Preparation of EU financial framework for 2007-2013, position of the CR and form of the regional policy

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ČESKÁ SPOŘITELNA

Contents:

Introduction

The main priorities of the forthcoming EU Luxembourg Presidency include reaching an agreement on the Financial Perspective for the 2007-2013 period. According to the proposal submitted by the European Commission, the position of the Czech Republic as a net receiver of funds from the European budget will strengthen significantly. A group consisting of the highest net payers into the common European cash box does not however agree with the European Commission's proposal.

The European budget is the primary financial tool used for implementing European Union policies and fulfilling its mission. Until 1967 there were actually three budgets for the three communities (the European Economic Community, the European Coal and Steel Community, and Euroatom). It was not until the ratification of the Association Agreement that all three budgets were merged into one.

It is significantly different from the budget of sovereign states however, both on the basis of structure as well as size. Its expenses are more reminiscent of a specifically oriented fund that focuses primarily on providing support for agriculture and increasing the cohesion between regions that are often incohesive. Its income is of a significant contributory nature, i.e., traditional self-generated resources make up only a small portion. From the perspective of the size of the European Union, the budget is slightly more than 1% of the Gross National Income, whereas the member states have budgets that are equal to almost 50% of GDP.

Since 1988, the annual EU budgets have been prepared in the form of Financial Perspectives – financial frameworks for multiple years. The first Financial Perspective was for five years and applied to the period of 1988-1992 and was followed by two seven-year perspectives for the periods of 1993-1999 and 2000-2006. The Financial Perspective establishes the expenditure limits for individual budget headings for each year. During the course of the applicable period, the expenses are adjusted on the basis of actual economic data and expectations. One of the primary principles of the European budget is the principle of balance – the incomes and expenses must be equal.

Current financial perspective for 2000-2006

The current Financial Perspective applies to the period from the start of 2000 through the end of 2006. Its final version was approved at the EU Summit held in Berlin in 1999. The ceiling for self-generated budgetary income was set at 1.24 % of the Community's Gross National Income and expresses expenses in constant prices from 1999. The Financial Perspective has eight headings. There were originally seven headings, but they were subsequently expanded by the eighth heading – "Expenses for Expansion", which includes budgeted compensation to new member states (other expenses for expansion were distributed among individual headings.

Financial perspective (EU-25) adjusted for enlargement, million € at 1999 prices

appropriation for commitment	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
1. Agriculture	**40 920**	**42 800**	**43 900**	**43 770**	**44 650**	**45 675**	**45 805**
1a CAP	36 620	38 480	39 570	39 430	38 740	39 611	39 622
1b Rural development	4 300	4 320	4 330	4 340	5 910	6 064	6 183
2. Structural actions	**32 045**	**31 455**	**30 865**	**30 285**	**35 718**	**36 579**	**38 052**
Structural funds	29 430	28 840	28 250	27 670	30 571	31 899	32 703
Cohesion fund	2 615	2 615	2 615	2 615	5 147	4 680	5 349
3. Internal policies	**5 930**	**6 040**	**6 150**	**6 260**	**7 891**	**8 112**	**8 226**
4. External actions	**4 550**	**4 560**	**4 570**	**4 580**	**4 590**	**4 600**	**4 610**
5. Administration	**4 560**	**4 600**	**4 700**	**4 800**	**5 403**	**5 558**	**5 712**
6. Reserves	**900**	**900**	**650**	**400**	**400**	**400**	**400**
Monetary reserve	500	500	250	0	0	0	0
Emergency aid reserve	200	200	200	200	200	200	200
Guarantee reserve	200	200	200	200	200	200	200
7. Pre-accession aid	**3 120**	**3 120**	**3 120**	**3 120**	**3 120**	**3 120**	**3 120**
Agriculture	520	520	520	520	-	-	-
Pre-accession structural instruments	1 040	1 040	1 040	1 040	-	-	-
Phare	1 560	1 560	1 560	1 560	-	-	-
8. Compensation	**-**	**-**	**-**	**-**	**1 273**	**1 173**	**940**
Total approps. for commitments	**92 025**	**93 475**	**93 955**	**93 215**	**103 045**	**105 218**	**106 865**
Total approps. for payments	**89 600**	**91 110**	**94 220**	**94 880**	**100 800**	**101 600**	**103 840**
Ceiling, approps. for payments to GNI	1.07%	1.08%	1.11%	1.10%	1.08%	1.06%	1.06%
Margin for unforeseen expenditure	0.17%	0.16%	0.13%	0.14%	0.16%	0.18%	0.18%
Own resources ceiling	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%

Source: EC, Note: including budgetary implications of a political settlement in Cyprus

This financial framework expected the accession of six new member states (Czech Republic, Poland, Hungary, Cyprus, Slovenia, and Estonia). The accession negotiations however resulted in expansion by ten countries as of May 2004. As a result, the financial framework for the 2004-2006 period had to be adjusted – the adjustments were approved at the EU Copenhagen Summit in December 2002.

Discussion on the adjustments to the Financial Perspective were not at all simple. The negotiators from the new member states were interested in obtaining as many advantages as possible for their own countries. On the other hand, representatives from the "older" member states were more interested in savings during a time of economic stagnation.

A serious stumbling block proved to be the largest budget heading – Expenses for a Common Agricultural Policy, primarily the direct payment to agriculturists. It was agreed that they would be introduced gradually. In 2004, agriculturists in the new member states will receive 25% of the amount of the direct payments received in the EU-15 and will not attain full value until 2013.

The negotiators from the new member states likewise visualized higher amounts in the expenses for structural operations. The Commission used the argument of a decreased absorption capacity in the new member states, which did not have sufficient experiences. In comparison to the EU average, the new member states received a relatively larger amount of finances from the Cohesion Fund than from the Structural Fund. The income received from the European budget for internal policies is intended firstly for continuing financial programs at the community level (i.e., science), for building institutions (i.e., strengthening the judicial system, protecting the Community's financial interests, and the fight against fraud). For some of the new member states, with the exception of the Czech Republic, the financial aid is also provided for the removal of nuclear power plants and a contribution towards building the Schengen System. A special chapter in and of itself is comprised of the current budget compensations that should prevent the new members from becoming net payers into the European budget during their first years as EU members.

Proposed financial perspective for 2007-2013

The first draft of the future Financial Perspective appeared in February 2004, at which time the European Commission published a Communication titled "Building Our Common Future – Policy Challenges and Budgetary Means in the Enlarged Union 2007-2013". In this document, the Commission defines the priorities for the development of the EU for the applicable period and assigns the planned financial resources for them. Proposed EU priorities:

1. Integration of the common market into a wider goal of sustainable development and mobilization of economic, social, and environmental policies. The goals of this priority, which will be financed from new budget headings 1 and 2, are competitiveness, cohesion, and the protection and management of natural resources.
2. Adding actual purpose to the concept of European citizenship by completing the creation of a territory of freedom, justice, security, and access to basic public goods and services – to be financed for new budget heading 3.
3. Introducing the active role of Europe as a global partner – realizing regional responsibility, supporting sustainable development and contributing to civil and strategic security. Financing from new budget heading 4 is expected.

In the Commission's subsequent Communication published last July, the European executive branch lists specific proposals. The Communication is accompanied by a number of actual legislative proposals linked to the future financial framework and related to common agricultural and fishing policies, rural development, structural and cohesion policies, employment and social policies, education, and transportation.

The main points of the European Commission's proposal:

- expenses are divided into larger expense categories termed spheres (headings) for each year of the 2007-2013 period;
- maximum amounts, termed ceilings, are established in the financial framework table for the 2007-2013 period for expense entries and for each sphere;
- the total annual amounts are expressed for both obligation as well as payment entries;
- the annual ceiling for payment entries must conform to the ceiling for self-generated resources, which has currently been set at 1.24% of the EU's Gross National Income (GNI).

Financial framework 2007-2013, million € at 2004 prices

commitment appropriations	2006	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth	**46 621**	**58 735**	**61 875**	**64 895**	**67 350**	**69 795**	**72 865**	**75 950**
1a. Competitiveness for growth and employment	8 791	12 105	14 390	16 680	18 965	21 250	23 540	25 825
1b. Cohesion for growth an employment	37 830	46 630	47 485	48 215	48 385	48 545	49 325	50 125
2. Preservation and management of natural resources	**56 015**	**57 180**	**57 900**	**58 115**	**57 980**	**57 850**	**57 825**	**57 805**
of which : Agriculture - Market related expenditure and direct payments	43 735	43 500	43 673	43 354	43 034	42 714	42 506	42 293
3. Citizenship, freedom, security and justice	**2 342**	**2 570**	**2 935**	**3 235**	**3 530**	**3 835**	**4 145**	**4 455**
4. The EU as a global partner	**11 232**	**11 280**	**12 115**	**12 885**	**13 720**	**14 495**	**15 115**	**15 740**
5. Administration	**3 436**	**3 675**	**3 815**	**3 950**	**4 090**	**4 225**	**4 365**	**4 500**
Compensations	1 041	1 041	120	60	60			
Total appropriations for commitments	**120 668**	**133 560**	**138 700**	**143 140**	**146 670**	**150 200**	**154 315**	**158 450**
Total appropriations for payments	**114 740**	**124 600**	**136 500**	**127 700**	**126 000**	**132 400**	**138 400**	**143 100**
Appropriations for payments to GNI	1.09%	1.15%	1.23%	1.12%	1.08%	1.11%	1.14%	1.15%
Margin available to GNI	0.15%	0.09%	0.01%	0.12%	0.16%	0.13%	0.10%	0.09%
Own resources ceiling to GNI	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%

Note: 2006 expenditure under the current financial perspective has been broken down according to the proposed new nomenclature for reference and to facilitate comparisons.

One of the main characteristics of the newly proposed financial framework is simplification – it should consist of only five headings as opposed to eight. A smaller number of budgetary headings also means a more flexible system.

The ceiling for self-generated resources is equal to 1.24% of GNI, which is the same as for the current Financial Perspective for 2002-2006. However, the average ceiling of allocations for payments represents 1.12% of the Union's GNI. The actual use within the framework of the current budgetary framework is at approximately 1%. The Commission defends this increase by the accession of ten new, poorer countries and increased demands for fulfilling the EU's primary challenges, such as the Lisbon Strategy and the creation of a territory of freedom, security, and justice. A group consisting of the largest net payers into the European budget – the so-called "gang of six" (Great Britain, Germany, France, Sweden, Netherlands, and Austria) have voiced their opposition and Cyprus has added its voice to this group's opinion. These countries request that the current ceiling for actual expenses in the amount of 1.0% of GNI be maintained. It can be expected that the final solution will be a compromise.

According to the estimates made by Jan Kohout, the Czech Ambassador to the EU, the final compromise might be in the range of 1.08 to 1.10% of GNI. If the richer states are successful in putting through a more conservative version of the budget, it will impact primarily structural policies. The member states have already agreed on the expenses for a common agricultural policy. According to Kohout, during the budget negotiations Prague will support the stance that deletions should not be made straight across the board for all states within the framework of savings. In practice, this argument leads towards putting forth a request that the planned subsidies for the new member states not be changed and the deletions should be made for the older members. This would lead to rivalry between the new members on one side and Spain, Portugal, and Greece on the other side.

Estimated net budgetary balances (average 2008-2013)

	Without correction *	**EC Proposal**
Belgium (*)	1.21%	**1.26%**
Czech Republic	3.17%	**3.20%**
Denmark	-0.31%	**-0.26%**
Germany	-0.54%	**-0.49%**
Estonia	3.76%	**3.78%**
Greece	2.16%	**2.19%**
Spain	0.23%	**0.25%**
France	-0.37%	**-0.34%**
Ireland	0.47%	**0.50%**
Italy	-0.41%	**-0.36%**
Cyprus	-0.37%	**-0.34%**
Latvia	4.40%	**4.44%**
Lithuania	4.41%	**4.43%**
Luxembourg (*)	5.80%	**5.83%**
Hungary	3.06%	**3.09%**
Malta	1.06%	**1.09%**
Netherlands	-0.56%	**-0.50%**
Austria	-0.38%	**-0.41%**
Poland	3.76%	**3.79%**
Portugal	1.50%	**1.53%**
Slovenia	1.31%	**1.33%**
Slovakia	3.27%	**3.30%**
Finland	-0.25%	**-0.20%**
Sweden	-0.50%	**-0.46%**
United Kingdom	-0.25%	**-0.46%**

**) When excluding administrative expenditure, Belgium and Luxembourg would appear as net contributors.*
Source: European Commission.

In addition to disputes about money between the new members and the EU-15, a fierce battle can also be expected regarding the British “discount” from the contributions to the EU budget. This was put through by British Prime Minister Margaret Thatcher at the 1984 summit in Fontainebleau. The main argument at that time was the relatively poorer position of Great Britain as compared to the EU average and a lower amount of agricultural subsidies received compared to the other counties, primarily France.

According to the Commission’s proposal, the British discount should be gradually eliminated by 2011. At the same time, a corrective mechanism for all of the richer countries should come into effect immediately when the net contribution of any country reaches 0.35% of GNI. The EU would return 66% of the amount that is paid above this limit, however not more than 7.5 billion Euro annually.

If the member states agree with the European Commission’s proposals, the Netherlands would contribute the most to the EU budget (a negative balance of 0.5% of GNI). Lithuania would obtain the most benefit from membership (plus 4.44% of GNI). The Czech Republic would be a net receiver at a level of 3.20% of GNI.

If the situation remains unchanged, and the British discount remains in place, the Netherlands would again pay most for EU membership (0.56% GNI), Britain would lose only 0.25%. The Czech Republic would obtain an average annual amount equal to 3.17% of its GNI.

Reaching an agreement on the final version of the Financial Perspective for 2007-2013 is one of the priorities of the EU Luxembourg Presidency. During the second half of the year, the presidential country will be Great Britain, from which no great will towards making a compromise can be expected. The last possible date for approval will thus be the first half of 2006, when the presidential sceptre is transferred to Austria. At least six months are needed from transforming the agreement and the programs ensuing there from into European legislation. Pessimists believe that not even six months is a sufficiently long period.

The Czech republic's position for the 2007-2013 period

The Czech Republic's position in the current Financial Perspective

The total amounts for expansion were established by the European Council in Berlin on March 25, 1999 within the framework of the Financial Perspective for the current program period. They were established for the conditions related to the expansion of the EU by 6 countries in 2002.

Development however led to further expansion (as of May 1, 2004) and by a larger number of countries (10). The limits established at the Berlin summit remained binding however. On January 30, 2002, the European Commission recommended a financial framework for expansion, wherein it proposed a total amount for the 10 candidate countries and its division into individual areas (agriculture, structural operations, internal policies). The proposal also contained a principle for not worsening the net budget position of the new member countries in comparison to the year just prior to their entry to the EU, a provision that was fulfilled by means of "budget compensations". The definite version of the net positions of the new member states was approved at the EU Summit in Copenhagen in December 2002.

Estimation of the net budgetary position of the Czech republic, million €

	2004		2005		2006	
	1999 prices	current prices	1999 prices	current prices	1999 prices	current prices
pre-accession aid	181	201	153	173	98	112
agriculture	100	111	392	442	483	554
structural actions	169	186	355	400	427	490
internal actions	44	49	76	86	102	118
additional expenditures	7	8	9	10	9	10
compensation	300	332	270	304	177	203
total allocated expenditure	**801**	**886**	**1255**	**1416**	**1296**	**1488**
traditional own resources	-66	-73	-105	-119	-105	-121
VAT resource	-74	-82	-116	-131	-119	-137
GNP resource	-426	-472	-653	-738	-670	-772
UK rebate	-56	-63	-88	-99	-93	-108
total own resources	**-623**	**-690**	**-963**	**-1087**	**-987**	**-1138**
Net balance	**178**	**196**	**293**	**328**	**307**	**351**

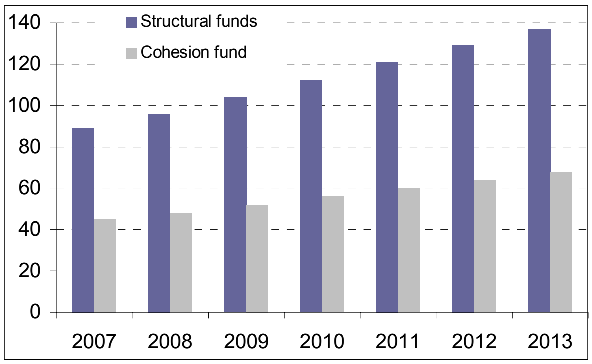
Source: MF ČR, European Commission

The Czech Republic's position in the future Financial Perspective for 2007-2013

Currently, the only sure thing is that, regardless of the results of the negotiations on the future budgetary framework, the Czech Republic will remain in the position of net receiver. It is also more than likely that the net influx of monies from the European Union will increase, even multiply several times over.

In its proposal, the European Commission assigned the Czech Republic an average net position for the 2007-2013 period in the amount of 3.20% of GNI. As was specified above, at the same time the European Commission is counting on the elimination of the British discount and European budget expenses at the level of 1.14 % of the Community's GNI. It is fairly likely that this proposal will not

Estimate of inflow for regional policy to CR in 2007-13
CZK bn, current prices



Source: MF ČR

be put through in full and the actual version will be a compromise, which will mean a slight worsening in the CR's net position (as compared to the Commission's proposal).

If we assume that the Commission's proposal is accepted and anticipate an average 3% increase in Gross National Income, the Czech Republic's net position in the future Financial Perspective for 2007-2013 should reach almost three billion Euro on average per year. This is an enormous increase as compared to the current situation.

The Ministry of Finance has a similar opinion. According to the calculations of the Ministry of Finance of the Czech Republic, 80 to 90 billion crowns should flow into the country from the European Union annually starting in 2007. The growth should reflect increasing direct payments to agriculturists, with the largest portion going to structural and cohesion policies. There will be no compensation payments – they will not be necessary.

Even in the future financial framework, it is most likely that an absorption limit (ceiling) will remain in place for the financial transfers for any member state within the framework of cohesion policies at the current 4% of GDP. It can be expected that the Czech Republic will receive 4% of GDP, with one-third of the resources coming from the Cohesion Fund and two-thirds from the Structural Funds (in the future, there will be only two: the European Fund for Regional Development and the European Social Fund).

According to the estimates of the Ministry of Finance, during the next Financial Perspective period of 2007-2013 we could obtain a total of 787 million crowns from the Structural Funds and 394 million crowns from the Cohesion Fund.

The problem arises as to where to obtain the required co-financing resources for these large amounts. The Commission's proposal relies on the EU providing 75% co-financing in the case of the Structural Funds and 85% for the Cohesion Fund. The difference required to bring the total to 100% must be secured by the member state from its own resources. The majority of the country's own resources will however be in the public budget. They will then be under dual pressure. On the one side, they will have to find resources for co-financing, and on the other, they will have to fulfil the Convergence Program and the Maastricht Criteria for accepting the Euro. The Ministry of Finance proposes eliminating or limiting non-effective programs and subsidies that are focused on the same areas as the funds from the EU. Some resort ministers do not agree. A decision should be made very soon, but refusing or not using the money from the EU just because resources for co-financing cannot be found would send a very bad signal to Brussels.

The consequences of the influx of monies from the EU on the domestic economy

In addition to starting the required development of less developed regions, which will show results only in the mid- to long-term timeframes, the influx of monies from the EU will also have an obvious immediate effect. On the financial markets, this should primarily become apparent in the strengthening of the currency exchange rate for the crown. The offer of "European" Euros and the resulting demand for crowns will also be obvious and permanent (at least until the time that the Euro replaces the crown – the 2010-2011 timeframe). The CNB could partially face this trend if, after reaching an agreement with the government, it limits the conversion of the Euro through the financial market and transfers the Euros directly into its foreign exchange reserves and issues crowns against Euros.

The influx of monies will also have an obvious impact on the immediate increase in the growth of GDP. The sudden increase in aggregate demand and the related multiplicative effect will pull the Czech economy upward. Faster economic growth will pull the standard of living upwards and will contribute to catching up with the more developed countries of the European Union. The boost in aggregate demand will lead to creating new employment positions, which will lead to decreased unemployment. A dark side might however result in the creation of inflationary pressures.

Regardless of how the negotiations and the subsequent Financial Perspective turn out, one thing is certain. From a purely accounting perspective, membership in the Union is paying off already and this will be multiplied even more during the period from 2007 through 2013.

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Future outlook of EU regional and cohesion policy

For more than six months Czech subjects have been able to acquire financial means through regional and cohesion policy instruments, the most renowned and important of which are the Structural Funds. However, all entrepreneurs and municipal representatives should realise that on 1 January 2007 their existing format will be changed radically. The new structure, to a large extent determining the programming period 2007 – 2013, is still subject to finalisation.

Even though the final shape of the next programming period is not known as yet, some of its characteristics have already been agreed upon. No forward-looking entrepreneur or municipal or regional representative can, therefore, remain unconcerned with this issue, unless rather naively believing that the Structural Funds are going to become unimportant after 2006 or unless quite short-sightedly giving up the opportunity to obtain support from the Structural Funds for his business projects or provision of high-quality public services in the future.

What major changes are expected?

The discussions that have been taking place since mid-February 2004 indicate that in the next programming period the Structural Funds should concentrate above all on:

- strategic projects contributing to the fulfilment of the Lisbon Strategy (i.e. competitiveness enhancement of the European knowledge-based economic system and significant increase of employment);
- the least developed regions, above all those located within the territory of the new EU member states or located in the countries that are very likely to become new EU member states in the course of the next programming period (Bulgaria, Romania and Croatia);
- projects whose management is more decentralised, simpler and more transparent.

In mid-July 2004 the European Commission approved a whole range of legislative proposals reforming its regional and cohesion policy and allocated € 336.1 billion for their implementation. The said proposals determine above all general directives governing all three resources from which individual structural projects will be funded in the next programming period, specific directives for each of the principal resources (European Regional Development Fund, European Social Fund, Cohesion Fund) and a brand new directive concerning cross-border collaboration structures.

The Commission's reform of its regional and cohesion policy is exceptionally ambitious and it is questionable whether all its aspects can really be implemented in full. It is scheduled to completely change the conception and interpretation of European solidarity within the expanded Union, while taking into account the existence of economic globalisation and knowledge-based economic systems. The strategy and resources of regional and cohesion policy are reflected by the following three new priority objectives of all structural projects – **convergence**, **competitiveness and employment**, **co-operation**.

The aforementioned proposal also contains relatively significant innovations and simplified procedures, such as:

- initiation of annual strategic dialogues with all member states within the EU Council, with the European Parliament, the Economic and Social Committee and the Regional Committee whose objective is to ensure that all cohesion and regional policies are observed in the course of the entire programming period;
- full recognition and funding enhancement of all zones with a natural handicap and increased concentration on urban areas;
- more extensive delegation of executive powers to individual member states and regions, including controlling powers, and strict observation of all principles of project funding;
- considerable reduction of the number of financial instruments of economic cohesion (from six to three);
- integration of all individual competencies of the existing Community Initiatives URBAN and EQUAL, innovation campaigns and Operational Programmes of EU member states and their regions;
- financing of all Operational Programmes from one single fund (either from the European Regional Development Fund or the European Social Fund), except for infrastructure programmes (these can be financed from both the Cohesion Fund and the European Regional Development Fund);
- introduction of several-year planning periods of the Cohesion Fund upon the same conditions that apply to the Structural Funds;

- opening of the Union's new regional and cohesion policy to all regions and citizens, with emphasis put on the least developed sectors and consideration given to particular conditions of individual projects.

The said aspects are the result of a discussion initiated by the European Commission three years ago. Its course was used by the Commission as an inspiration for its Third Report on Economic and Social Cohesion published on 18 February 2004 and currently representing the principal source of information on the Union's regional and cohesion policy after 2007.

It is expected that future discussions of the new financial framework for the period 2007 – 2013 should also concentrate on the European Council's proposal on financial perspectives for the period of 2007 – 2013 (in the course of Luxembourg's EU presidency, i.e. in the **first half of 2005**) and the aforementioned European Commission's Report presented in February 2004. The European Parliament and the EU Council will then be able to agree on the content of new regulations. Within the following three months the Council shall adopt its "Strategic Cohesion Priorities" used by the Commission and member states and regions as a basis of their National Strategic Reference Frameworks. A new set of Operating Programmes scheduled to become effective at the beginning of 2007 will be produced in the course of 2006.

The common basis of all new regional and cohesion policies to be introduced in 2007 and at the same time the principal aspect of all proposed changes is a directive specifying general regulations of two Structural Funds (European Regional Development Fund, European Social Fund) and the Cohesion Fund for the programming period 2007 – 2013.

As we have mentioned above, the new programming period will be characterised by the fulfilment of all three new key objectives. Each of them is determined by specific criteria that will have to be met by any subject applying for EU assistance (as in the current programming period). All three existing priority objectives of the Structural Funds (Objective No. 1 – promotion of underdeveloped regions; Objective No. 2 – promotion of regions undergoing economic and social structural changes and transformations; Objective No. 3 – promotion of educational and employment support systems) will be modified for the next programming period in the following way.

Objective No. 1: Convergence

The most important Objective of the next programming period is **convergence**, to a large extent based on the existing Objective No. 1 (promotion of underdeveloped regions). It is to accelerate economic convergence of the least developed regions, improve employment conditions through investments in material and human resources, promote innovation and development of knowledge-based companies, ensure adaptability to economic and social changes, encourage environmental protection and enhance administration efficiency.

Convergence should play an important role above all in the new EU member states.

In order to receive financial assistance in connection with this economic Objective, the applicant's GDP per capita may not exceed 75% of the EU average (all calculations are based on information gathered in the last three years preceding the effective date of the aforementioned directive).

Nevertheless, the Objective also respects possible statistical consequences of the Union's expansion, providing financial support even for the regions whose GDP per capita may exceed 75% of EU average as a result. That is why the new directive – taking into account past practical experience in this area – will also provide specific and temporary support for the regions exceeding the aforementioned 75% threshold as a result of statistical changes. Its overall amount should be gradually decreasing towards the year 2013 when it will be abolished. Temporary financial assistance will be offered to all regions whose GDP per capita will range between 75% of the EU average and an amount specified in accordance with a list of the regions concerned.

The remotest regions (the Azores, Madeira, Canary Islands and French overseas territories) will be subject to special financing from the European Regional Development Fund focusing above all on their integration into the Common Internal Market and consideration of local specifics regardless of whether they meet the specified convergence criteria or not.

Another integral part of this Objective will be utilisation of financial means from the Cohesion Fund by all countries whose total (i.e. not regional) GDP per capita does not exceed 90% of the EU average. However, only transport infrastructure and environmental projects may be subsidised in accordance with this provision.

A list of regions and member states complying with the aforementioned conditions will be published by the European Commission as soon as this directive becomes effective.

Almost 79% (exactly 78.54%) of all financial resources of the Structural Funds and the Cohesion Fund, i.e. € 264 billion in total, will be allocated to this Objective (75% in the course of the current programming period). 67.34% of this sum will be used to fund projects in regions whose GDP per capita does not exceed 75% of the EU average, 8.38% will be received by regions affected by the aforementioned statistical changes, 23.86% will be designated for the member states receiving assistance from the Cohesion Fund and 0.42% will be used to fund projects in the remotest regions.

Objective No. 2: Regional competitiveness and employment

The second Objective of the next programming period is **regional competitiveness and employment**. It essentially means strict compliance with the Lisbon Strategy on a regional level and concentration on significant increase of employment in all regions suffering from high unemployment or having less functional labour markets. This objective is designated above all for the regions that are unable to meet Objective No. 1. Two types of approach are proposed in this area. The first one should increase the competitiveness and attraction of individual regions, anticipate economic and social changes, promote innovations and development of knowledge-based companies, improve the entrepreneurial environment, support environmental protection and prevent risks through regional development programmes (financed from the European Regional Development Fund). The second should ensure adaptability of employees and employers, development of labour markets and social integration of problematic subjects (defined, for instance, by the European Employment Strategy) through national programmes or relevant regional projects.

This Objective should play an important role in preventing the occurrence of possible new imbalances, with regions suffering from disadvantageous social and economic factors and lack of sufficient means for other forms of support, especially those funded from the governmental resources of individual EU member states.

All individual EU member states will create lists of their regions whose programmes could be co-financed from the European Regional Development Fund (the preliminary zoning used for the purpose of the existing Objective No. 1 should be abolished).

The regions covered by the existing Objective No. 1 and not meeting the convergence criteria in 2007 due to their economic progress will receive special and temporary assistance (so-called phasing-in assistance) as a part of this Objective. However, its overall amount will gradually decrease towards the year 2013 when it will be abolished. A list of all regions qualifying for this type of assistance will be published by the European Commission as soon as the relevant directive becomes effective.

In total, 57.9 € billion (17.22% of the financial means provided by individual funds) will be allocated to Objective No. 2:

- 83.44% to the regions covered by the current Objective 1;
- 16.56% to the regions in the phasing-in regime.

While the participation of the European Regional Development Fund (ERDF) and the European Social Fund will be equal (50/50) in all regions complying with the existing criteria of Objective No. 1, the participation of the European Social Fund in phasing-in regions may total up to 50%.

Objective No. 3: European territorial co-operation

The third, least expensive Objective, requiring less than 4% of the overall budget, is **European territorial co-operation**. It concentrates on joint promotion of cross-border co-operation, collaboration in multinational regions and creation of co-operation and information exchange networks within the entire EU. It is to a large extent based on the experience of the Community Initiative INTERREG.

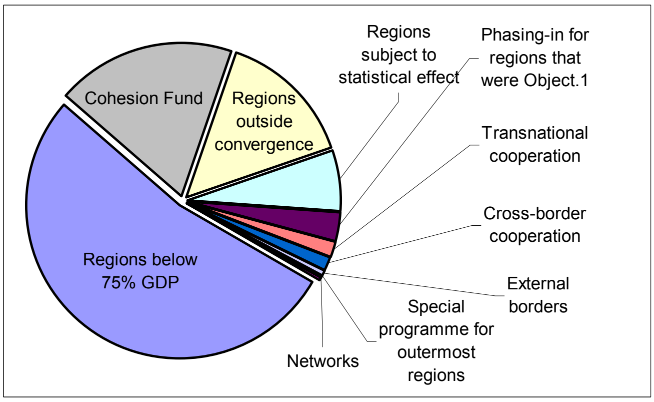
This Objective, together with Objectives No. 1 and 2 (convergence and competitiveness, respectively), will also cover any specific interregional collaboration efforts between bodies involved in one programme and bodies from at least one other member state.

The planned cross-border co-operation should concern not only EU regions located alongside internal continental borders and selected external continental borders but also EU regions having naval borders. This objective, financed from the ERDF, should contribute to cross-border elements of the future **European Neighbourhood and Partnership Instrument** and **Pre-accession Instrument**, designated to replace the existing programmes PHARE, TACIS, MEDA, CARDS, ISPA and SAPARD. As soon as the relevant directive becomes effective, the Commission will authorise a list of optional cross-border regions and multinational co-operation zones. Any region of the EU can become subject to funding of European co-operation and exchange network.

In total, some 13.2 € billion (i.e. 3.94% of the financial means designated for regional and cohesion policy) will be allocated to Objective No. 3. This amount will be distributed as follows:

- 47.73% to cross-border co-operation; thereof 35.61% to cross-border co-operation projects realised within the territory of the European Union and 12.12% to the cross-border part of the European Neighbourhood and Partnership Instrument and Pre-accession Instrument (the proportion of both Instruments must be at least equivalent);
- 47.73% to zones of multinational co-operation;
- 4.54% to European co-operation and exchange network.

Regional and Cohesion Policy 2007-2013:
breakdown by objectives



Source: European Commission, DG Regio

Cohesion policy 2007-13 (EUR 336.1 billion), breakdown of its allocation

Programmes,Instruments	Eligibility	Priorities	Allocations
1. Convergence objective (including the special programme for the outermost regions			**78.5 % (EUR 264bn)**
National and regional programmes (ERDF, ESF)	Regions with per capita GDP < 75 % of EU-25 average	• Innovation • Environment/risk prevention • Accessibility • Infrastructures • Human resources • Administrative capacity	67.34 % = 177.8bn EUR
	Statistical effect: regions with per capita GDP < 75 % of EU-15 and > 75 % of EU-25		8.38 % = 22.14bn EUR
Cohesion Fund	Member States with per capita GDP < 90 % of EU-25	• Transport networks • Sustainable transport • Environment • Renewable energy	23.86 % = 62.99bn EUR
2. Regional competitiveness and employment objective			**17.2 % (EUR 57.9bn)**
Regional programmes (ERDF) and national programmes (ESF)	The Member States propose a list of regions (NUTS 1 or NUTS 2)	• Innovation • Environment/risk prevention • Accessibility • European employment strategy	83.44 % = 48.31bn EUR
	"Phasing in" regions covered by Objective 1 between 2000 and 2006 and not covered by the convergence objective		16.56 % = 9.58bn EUR
3. European territorial cooperation objective			**3.94 % (EUR 13.2bn)**
Cross-border and transnational programmes and networks (ERDF)	Border regions and large transnational cooperation regions	• Innovation • Environment/risk prevention • Accessibility • Culture, education	35.61 % cross-border cooperation 12.12 % European neighbourhood and partnership instrument 47.73 % transnational cooperation 4.54 % networks

Source: European Commission, DG Regio

Cohesion 2007–13: the objectives and instruments proposed by the Commission

2007 – 2013		2000 – 2006	
Objectives	**Financial Instruments**	**Objectives**	**Financial Instruments**
Convergence	ERDF ESF Cohesion Fund	**Cohesion**	Cohesion Fund
		Objective 1	ERDF, ESF, EAGGF – guarantee and guidance, FIFG
Regional competitiveness and employment • regional level • national level: European employment strategy	ERDF ESF	**Objective 2**	ERDF, ESF
		Objective 3	ESF
European territorial cooperation	ERDF	**Interreg**	ERDF
		URBAN	ERDF
		EQUAL	ESF
		Leader+	EAGGS – guidance
		Rural development and restructuring of the fisheries sector outside Objective 1 EAGGF - guarantee	EAGGF – guarantee FIFG
Total: 3 objectives	**Total: 3 instruments**	**Total: 9 objectives**	**Total: 6 instruments**

Source: European Commission, DG Regio

Regional GDP in the CR: chances of individual regions in the next programming period

The Czech Bureau of Statistics has recently updated its statistical data concerning regional GDP in the Czech Republic. For more detailed information visit the following website: http://www.czso.cz/csu/edicniplan.nsf/p/1371-04. We shall use this update to try to assess the chances of individual regions of the Czech Republic obtaining financial assistance from the Structural Funds, in particular, through the instruments of regional and cohesion policy in the next programming period (2007 – 2013).

The latest information on regional GDP per capita in the Czech Republic and the aforementioned financial framework parameters for the period 2007 – 2013 quite clearly determines the chances of individual regions in the next programming period. In addition, the resulting picture also offers several relatively important views.

1. Almost all Czech regions and their economic performance have been showing gradual real economic convergence over the last five years. Nevertheless, the most dynamic region by far has been Prague, i.e. the one region that is not (and will not be) affected by the basic Objective of the Union's regional policy (Objective No. 1) at all. The sum of GDP per capita generated in Prague amounts to 164% of EU-25 average, i.e. almost 20% more than five years ago.

With the exception of NUTS2 north-west (Karlovy Vary and Ústí nad Labem regions), all remaining regions (according to EU classification) show more or less distinctive improvement. The most dynamic in this respect is the third wealthiest NUTS2 in the Czech Republic, the south-east (Vysočina and Southern Moravia), whose GDP per capita amounts to 64.4% of the EU-25 average, i.e. almost 4.5% more than five years ago.

2. The review shows that apart from Prague, all other Czech regions are relatively homogenous in terms of their economic development. The difference between the second wealthiest region, the south-west (Plzeň and Southern Bohemia regions), and the poorest region, Central Moravia (Zlín and Olomouc regions), is just 9%, with all other regions of the Czech Republic in between.

It is, therefore, obvious that in the programming period 2007 – 2013 every single Czech region, except for Prague (whose economic performance is fully comparable with the old EU member states), will be able to take advantage of some of the financial instruments of the Union's regional policy, especially the Structural Funds.

3. The strategy of our approach to optimal utilisation of EU funds in the next programming period should be based on more detailed specification of regional GDP development. In other words, we should determine why, for instance, the north-western region has been stagnating for five years, while other regions have been showing above-average economic growth (in comparison with the EU). The more weaknesses we manage to discover in the course of this analysis, the more chances we will have of acquiring additional financial means for underdeveloped regions, especially in connection with Objective No. 1 (on condition that our governmental and regional authorities act responsibly and pragmatically).

Regional GDP per capita in the Czech republic (EU-25 = 100)

Region	1999	2000	2001	2002	2003
PRAHA	145.2	145.5	156.2	158.4	163.8
STŘEDOČESKÝ KRAJ	57.0	56.4	56.1	57.3	59.1
JIHOZÁPAD	63.6	63.0	62.5	63.3	65.6
- Jihočeský kraj	61.9	60.7	59.6	62.4	64.4
- Plzeňský kraj	65.6	65.7	65.7	64.4	66.8
SEVEROZÁPAD	57.9	55.9	54.8	55.9	57.8
- Karlovarský kraj	56.2	55.7	53.7	55.2	57.1
- Ústecký kraj	58.6	56.0	55.2	56.1	58.0
SEVEROVÝCHOD	58.2	57.7	57.3	58.8	61.1
- Liberecký kraj	56.7	56.3	56.4	57.3	59.8
- Královéhradecký kraj	59.6	59.5	58.6	60.7	63.1
- Pardubický kraj	58.1	56.9	56.6	58.0	60.1
JIHOVÝCHOD	60.0	59.2	60.5	62.0	64.4
- Kraj Vysočina	53.9	54.0	55.9	54.2	56.1
- Jihomoravský kraj	62.7	61.6	62.6	65.6	68.3
STŘEDNÍ MORAVA	55.4	54.2	54.2	54.3	56.6
- Olomoucký kraj	53.8	52.7	52.4	53.6	55.7
- Zlínský kraj	57.1	55.7	56.1	55.1	57.6
MORAVSKOSLEZSKÝ KRAJ	59.0	56.7	57.6	58.5	60.7
ČR total	**68.8**	**67.8**	**68.9**	**70.1**	**72.7**

Source: ČSÚ