experience of the current programming period and the specificities of each Member State.

Strengthening active and preventive labour market policies to promote employment

The funds could be further used to support the **three steps preventive and active approach** and the corresponding targets defined under the revised Guidelines, starting with personalised services at an early stage of the unemployment spell, followed by a "new start" before the 6 and 12 months thresholds and by activation measures for the long-term unemployed. **Activation measures should be made accessible to all non-employed persons** - both registered unemployed and inactive - in order to better re-integrate them into the labour market. More attention could also be given to people at risk of unemployment notably in the context of restructuring.

The Funds' should continue to support the modernisation and increased efficiency of public employment services in Member States, including their activities in the fields of information, brokerage and labour market adjustments and their monitoring and evaluation capacity .

Increasing labour supply and supporting integration in the labour market of the most disadvantaged people

The Funds should support initiatives leading to increased labour market participation by using the potential of all groups of the population, notably women and older workers, for example through improved working conditions or work organisation. In line with the declaration of 2003 as the European Year of the Disabled, increased attention should be given to measures that promote the access or re-integration of the disabled in the labour market. Equally, the Structural Funds could be further used to increase the labour force participation of **legal immigrants**, and ethnic minorities, particularly women, who often face particular difficulties in terms of access to the labour market.

The Funds should continue to pay attention to the long-term unemployed since long spells in unemployment often lead to an increased risk of poverty and social exclusion. Finally, the Structural Funds should also enhance co-operation between the social re-integration services and the employment services in order to facilitate the integration of the socially excluded into the labour market.

Promoting human capital, life-long learning and active ageing

While the **development of life-long learning** cuts across some priorities within the present assistance programmes, this priority area could be reinforced: the Funds can further contribute to improving training and education systems and to providing individuals and employers with the necessary incentives to invest in human capital.

The Funds should support the necessary investments in the design and enhancement of **training and education systems**, especially in regions with a lack of sufficiently skilled labour, to provide young people with the necessary competencies to face the challenges of a knowledge-based society and economy. In line with the Lisbon objective of halving by 2010 the number of early school leavers, particular attention

should be given to ensuring higher education attainment of young people with learning difficulties and to **reduce the rate of school drop-out**.

Against the background of an ageing population and widespread early retirement, it is essential to provide for the necessary incentives to increase the working capacity of older workers and retain workers longer at work. The Funds could support incentives to invest in lifelong learning and training of adults and, in particular, of **older workers**, to update their skills with the objective of promoting active ageing and increasing their labour participation.

Foster entrepreneurship, adaptability and mobility

Innovation and entrepreneurial activity are key drivers for increased competition, growth and job creation. The Structural Funds should be fully exploited to promote the **job creation potential of enterprises, notably new enterprises**, firms in the service sector and firms engaged in R&D exploitation. This requires, *inter alia*, a more active promotion of entrepreneurial and managerial skills, and support services for the establishment of businesses, notably by women and the unemployed.

Structural action should continue to focus on promoting **individuals' and employers' adaptability** to economic and social restructuring and increasingly changing work environment. Improved access of workers to **continuing training** should be promoted, especially for low skilled workers and workers employed in SMEs. Innovative forms of work organisation contributing to internal flexibility, improved productivity and quality at work should be encouraged, for example through the provision of training and advisory services to employers. For this purpose, it would be appropriate to continue the efforts with a view of offering employees and in particular to those of SMEs, training services and advice taking into account all the benefits of new technologies.

The commitment and full involvement of the social partners is essential to ensure quality of jobs and risk prevention. The activities training and awareness-raising of the workers and contractors on health and safety at work should receive close attention.

The Funds should also be engaged in initiatives supporting the anticipation and the positive management of economic restructuring. Occupational and geographical mobility should be promoted by the Funds.

Equal opportunities

The **dual approach** to promoting gender equality must be continued and reinforced⁴: while gender mainstreaming is required in all actions supported by the Structural Funds, positive action should complement this mainstreaming exercise.

Child-care and elderly care responsibilities remain a major obstacle to women's integration into the labour market. The Funds should support Member States' efforts towards improving access to such services and in particular towards attaining the targets on childcare provisions set at the Barcelona Council.

⁴ COM (2002) 748-final of 20.12.2002, on the implementation of gender mainstreaming in the Structural Funds programming documents 2000-2006

The Funds can play a major role in tackling further *structural inequalities* of the labour market. These might include specific awareness-raising actions on the need to **reduce gender segregation** in sectors and occupations and to **reduce the gender pay gap**. Furthermore the Funds can support efforts undertaken by Member States and regions to promote female entrepreneurship. The Commission has already identified a number of good practices in the EU and EFTA-EEA countries⁵, which can serve as examples when conceiving such support measures.

The Funds should increase their focus on promoting the re-integration and upgrading the skills of **older women**, whose integration into the labour market is hampered notably by both gender and age discrimination.

Regional employment disparities

Tackling regional employment and unemployment disparities remains a key priority. The Funds should support initiatives to exploit the local job creation potential, notably in the social economy. Favourable conditions for private sector activity and investment in regions lagging behind should be supported. Public investment in human capital as well as adequate infrastructure is necessary.

1.2. Sustainable development, risk prevention and environment

Sustainable development

In June 2001, the European Council adopted in Göteborg a **sustainable development strategy for the EU**. The sustainable development strategy is a response to the political commitment of the Lisbon strategy to achieve sustainable development.

The sustainable development strategy offers the European Union a positive long-term vision of a society that is more prosperous and just. In practice this requires that economic growth supports social progress and respects the environment, that social policy underpins economic performance, and that environmental policy is cost-effective⁶. The Commission has subsequently launched a new Impact Assessment tool to improve the quality and coherence of its policy development processes. Impact Assessment identifies the key positive and negative impacts of proposed actions and highlights inconsistencies between competing objectives. It will be implemented gradually from 2003 for all major initiatives⁷.

By decision 1600/2002/EC of the European Parliament and Council of 22.7.2002 the 6th Environmental Action Plan (EAP) was adopted. This EAP has given the Commission a framework for implementing the environmental pillar of the sustainable development strategy.

Against this background the Commission launched an evaluation of the contribution of the Structural Funds to sustainable development. The purpose was to identify how

⁵ See <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-women/bestproject-women.htm>

⁶ "A sustainable Europe for a better world: A European Union Strategy for Sustainable Development", Communication from the Commission, COM (2001) 264 of 15.5.2001.

⁷ "Impact Assessment", Communication from the Commission, COM (2002) 276 of 5.6.2002

to achieve better integration of the economic, social and environmental dimensions of sustainable regional development in the programming of Structural funds.

For example, problems were identified in the field of the impact of road building on land use and emissions; the impact of green field development on biodiversity and emissions and the impact of tourism on natural habitat.

But interventions can also improve more than one dimension of development at the same time: investment in disused land and buildings leading to economic development as well as an improved environment; human capital investments, which leads to both economic development and social inclusion; investment in eco-tourism leading to economic development as well as environmental improvements.

Many regions have already moved towards a more sustainable path in their Structural Funds programming. It is recommended the mid-term review be approached with a more explicit consideration of measures that improve more than one dimension of development at the same time. Further, it is advisable to review the management processes governing project generation and project selection with a view to achieving the goal of sustainable development. In addition, certain rural development measures are already directly targeted at promoting sustainable development in rural areas in line with the Göteborg agenda: for example support for farm investments which aim to preserve and improve the natural environment, or for protection of the environment in connection with agriculture, forestry and landscape conservation under Article 33 measures of EC Regulation n° 1257/1999 of 17 May 1999⁸.

Prevention of risks

Natural disasters, especially during 2002 and affecting several regions of Member States and applicant countries, led the Commission to propose to the Council adoption of a Regulation setting up a Community solidarity fund.

The aim would be to help disaster regions so as to allow, notably, the immediate restoration of damaged infrastructure and equipment. Thus its vocation is "curative", aimed at repairing damage caused by major (mainly natural) disasters.

Ecological disasters such as the Erika and Prestige also led the Community to boost its legislative arsenal for combating flags of convenience and protecting Europe from oil slicks, especially through accelerated creation of a European agency for maritime safety. These initiatives include creation of an additional compensation fund for damage from oil slicks (COPE) currently being examined by the Council. The impact of recent disasters on the economic fabric of the affected regions exceeds, however, the capacity of existing compensation mechanisms. Also by way of prevention, improvement of the monitoring of traffic will require that Member States boost and coordinate their measures, e.g. by creating ports of refuge. Structural financial instruments should make a contribution to this new policy priority.

Nevertheless the frequency of such disasters is increasing, even if all are not of the same gravity. Therefore the Commission believes the required measures must be taken to avoid that the efforts being made by regions, communes and cities, sometimes with the support of the Structural Funds, to revitalise their economies and

⁸ OJ L160 of 26.6.1999 p. 80

rehabilitate their areas come to nothing due to these disasters. Regional development must include the prevention of natural, technological and environmental hazards. The Commission, will shortly be proposing a European strategy for the prevention of risks, but is already encouraging the Member States to adopt **measures in the field of prevention**. The mid-term review could enable the Member States to give more attention to this area.

Such measures should relate in particular to collective economic assets. Indeed reinforcement of the economic fabric of a territory can only succeed in the presence of a healthy environment that is preserved for its inhabitants. The Structural Funds could thus be mobilised to co-finance measures aimed at preventing natural risks. This could include, e.g., carrying out geological or stabilisation surveys or the creation under rural development measures of forest fire prevention actions or measures to protect agricultural land from natural disasters such as flooding. It should also be stressed that natural risk prevention plans are a priority tool for implementing preventive action.

Environment

One of the important priorities of the 6th environmental action plan is the creation and protection of the **Natura 2000** network. Investments and measures aimed at protecting these sites could be the subject of cofunding under the Structural Funds.

Beyond this, the **Water Framework Directive** (WFD)⁹ introduces a new model for water protection based on integrated management at the level of river basins. Therefore, while specific measures targeted at waste-water treatment and drinking water provision will continue to be a priority, such actions must be seen as part of an overall strategy for ensuring the ecological status and chemical quality in the entire river basin. Integrated programmes for river basin management, including the development of the management plans foreseen under the WFD will also be eligible for support.

1.3. Research and Development

The implementation of the Lisbon objectives called for the Structural Funds programmes to adopt a more **strategic approach** to the promotion of innovation and research and development at the regional level. At the start of 2003, 122 regions out of a total of 156 had put in place a programme under the heading of “innovative actions”. These actions are based on a strategy developed by the regional partnership to boost competitiveness and influence the content of mainstream Structural Funds programmes in the fields of R&D, the information society and sustainable development. The mid-term review would provide the occasion for an extension of this type of intervention to all remaining regions.

Individual regions should also ensure that their mid-term review takes account of the experience gained via the existing innovative actions programmes, and examine how **good practices** can be incorporated into the mainstream. In this regard, three specific network programmes (one for each priority field in the innovative actions

⁹ Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy, OJ L 327 , 22/12/2000 p. 1

guidelines¹⁰) have been set up to provide a more systematic exchange of experience between regions. This type of co-operation could be extended to regions in the future Member States.

A further area of interest in the framework of the mid-term review is that provided by the developing project of the European Research Area (ERA)¹¹. In October 2001 the Commission adopted a communication on "The Regional Dimension of the European Research Area"¹². The underlying idea is that of establishing a local, tailor-made research and innovation policy taking into account the variety of regional situations. The ERA concept implies that efforts should be deployed effectively at different administrative and organisational layers: at European, national, regional or even local level. In this way, measures would not only be mutually consistent but better adapted to the potential of the regions themselves. By re-examining the role of each of the players (including public and private actors), establishing synergies and taking advantage of complementarities among European, national and regional instruments, a reinforced partnership among all those involved can be achieved.

In addition, synergies should be sought between the 6th Community RTD Framework Programme (2002-2006) and the Structural Funds.

At the Barcelona European Council in 2002, which reviewed progress towards the Lisbon goal, it was agreed that research and technological development (R&D) investment in the EU must be increased with the aim of approaching 3 % of GDP by 2010, up from 1.9 % in 2000. An increase of the level of business funding was also called for, which should rise from its current level of just above half, to two-thirds of total R&D investment. The regions should play a substantial role towards achieving this goal¹³. An Action Plan comprising actions at Community level and identifying recommendations to Member States was adopted on April 30th 2003¹⁴.

1.4. Information society

The Seville European Council (22 June 2002) agreed the 2005 e-Europe Action Plan linked to the Lisbon Strategy. The overarching objective is to make broadband network access and related internet-based services widely available throughout EU territory. The Action Plan notes that the bulk of investment into broadband networks should come from the private sector. Structural funds can provide support in pursuit of this objective in less favoured regions, with particular attention being paid to rural and remote areas.

The mid-term review provides an opportunity for Member States to further support the development of the electronic communications sector, notably broadband fixed and wireless infrastructure, in order to combat the increasing digital divide among European regions.

¹⁰ COM(2001) 60 of 30.1.2001

¹¹ "Towards a European Research Area", COM(2000) 6 of 18 January 2000

¹² COM(2001) 549 final of 3.10.2001

¹³ See SEC(2003) 813/2 of 8.07.2003 : "An initiative for growth : investing in Trans European Networks and major R & D projects"

¹⁴ COM(2003) 226 final of 30.4.2003, "Investing in Research: an Action Plan for Europe"

In this regard, adaptations to current programmes should seek to place infrastructure development within the context of a regional strategy for the information society that balances demand (content and services) and supply-side measures (infrastructure) taking account of local circumstances and needs. Structural Funds investments will be undertaken in compliance with competition rules as well as the new framework on electronic communications while ensuring technological neutrality.

Member States are encouraged to adopt appropriate regional indicators and benchmarking systems (particularly on ICT demand) reflecting regional development agendas and using, where possible, Europe 2005 indicators. The criteria and modalities of implementation of structural funds in support of the electronic communications sector has been defined in greater detail in the Commission's staff working paper "Guidelines on Criteria and Modalities of implementation of Structural Funds in support of Electronic Communications" (SEC(2003) 895 of 28 July 2003).

1.5. Enterprise policy

In the Commission's Competitiveness Reports of 2001 and 2002¹⁵ weaknesses were identified in the business sector in Europe including **insufficient innovative activity** and **weak diffusion of information and communications technologies**, which, as key determinants of Europe's under-performance in productivity growth, may jeopardise the objective set by the Lisbon European Council. The regional dimension of these weaknesses will be addressed in the Competitiveness report of 2003, which in turn should provide additional information on the problems that remain to be addressed at regional level.

Enterprise policy has also been stimulated by the endorsement of the European Charter for Small Enterprises at the Feira European Council of 20 June 2000. The Charter calls upon public authorities to take action to support and encourage small enterprises in ten key areas, such as education and training for entrepreneurship; cheaper and faster start-up, better regulation or strengthening the technological capacity and representation of small enterprise interests. With the Charter, Member States and the Commission have committed themselves to putting small businesses' concerns at the heart of their policies. The use of Structural Funds should therefore better focus on small and micro businesses' needs. A better understanding and analysis of small business needs as well as an increased dissemination of good practice are in this regard key elements. Another area where progress is needed is the promotion of entrepreneurship. Building on recent analysis of progress in Europe, including the Charter implementation report¹⁶, the Green Paper on Entrepreneurship¹⁷ has opened a wide debate on how to encourage entrepreneurial activity and tackle the barriers to business creation and growth. The debate should lead to an action plan setting out the relevant policy measures at different levels.

Moreover, a major pillar of enterprise policy has been set up by the Communication on Industrial Policy¹⁸ that identifies innovation and entrepreneurship as key drivers of European competitiveness. The Communication also underlines the importance of

¹⁵ SEC(2001) 1705, 29.10.2001, SEC(2002) 528, 21.05.2002

¹⁶ COM(2001) 122 final of 7.3.2001, COM(2002) 68 final of 6.2.2002, COM(2003) 21 final of 21.1.2003

¹⁷ COM(2002) 27, 21 January 2003

¹⁸ "Industrial policy in an enlarged Europe" COM(2002) 714 of 11 December 2002

the sectoral dimension of industrial policy and the impact on industry from other policies, including cohesion policy. As a first follow-up, the Communication on Innovation¹⁹ builds on the systemic approach to develop strategies that will improve Europe's innovative performance. Drawing on the European Innovation Scoreboard, the adoption of targets and priorities could also be promoted.

The Structural Funds could thus contribute to boosting innovation, SMEs and industrial and regional competitiveness, in particular through:

- encouragement and facilitation of the emergence of regional or local “clusters” and of innovative production networks; to this end cluster-specific investment could be encouraged in the following fields: physical infrastructure, knowledge infrastructure, education, vocational training, network link-up, financial support for business projects, etc.;
- the creation of technological platforms to ensure synergy between public authorities, users, regulatory authorities, industry, consumers and poles of excellence (points where theoretical research and technology transfer are closely linked);
- promotion of effective financing instruments for companies and adoption of services in support of business, especially small companies.

Lastly, it should be noted that the Commission has adopted a recommendation amending Recommendation 96/280/EC on the **definition of small and medium-sized enterprises**²⁰.

2. POLICIES THAT HAVE UNDERGONE MODIFICATION OF THEIR REGULATORY FRAMEWORK SINCE ADOPTION OF THE INDICATIVE GUIDELINES IN 1999

The section below details the main modifications of the regulation which could have an impact on the implementation of the programmes.

2.1. Agriculture and rural development policy

Policy developments at Community level since the adoption of Commission indicative guidelines have reinforced the important role that rural development policy needs to play in promoting the modernisation and diversification of the agricultural sector and the development of the wider rural economy, accompanying the on-going process of CAP reform and ensuring the protection and enhancement of Europe's diverse countryside.

The Strategy for Sustainable Development adopted at the Gothenburg European Council made particular reference to the CAP and its future development, which should “contribute to achieving sustainable development by increasing its emphasis on encouraging healthy, high quality products, environmentally sustainable production methods, including organic production, renewable raw materials and the

¹⁹ "Innovation policy: updating the Union's approach in the context of the Lisbon strategy", COM(2003) 112 final of 11.3.2003

²⁰ Recommendation EC 361/2003 of 6 May 2003, OJ L 124 of 20.5.2003, p. 36

protection of biodiversity”. Implementation of these conclusions requires increased emphasis on the second pillar of the CAP (rural development).

In July 2002, the Commission adopted a Communication on the mid-term review of the common agricultural policy²¹ followed in January 2003 by the publication of a package of detailed legislative proposals²². The CAP reform proposals reflected the objectives of the Gothenburg Sustainable Development Strategy as regards agricultural policy. They also took into account the conclusions of the Brussels European Council of October 2002, which determined the future financial framework for the first pillar of the CAP until 2013. The Brussels Summit also recalled the importance of less-favoured regions and the multifunctional nature of agriculture, confirming the importance of the rural development policy delivered under the second pillar of the CAP.

The Commission proposals on CAP reform have been discussed within the Institutions as well as in wider civil society. The Agriculture Council reached a political agreement in June 2003. As far as rural development is concerned, apart from the introduction of new measures, this agreement includes also modifications aiming at strengthening existing measures and start of modulation of 1st pillar aids already in 2005 allowing shifting of additional resources to the 2nd pillar as from 2006. This arrangement would require a minor adaptation of the financial perspective 2000-2006.

The political agreement on CAP reform aims to establish a clear long-term policy perspective for the CAP and focuses on:

- enhancing the **competitiveness** of EU agriculture (by further reform of certain market regimes under the first pillar of the CAP);
- promoting a more **market-orientated, sustainable** agricultural sector (by the decoupling of direct payments to farmers under the first pillar from production and their replacement with a single farm payment, linked to strict land management obligations on farmers as part of new cross-compliance requirements to prevent land abandonment);
- **strengthening rural development** by introducing within the current programming period certain new measures to encourage farmers to participate in quality schemes, to meet Community standards for food security, animal welfare, environment and working conditions, and to promote animal welfare beyond standards throughout the EU, and also by reinforcing already existing measures.

When defending this CAP reform package the Commission has once again underlined the long-term policy trend towards a further strengthening of the second pillar of the CAP in both financial terms and scope.

Member States and regions are therefore being asked to examine in the mid-term review their Structural Fund programming to determine whether their current rural development programming and the range of measures offered are well-suited to

²¹ COM (2002) 394 final of 10.7.2002.

²² CAP Reform – A long term policy perspective for sustainable agriculture (COM (2003) 23 final of 21.1.2003).

helping both farmers and other rural actors adapt to the new direction of long-term policy for agriculture outlined above. In this context, attention should be paid to sectors where regulations are being amended. Reinforcement of rural development policy may be needed in some areas that are particularly dependent on agriculture or re-targeting of the range/content of the measures offered may be required in others.

In addition, the Commission has drawn up a draft "block exemption Regulation" for State aid in agriculture, which will allow the Member States to grant agricultural State aid without having to ask for clearance from the Commission. Following consultation with Member States and stakeholders, the Commission plans to implement this Regulation from January 2004.

2.2. Fisheries

Reform of the Common Fisheries Policy (CFP) was ratified by the Council on 20 December 2002, leading to adoption of three new Regulations:

- on the conservation and sustainable exploitation of fisheries resources²³;
- establishing an emergency Community measure for scrapping fishing vessels²⁴;
- on Community structural assistance in the fisheries sector²⁵.

These new measures took effect on 1 January 2003. The Regulations covering conservation and sustainable exploitation of fisheries resources replace those governing the CFP since 1993:

- the aims of this management are to reorient towards the sustainable exploitation of fisheries resources, on the basis of substantiated scientific opinions and the principles of precaution. **A longer-term approach** to the management of fisheries has thus been adopted with the drawing up of multiannual stock reconstitution plans for stocks below biological safety limits and multiannual management plans for other stocks;
- **a simpler system** for limiting the fishing capacity of the Community fleet has been adopted. It replaces the old multiannual guidance programme (MGP). It confers more responsibility on the Member States to reach a better balance between fishing capacity and available resources;
- this system is supplemented by provisions on emergency measures for the protection of fisheries resources or marine ecosystems, especially by granting aid for the temporary cessation of fishing activity.

The new Regulation creating an emergency fund to encourage the scrapping of boats backs up this mechanism. It increases by 20% premiums for scrapping vessels whose fishing activity is reduced by more than 25% due to adoption of a stock reconstitution plan. The financial implications of this new Community measure will be evaluated by the Commission once the Member States' applications have been

²³ Regulation (EC) n°2371/2002 of 20 December 2002

²⁴ Regulation (EC) n°2370/2002 of 20 December 2002

²⁵ Regulation (EC) n°2369/2002 of 20 December 2002, amending Regulation (EC) n°2792/1999

received. However Article 7 of the Regulation requires new financial resources to be made available for the 2004-06 period within the framework of the reprogramming of the Structural Funds at the time of the mid-term review.

With regard to the new measures on Community structural measures in the fisheries sector:

- aid for the renewal of fishing vessels and aid for their export, including in the framework of the training of mixed fishing companies will only be granted for 2 years (2003 and 2004) and will be limited to Member States that have attained capacity goals under MGP IV. Also it will be subject to various conditions relating in particular to vessel size;
- aid for the modernisation of vessels will also be subject to different eligibility criteria aimed especially at improving safety and working conditions on board, the selectivity of fishing operations and the quality of products;
- aid for the temporary cessation of fishing activity due to unforeseen circumstances is maintained and remains subject to strict limits, especially regarding the total amount of the funds that can be devoted to it. The latter can however be increased where accompanied by a scrapping plan;
- socio-economic measures in favour of fishermen aimed at helping them reconvert to other activities are extended to permit diversification of activities while allowing fishermen to continue fishing part-time.

An action plan **to mitigate the social, economic and regional consequences** of the restructuring of the EU's fisheries sector²⁶ has been adopted by the Commission. It shows that following these changes and the growing needs resulting from scrapping plans and accompanying socio-economic measures, the Member States and regions whose fleets are most affected by the adoption of multiannual reconstitution or management plans will need take advantage of the mid-term review to carry out reprogramming of the actions part-financed by the Structural Funds.

2.3. Energy

Directive 2001/77/EC on the promotion of electricity produced from **renewable energy sources**, in the internal electricity market was adopted on 27 October 2001²⁷. The Directive set an indicative average target of 22% for the contribution of renewable energy to gross electricity consumption by 2010.

Furthermore Parliament and the Council on 16 December adopted Directive 2002/91/EC²⁸ on the **energy performance of buildings**. The Directive aims at reducing energy demand for heating, cooling and lighting of private and commercial buildings by up to 20% by 2010, through energy efficiency measures and integration of renewable energy. The Directive applies to new and existing buildings, the latter requiring considerable additional financing, mainly in renovating old urban areas.

²⁶ COM (2002) 600 of 6.11.2002

²⁷ OJ L 283, 27.10.2001, p. 33.

²⁸ OJ L 1, 4.1.2003, p. 65.

Finally, the EP and Council have reached an informal agreement on a Commission proposal on the promotion of biofuels for transport. The Directive 2003/30/EC, adopted on 8 May 2003, set an indicative target of 5.75% of biofuels in the global volume of fuels for road transport sold in Member States by 2010.

The Structural Funds could be mobilised to help meet these targets.

2.4. Competition

There are five particularly important points as regards competition in the context of the mid-term review:

- Amendments to the Guidelines on national regional aid²⁹

The amendments introduced greater flexibility into the Guidelines as regards the outermost regions. Operating aid which is not both progressively reduced and limited in time may be granted not only in those outermost regions eligible for the derogation provided for in Article 87(3)(a) of the Treaty, but also in those eligible for that provided for in Article 87(3)(c) in so far as it is intended to offset the additional costs arising in the pursuit of economic activity from the factors identified in Article 299(2) of the Treaty, the permanence and combination of which severely restrain the development of such regions (remoteness, insularity, small size, difficult topography and climate, and economic dependence on a small number of products). Proposed aid will have to be justified in terms of its contribution to regional development and its nature and its level will have to be proportional to the additional costs it is intended to offset.

- Community guidelines on State aid for environmental protection³⁰

These replace the 1994 Guidelines that have now expired and take account of developments in the field of the environment at the initiative of the Member States and the Community and at world level, in particular following the adoption of the Kyoto Protocol. Changes compared with the previous rules affect, in particular, aid in the field of energy (energy saving, combined heat and energy production, renewable sources of energy). The current Guidelines also maintain positive discrimination for assisted regions in the form of a bonus for firms located there.

- State aid and risk capital³¹

The rules on State aid were not suited to the types of measure implemented by the authorities of the Member States to stimulate the growth of risk capital. The Communication therefore describes the way that, in accordance with the rules on State aid, measures intended to promote risk capital will be assessed. The public authorities can adopt a range of measures that do not constitute State aid in order to promote risk capital. Where, on the other hand, public assistance constitutes State aid, the Commission will ensure that the measure serves to alleviate a recognised market failure. This condition will be deemed to be fulfilled in the case of small transactions (maximum of €500 000, €750 000 and €1 000 000 respectively in those

²⁹ OJ C 258, 9.9.2000, p. 5.

³⁰ OJ C 37, 3.2.2001, p. 3.

³¹ OJ C 235, 21.8.2001, p. 3.

regions eligible for regional aid under Article 87(3)(c) or (a) of the EC Treaty). Where it is recognised that there is a market failure, the Commission will assess the measure in the light of certain criteria, in particular the size of targeted enterprises (preferably small enterprises in their start-up or other early stages), the existence of safeguards to ensure that any distortion of competition between investors is minimised, whether decisions to invest are profit-driven (which could be indicated, in particular, by the fact that a measure envisages a significant proportion of capital from private investors).

– Multisectoral framework on regional aid for large investment projects³²

In the interests of simplification, the new framework recasts the sectoral rules previously set out in specific instruments for the car, synthetic fibre and iron and steel industries, and significantly reduces the number of projects that have to be notified by establishing an automatic system for determining the intensity of aid.

The new system will also reduce the levels of aid in accordance with a scale based on the amount of the investment. Under the new framework, the actual intensity of aid that may be granted for a major project will be adjusted automatically according to a reduction scale operating like a progressive tax rate: pre-defined maximum aid intensities are progressively reduced for each subsequent investment bracket. However, Member States are required to notify every case of aid above the maximum allowable aid that an investment of €100 million can obtain. No aid can be granted to such projects if the beneficiary enterprise would increase its production capacity by more than 5% of the market or would account for more than 25% of the market. However, the new framework also recognises that large investment projects can indeed contribute to regional development. That is why it includes a cohesion bonus that will be granted to large projects part-financed by the Community Structural Funds. For such projects, the permitted aid intensity calculated in accordance with the above scale will be multiplied by a factor of 1.15. In so doing, the new system will take into consideration the value-added of these large part-financed projects for the economic and social cohesion of the Community. This approach strikes a good balance between the aim of reducing the most distorting types of State aid and the cohesion objectives laid down in the Treaty.

– Commission Regulation (EC) No 2204/2002 of 12 December 2002 on the application of Articles 87 and 88 of the EC Treaty to State aid for employment³³

This Regulation introduces a block exemption system for aid for job creation and for the recruitment of disadvantaged and disabled workers up to certain ceilings, meaning that Member States will not need to notify such aid to the Commission for clearance. The Regulation also lays down the criteria for assessing other forms of aid, such as aid to maintain people in existing jobs or for the conversion of temporary or fixed-term employment contracts into contracts of indeterminate duration, which must continue to be notified to the Commission.

Under the new Regulation, Member States may grant additional aid for the employment of the long-term unemployed and other disadvantaged workers, up to

³² OJ C 70, 19.3.2002, p. 8.

³³ OJ L 337, 13.12.2002, p. 3.

the equivalent of 50% of one year's wage costs and compulsory social security contributions. Member States can cover up to 60% of those costs in the case of the employment of disabled persons. It should be stressed that the percentages of aid increase where the aid for the net creation of employment is granted in an assisted region.

2.5. Research and development

Seizing the opportunities offered by the Sixth Framework Programme: in the mid-term review, synergies with R&D activities implemented under one of the new instruments of the Sixth Framework Programme (in particular the new instruments, Networks of Excellence and Integrated Projects, under the seven priorities) should be sought in the form of **complementary financing** or direct part-financing for researchers in Objective 1 regions. In particular, organisations in Objective 1 regions whose proposals are accepted after evaluation can receive a bonus from the Structural Funds, in accordance with Council Regulation (EC) No 1260/1999 and fully in accordance with the rules on State aid³⁴.

Finally, further synergies should be sought with Framework Programme actions relating to the structuring of the European research area, notably as regards R&D infrastructures, innovation activities, activities concerning SMEs (cooperative and collective research), regional foresight as well as actions to promote the mobility of researchers. In addition, regional authorities should explore the potential of the ERA-NET³⁵ scheme, designed specifically to support coordination and the mutual opening up of research policies at regional, national and European level.

3. COMMUNITY POLICIES IN THE PROCESS OF BEING AMENDED

The following policy developments in certain sectors will have implications for Structural Fund programmes:

3.1. Trans-European energy networks

On 20 December 2001, the Commission proposed an action plan designed to remove congestion and bottlenecks in the distribution of **gas** and **electricity** in the Union. This action plan will improve the operation of the internal market while ensuring secure supplies for consumers and will aim to reduce disparities between regions.

The construction and/or strengthening of cross-border connections between national networks is the priority set by the action plan. The emphasis should be placed on investments in the 12 priority projects under the trans-European energy networks, both by the national authorities and by the Community financial instruments, including of course the Structural Funds. In addition, the Commission proposed increasing the maximum rate of aid to 20% of the eligible costs under State aid schemes, a measure likely to result in adjustments to measures implemented in the regions in which these priority projects will be carried out.

³⁴ See Annex III to Decision 1513/2002/EC of 27 June 2002 concerning the Sixth Framework Programme, OJ L 232 of 29.8.2002, p. 1.

³⁵ <http://europa.eu.int/comm/research/fp6/era-net.html>.

In addition, in March 2001 the Commission put forward new measures to ensure the opening up of gas and electricity markets in the Union by 2007, amending the Directives governing the internal markets for gas and electricity and proposing the following timetable:

2003: Freedom for all industrial customers to choose their electricity supplier.

2004: Freedom for all industrial customers to choose their gas supplier.

2007: All consumers, without exception, should be able to choose their gas and electricity suppliers.

The mid-term review should make it possible, as markets are progressively opened up, to redirect some Structural Fund assistance to priority projects under the trans-European energy networks, taking account of the increase in the maximum rates for State aid.

3.2. Transport policy

In its White Paper on “European transport policy for 2010: time to decide”, adopted in September 2001, the Commission proposed a series of measures to rebalance modes of transport, remove bottlenecks and improve the quality of transport for users.

The Commission has undertaken a **revision of the trans-European network guidelines**, which should lead to the presentation of a proposal based on the work of a High-Level Group of representatives of the Member States and the applicant countries, chaired by Mr Karel van Miert. The results from the work of the high level group were published on 30 June 2003³⁶. The Commission will now conduct a detailed impact study of the recommended programme; in autumn it will propose a revision of the decision on the guidelines for the development of the trans-European transport network.

This revision will make it possible to target projects with higher European value-added likely to contribute to the development of intermodal transport on the major routes. This should result in priority being given to infrastructures with a real potential for transferring goods traffic from road to rail, waterways and maritime transport and for developing the trans-European high-speed passenger rail network, including airport connections.

The Structural Funds will aim to support this change in the priorities of transport policy³⁷ but also to improve **the secondary networks and their connection** to the major routes of the trans-European network identified by the future guidelines.

The Commission has also initiated a general review of the financing of the trans-European network. On the one hand, the effectiveness and **coordination of the different Community sources** of financing need to be strengthened and, on the other, the feasibility of new legal and financial instruments needs to be explored,

³⁶ http://europa.eu.int/comm/ten/transport/revision/hlg_en.htm

³⁷ See SEC(2003) 813/2 of 8.07.2003 : "An initiative for growth : investing in Trans European Networks and major R & D projects"

inter alia, to encourage **public-private** partnerships. The Commission is due to present a Communication in the near future

In order to place users at the heart of a transport policy based on sustainable transport, the Commission has put forward a Directive to improve **safety in very long road tunnels**. Other measures to increase road safety will also be encouraged (the introduction of new technology, regulations). Improving the quality of transport also means reducing the harmful effects of **urban transport** by promoting public and new forms of transport. The aim is to develop quality public transport and put forward better practices. Additional measures should be taken to promote alternative forms of energy and introduce substitute fuels, in accordance with the Commission's strategy.

The Commission intends to promote the following measures:

- support for pioneer cities and regions adopting integrated approaches based on packages of innovative measures;
- increased use of clean vehicles using substitute fuels;
- the introduction of public transport systems available to all users (including people with reduced mobility) as regards both urban and regional railway services and infrastructure management;
- the identification and dissemination of best practices in urban transport systems.

Structural Fund programmes could therefore also be amended in the light of the above.

4. FOR MORE EFFICIENT IMPLEMENTATION OF STRUCTURAL POLICY

4.1. Impact of simplification on the mid-term review

The mid-term review is a chance to introduce a degree of simplification, in the spirit of the communication the Commission adopted recently³⁸, in particular by taking into account the principle of "proportionality" in the implementation of the Structural Funds.

In terms of simplifying programme management, programming documents (operational programmes and single programming documents) could be shortened, reducing by details, so as not to duplicate the information given in the programming complement, which generally provides sufficient detail. The main advantage of this reduction in the size of documents would be to reduce the number of applications for amendments concerning elements that should normally not be included in programmes but simply identified in programming complements.

As the mid-term review focuses on the assistance/programming document, the Commission will endeavour to ensure overall consistency. Consistency is required at

³⁸ Communication "Simplification, clarification, coordination and flexibility of structural policy management in the period 2000-2006" of 25 April 2003, C(2003) 1255.

several levels: between the Structural Funds; between the Member States; between forms of assistance. So when it is planned to amend a Commission Decision for reasons of sound management, including financial management, or to introduce measures or instruments designed to achieve the strategic goals of the assistance and the Community policies with which that assistance must comply, the public, national and Community financial commitments have to be maintained without infringing the regulatory provisions concerning the financial management of the Structural Funds.

The Commission and the managing authorities will take account of the preliminary results of the mid-term evaluation (the first of which were available in June 2003) in their preparations for the mid-term review. In any event, the Commission should not initiate internal procedures for decisions to amend programmes before it has officially received the final evaluation report on the assistance concerned and assessed its quality. Interventions will be modified only once in order to take into account the allocation of the performance reserve and the mid-term review.

4.2. Public-private partnership

In the mid-term review, the Commission will, where possible, encourage the establishment of public-private partnerships in the implementation of assistance supported by the Structural Funds.

The use of PPPs could be encouraged, in particular, in trans-European transport network (TEN) projects, enabling their implementation to be speeded up.

On the basis of the experience of PPP contracts financed, in particular, via the Instrument for Structural Policies for Pre-Accession (ISPA) and the Cohesion Fund, the Commission has drawn up a set of **Guidelines for Successful Public - Private Partnerships**³⁹.

4.3. Financing large projects

In July 2002, the Commission presented to the Committee on the Development and Conversion of Regions a note on simplification, transparency and coherence in the evaluation of large projects, drawn up in close cooperation with the Member States. This note detailed four basic rules for the level of Community co-financing of public infrastructure projects supported by the ERDF, the Cohesion Fund and ISPA. These rules are as follows:

- application of a **financial discount rate** of a maximum of 6% in real terms (possibly increased to 8% for certain projects). The beneficiary Member State must be consistent in deciding on the economic discount rate for each project;
- no **provisions for uncertainties**, or provisions counted only in the eligible cost but not in the total cost used to determine the rate of Community aid and limited to 10% of the total cost excluding provisions;

³⁹ Available on the Inforegio webpage: http://europa.eu.int/comm/regional_policy.

- in certain duly justified cases, possibility of derogation from the strict incremental method⁴⁰ in the financial analysis by taking the **balance of historical costs** into account, calculated as the amount of loans still to be repaid;
- for waste disposal and management, application of the **modified "financing gap" method**, which promotes application of the polluter-pays principle.

These rules apply for the two methods of financial analysis presented in the “Guide to cost-benefit analysis of investment projects”⁴¹.

Their application, agreed from the start of 2003, will increase the leverage effect of Community aid while seeking a better balance between Community subsidies and national sources of financing and encouraging the application of the polluter-pays principle. For certain Member States, this will translate into a change in the rate of Community assistance for large environmental projects compared with the situation to date. This should be reflected in the mid-term review.

⁴⁰ Difference in revenue and expenditure between the scenario with the project and that without it.

⁴¹ The Guide is available at:
http://europa.eu.int/comm/regional_policy/sources/docgener/guides/guide_en.htm.