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THE REGIONAL POLICY OF THE EUROPEAN UNION

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In this presentation I shall deal with the importance of small firms for Europe and what concrete action is being taken by the Union as proof of its recognition of this importance.

Over 99% of the 18.5 million firms in the Union as a whole are small ones. They account for 66% of the labour force in private employment and 60% of total turnover. Their development is therefore of crucial importance for increasing employment in Europe and prompting a higher level of economic and social cohesion within the Union.

It is no wonder then that in recent years, European Councils have frequently stressed the need to devote greater attention to small firms. In June 1997, the Amsterdam European Council adopted a resolution on growth and employment and asked the European Investment Bank and the European Investment Fund to set up a mechanism to finance high technology projects in small firms. As a result, in November 1997, a European mechanism for technologies was established. The Amsterdam European Council also called for the burden on business to be reduced and set up a task force called BEST to look at how to simplify and improve the business environment. This task force reported to the Commission in May 1998. The extraordinary European Council on employment which met in Luxembourg late in 1998, acknowledged that the entrepreneurial spirit was the basis of employment policies in the Member States. To give concrete form to this priority, the Commission adopted a communication "Fostering entrepreneurship in Europe: priorities for the future". The Council also asked the Commission to present proposals for measures to provide financial assistance to support innovative and job creating small firms. The Commission did so early in 1998 and the Council adopted the proposal in April.

Against this background of political concern and of strenuous efforts to promote employment, the Structural Funds have, for a number of years, played a significant role in supporting the establishment and development of small firms. Through their contribution to the promotion of economic and social cohesion, these firms are usually regarded as a priority target for most of the Funds' programmes, which often include measures specifically intended to assist them.

It is worth noting that during the 1994–1999 programming period, about 14% of the total resources of the Structural Funds were directed at supporting the production facilities and the economic environment of the small firms. The total amount involved was about 22 billion euros, that is about Lm 9 billion.

Small businesses also benefit, more indirectly, from public investment in physical infrastructure and in the development of the human capital which are important contributors to the competitiveness of business enterprises. The European Union recognises this fact. Indeed a significant proportion of the Union's aid to those regions that lag behind in development consists of investment in physical infrastructure and human capital. Over the 1994 to 1999 programming period, investment in basic infrastructure in Objective I regions from the Structural Funds, including the Cohesion Fund, totalled 45 billion ECU or 41% of the Funds. Expenditure in these regions on the development of human resources was 29 billion ECU or 26% of total spending. It is amply clear that all this investment benefits the business sector in terms of lower production costs resulting from improvements in transport and communications, easier access to market and supplies, better support services and more qualified workforce.

The Objectives of the E.U. Regional Policy

But what is the *raison d'etre* of all this substantial financial assistance? It is obvious that because of their economic and social differences and of their different geographical positions, the regions of Europe and their inhabitants are not playing on a level field. For a long time, all the Members States of the European Union have experienced variations in levels of development and living standards from one region to another within the same state and from even wider gaps across the Union as a whole.

To take one indicator relating to the range of these regional disparities, in 1986 the Gross Domestic Product per head in the ten richest regions was 3.7 times greater than in the ten poorest regions. Disparities in the levels of regional development are not only deep but also deep rooted. The free play of economic forces is not enough by itself to ensure balanced development. In fact it often tends to worsen the position of the poor regions. Public Funds have to be used in conjunction with private investment to stimulate economic activity in the disadvantaged regions. The provision of these public funds is primarily the responsibility of the Member States. However, the extent of the problems and the interdependence of today's economies mean that the task often exceeds what can be done at national level. The European Union has therefore sought to promote solidarity among its Member States. The task which it has taken upon itself is to complement the measures being implemented by the individual Member States and to direct their work towards harmonious European integration which will benefit the whole Union. That is the aim of the European Regional Policy.

Indeed, Article 158 of the Treaty of the European Union states that in order to strengthen its economic and social cohesion, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least-favoured regions or islands, including rural areas. Article 159 provides for that action to be supported, *inter alia*, through the Structural Funds. I have earlier on indicated the substantial amounts of funds made available in the past years to help small businesses and to help the development of the physical infrastructure and the human capital. The Structural Funds however cover a wider spectrum of investments and large amounts of money are allocated to carry out their operation.

In fact the resources made available for commitment from the Funds from this year to the year 2006 are 195 billion euros at 1999 prices and are designed to achieve three priority objectives. There are actually four Funds, the European Regional Development Fund, the European Social

Fund, the Guidance Section of the European Agricultural Guidance and Guarantee Fund and the Financial Investment for Fisheries Guidance. Their three priority objectives are to promote the development and structural adjustment of regions whose development is lagging behind, which is Objective 1. The second objective is to support the economic and social conversion of areas facing structural difficulties. The third objective is to support the adaptation and modernisation of policies and systems of education, training and employment.

Objective 1 Regions

Objective 1 regions, that is those regions whose development is lagging behind receive the bulk, 69.7%, of the total budgetary resources of 195 billion Euros for 2000-2006, a total of 135.9 billion euros. The regions covered by this objective are those regions corresponding to level II of the Nomenclature of Territorial Statistical Units (NUTS level II) whose per capita Gross Domestic Product measured in purchasing power parities is less than 75% of the Community average. It is interesting to note that this Objective covers also the development of those areas with an extremely low population density included in Protocol 6 to the Act of Accession of Austria, Finland and Sweden.

Objective 2 Regions

Objective 2 regions, that is those regions with structural problems, receive 11.5% of the Structural Funds, that is a total of 22.5 billion euros. The regions covered by this Objective must have a sufficiently substantial population or area. They include in particular areas undergoing socio-economic change in the industrial and service sectors. These areas have to belong to a NUTS level III territorial unit with an average rate of unemployment over the last three years above the Community average and a percentage share of industrial employment in total equal to or greater than the Community average in any reference year from 1985 onwards together with an observable fall in industrial employment compared with that reference year.

Objective 3 Regions

The areas eligible for financing under Objective 3 are those not covered by Objective 1. They will receive 12.3% of the Structural Funds for 2000 -2006, that is a total of 24.05 billion euros to support the adaptation and modernisation of their policies and systems of education, training and employment.

In the case of investments in firms, the contributions from the Structural Funds could be up to a maximum of 35% of the total eligible cost in the regions covered by Objective 1 and 15% of the total eligible cost in the areas covered by Objective 2. However, in the case of investments in small and medium sized undertakings, these rates may be increased by 10% for forms of finance other than direct assistance.

The Funds and their Relevance to Business

The European Regional Development Fund co-finances productive investment to create and safeguard sustainable jobs. It also contributes towards the financing of investment in infrastructure which, in Objective 1 regions, helps to increase the economic potential, development, structural adjustment and creation or maintenance of sustainable jobs, including investment in infrastructure contributing to the establishment and development of trans-European networks in the areas of transport, telecommunications and energy infrastructures taking into account the need to link to the central regions of the Community, regions suffering from a structural handicap because of their insular or peripheral status.

The same Fund also co-finances the development of endogenous potential through measures which encourage and support local development and employment initiatives and the activities of small and medium-sized enterprises. In this regard it provides assistance towards services for enterprises, in particular in the fields of management, market studies and research and services common to several enterprises. It also finances the transfer of technology and the implementation of innovation in enterprises.

The European Social Fund

The European Social Fund co-finances action plans that promote a skilled, trained and adaptable workforce, innovation and adaptability in work organisation, developing entrepreneurship and conditions facilitating job-creation, and enhancing skills and boosting human potential in research, science and technology. The financial support of this funds goes mainly for education and vocational training, employment aids and aids for self-employment and for post-graduate training and the training of managers and technicians at research establishments and in enterprises.

The European Agricultural Guidance and Guarantee Fund

The European Agricultural Guidance and Guarantee Fund (EAGGF) is the financial instrument supporting the rural development policy which is considered as the second pillar of the Common Agricultural Policy. It finances rural development measures throughout the European Union.

The Guidance Section of the Fund is a Structural Fund and finances measures in Objective 1 regions.

The Guarantee Section is not a Structural Fund but contributes to the implementation of Objective 2. In these areas, that is those areas facing structural difficulties, Member States can choose whether to integrate rural development measures into the regional development programme funded jointly with the other structural funds or to incorporate them into a horizontal programme for rural development measures outside of Objective 1 areas.

As I have already said the Guidance Section, which is a Structural Fund, finances rural development measures. These include support for investment in agricultural holdings that helps to improve agricultural incomes and to improve living, working and production conditions. The Fund also provides setting-up aid to facilitate the establishment of young farmers as well as vocation-training aid to improve the occupational skills and competence of farmers. The Fund also contemplates support for early retirement from farming. This support shall contribute to provide an income for elderly farmers who decide to stop farming and to encourage the replacement of such elderly farmers by farmers able to improve the economic viability of the agricultural holdings. It also co-finances projects and programmes to re-assign agricultural land to non-agricultural uses where it cannot be farmed under satisfactory conditions of economic viability. As can be seen, there is a spate of support measures of which I cannot possibly give an exhaustive overview here. However I have to mention the support given for investment which facilitates the improvement and rationalisation of processing and marketing of agricultural products and thereby contribute to increasing the competitiveness and added value of such products.

The Financial Instrument for Fisheries Guidance

Finally, the Financial Instrument for Fisheries Guidance finances accompanying measures to the Common Fisheries Policy throughout the European Union.

In Objective 1 regions, FIFG funding is incorporated into regional development programmes with the other Structural Funds. Measures implemented with assistance from the Fund include fleet renewal and the modernisation of fishing vessels, fishing port facilities, processing and marketing of fishery and aquaculture products, measures to fund and promote new markets and innovative actions and technical assistance.

Community Initiatives

Alongside the national initiative programmes for implementing the priority objectives, the Structural Funds are also used to finance Community Initiative programmes and innovative actions such as studies and pilot projects.

There are four Community initiatives and they are allocated up to 5.35% of the total Structural Funds budget during the current period (2000-2006). They fund actions with a specific Community-wide interest.

Innovative actions which may use up to 0.65% of each Fund allocation, aim to test new approaches to, or new areas of, Community structural intervention through pilot or demonstration projects.

The Cohesion Funds

One cannot of course speak of the Structural Funds without reference to the Cohesion Fund. This is a fifth Fund which is entirely dedicated to those E.U. Member States whose level of development is lower than 90% of the E.U. average. For the 7-year period 2000-2006, resources available under this Fund total 18 billion euros. It assists infrastructural projects in the field of the environment and transport such as waste management plants, road networks and international seaports and airports.

Territorial Subdivisions in the E.U.

In the course of my speech, I have made reference to the Nomenclature of Territorial Units for Statistics. NUTS, as the system is popularly called, was established by Eurostat to provide a single uniform breakdown of territorial units for the production of regional statistics for the European Union. Although it has no legal value, it has been used since 1988 in the Community legislation.

Different criteria may be used in subdividing national territory into regions. These are normally split between normative and analytical criteria.

Normative regions are the expression of a political will. Their limits are fixed according to the tasks allocated to the territorial communities, according to the sizes of the population necessary to carry out these tasks efficiently and economically and according to historical, cultural and other factors.

Analytical or functional regions are defined according to analytical requirements. They group together zones using geographical criteria or socio-economic criteria.

Since NUTS is a five-level hierarchical classification, it subdivides each Member State into a whole number of NUTS I regions, each of which is then subdivided into a whole number of NUTS 2 regions and so on.

Despite the aim of ensuring that regions of comparable size all appear at the same NUTS level, each level still contains regions which differ greatly in terms of area, population, economic weight or administrative powers.

The following are some examples of these disparities at NUTS 2 level, the level which qualifies a region for Objective I status:

- The Ile de France and Lombardia in Italy have 10 and 9 million inhabitants respectively.
- Ahvenanmaa/Aland in Finland has a population of 25,000.
- Ceuta y Melilla in Spain has an area of 30 km^2. In Sweden the largest region under NUTS 2 is 154,300 km^2.

Conclusion

I would like to conclude this presentation by stressing the importance of having a well-informed private sector on matters related to the E.U. and its Regional Policy. Partnership with the private sector is one of the principles for the implementation of regional policy.

Indeed, Article 8(1) of Council Regulation 1260/1999 adopted in June 1999 laying down the provisions on the Structural Funds stipulates that Community actions shall be drawn up in close consultation, that is in partnership, between the Commission and the Member State together with the authorities and bodies designated by the Member State within the framework of its national rules and current practices.

These partners should include the regional and local authorities and other competent public authorities and the economic and social partners.