EU Cohesion policy 2007-13

& the implications for Spain:

Who gets what, when and how?

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ABSTRACT

The recent negotiation of the EU budget and the associated reform of EU Cohesion policy have had major policy implications for Spain, the country in receipt of most Cohesion policy support in the current programming period (2000-06). EU enlargement, combined with relatively rapid growth in Spain, impacted on the eligibility of Spanish regions for Cohesion support while also taking the country as a whole beyond the eligibility threshold for the Cohesion Fund. As a result, based on the original Commission budget proposals of February 2004, Spain was facing a reduced Cohesion policy budget of at least a half (to below €30 billion). This paper first reviews the budget negotiations from a Spanish (Cohesion policy) perspective, identifying the key negotiating goals and the extent to which they were achieved. It then looks at the outcome of the negotiations for Spain, initially at the national level and then in the regions. It highlights the significant differential impacts of the cutbacks in Cohesion policy allocations at the regional level and the pressures on the Spanish government to modulate the regional impact of the budgetary changes.

Having considered the funding implications of the new Cohesion policy, the second half of the paper is concerned with the regulatory and institutional impacts of the new policy regime. Many of the reform proposals fit with Spanish priorities, not least the new rationale for Cohesion policy (with its stress on the Lisbon and Gothenburg agendas) and the new policy architecture (with all regions eligible for some form of support and with a related shift from a geographic to more of a thematic focus). The retention of the key Structural Funds principles has also been welcomed in Spain, unsurprising given the wealth of experience and expertise built up over three (high-spending) programming cycles. The main regulatory concern (as in most Member States) relates to the extent to which the aim of introducing a more simplified and devolved approach to Funds' implementation will be achieved in practice. Considering, finally, policy and institutional impacts, the paper brings together regional views on the new budgetary and regulatory frameworks before reviewing how the new regulations are being implemented in practice. A discussion of the developing National Strategic Reference Framework and the related Operational Programmes makes clear that the strong emphasis on the Lisbon agenda is not viewed as a constraint in Spain; rather, it is felt to fit well with recent Spanish developments and goals.

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1. INTRODUCTION

1.1 Setting the agenda

The debate on the future Cohesion policy for the post 2006 period was launched with the publication of the Commission's Second Report on Economic and Social Cohesion in January 2001. The Spanish government was the first Member State to formally react, expressing its concerns in a letter sent to the Commission President, Romano Prodi, in April 2001.[1] The letter, known as the 'Aznar Memorandum', raised the issue of the "statistical effect" of enlargement and, controversially, linked accession negotiations with guarantees over future receipts of Structural Funds for the existing Member States

Although the attempt to link enlargement with the reform of the Structural Funds was considered unacceptable by the Commission and most Member States, the Spanish government reiterated its concerns in the Second Cohesion Policy Forum (May 2001) and the informal Ministerial Meeting of EU Regional Policy Ministers (July 2001) which provided the first opportunity for the Member States to express general views on future Cohesion policy reform. With the onset of the Spanish Presidency in the first half of 2002, more detailed exchanges of views between the Member States were held in the Council's Structural Affairs Working Group, on the basis of the Commission's First Progress Report on Economic and Social Cohesion published in February 2002.

A majority of Member States subsequently submitted their formal positions over the course of the next year,[2] whilst Commission thinking was further developed in the Second Progress Report on Economic and Social Cohesion (February 2003). The Commission's thoughts were examined by the Member States through the Structural Affairs Working Group and, at a higher political level, at the informal Ministerial meeting for Regional Policy Ministers under the Greek Presidency (May 2003). The Commission published its overall budget proposals for the 2007-13 period in February 2004, closely followed by the Third Cohesion Report which provided more information on the proposed Cohesion policy.

1.2 The Commission's reform proposals

Following on from this, the Commission's legislative proposals relating to Cohesion policy were formally submitted in July 2004 in the form of one general regulation,[3] three specific

[1] Regional Policy and Enlargement, Memorandum by the Spanish Government to the European Commission, 19 April 2001.

[2] Netherlands (April 2002), Italy (December 2002), France (January 2003), Greece and United Kingdom (March 2003), and Belgium, Denmark, Sweden and Finland (May 2003).

[3] Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund. COM (2004) 492 final, 14 July 2004

regulations covering each of the funds,[4] and a specific regulation for a new instrument for managing cross-border cooperation.[5] The main aims were to make EU Cohesion policy more strategic (focussed on the Lisbon and Gothenburg agendas including annual dialogue in the Council of Ministers), more concentrated (both geographically on the least favoured regions and thematically on the Lisbon and Gothenburg themes) and more decentralised (with simpler, more transparent and more efficient delivery mechanisms). A number of important changes were proposed, including a broader rationale for policy; a new architecture of Community priorities; and a different implementation system.

In terms of the new policy rationale, a key change is the emphasis on the Lisbon and Gothenburg agendas, with future policy priorities anchored in the themes of innovation and the knowledge economy (to promote competitiveness), environment and risk prevention (to address sustainable development), as well as labour market support (to improve the adaptability of the workforce to changing circumstances in line with the European Employment Strategy). For the first time, 'territorial cohesion' received significant attention, building on the philosophy of the Second Cohesion Report and the commitment in the draft (and rejected) EU Constitution 'to promote economic, social and territorial cohesion and solidarity among Member States'. In this context, the remit of EU Cohesion policy has been widened to address issues such as urban development, infrastructure endowment in educational, health and social services, and the specific problems of areas with geographical handicaps (e.g. islands, mountains, border regions).

Under the 'new architecture' for EU Cohesion policy, the current Objectives 1, 2 and 3 will be replaced by three new Community objectives: Convergence; Regional Competitiveness and Employment; and European Territorial Cooperation. The current instruments linked to rural development policy (EAGGF Guidance Section, FIFG) are to be grouped within one single instrument under the Common Agricultural Policy (EAFRD) and the Community Initiatives (INTERREG, URBAN, EQUAL, LEADER+) will be discontinued as separate initiatives and integrated within the mainstream programmes. The creation of a specific legal instrument to facilitate cross border cooperation has also been proposed.

The aim of the Convergence Objective (previously Objective 1) is to support growth and job creation in the least developed regions, principally in the new Member States. The ERDF and ESF will provide support for investing in human and physical capital; innovation and the knowledge economy; encouraging adaptation to socioeconomic change; protection of the environment; and improving administrative efficiency. This objective may also be funded through the Cohesion Fund. As in the past, the Cohesion Fund will continue to place a strong emphasis on supporting Trans-European transport networks, projects of European interest and environmental infrastructure. The main proposed innovation is to increase the scope for assistance with a stronger focus on sustainable development and the

[4] Proposal for a Regulation of the European Parliament and of the Council on the European Regional Development Fund, COM (2004)495 final, 14 July 2004; Proposal for a Regulation of the European Parliament and of the Council on the European Social Fund, COM (2004) 493 final, 14 July 2004; Proposal for a Council Regulation establishing a Cohesion Fund, COM (2004) 494 final, 14 July 2004

[5] Proposal for a Regulation of the European Parliament and of the Council establishing a European grouping of cross-border cooperation (EGCC). COM (2004) 496 final, 14 July 2004.

environmental dimension (e.g. supporting energy efficiency or renewable energy). Convergence Objective eligibility will continue to be based on GDP (PPS) per head of less than 75 percent of the EU average in NUTS II regions. Phase-out and Outermost regions will also be included under this Objective.

The Regional Competitiveness and Employment Objective aims to anticipate and promote change through a two-fold approach. Regional ERDF-funded programmes will seek to improve the competitiveness of industrial, urban and rural areas, while national (or territorial where appropriate) ESF-funded programmes will support the introduction and implementation of structural reforms in the labour market and strengthen social inclusion in line with the priorities of the European Employment Strategy. A key change is that all regions outside the Convergence Objective will be eligible for support. Unlike the previous period, Member States will have full freedom to determine the list of regions at either NUTS I or II level that will be included under the Objective. There is no requirement to meet specific national or EU territorial criteria to determine eligibility and zoning will no longer apply. However, the appropriate balance between geographical and other forms of concentration in drawing-up Regional Competitiveness programmes will be developed in partnership with the Commission. Phase-in ("natural growth") regions will also be included within this Objective.

The Territorial Cooperation Objective will seek to promote the harmonious and balanced development of the Union territory, building on the previous INTERREG programme. The current Community Initiatives will, as already mentioned, be integrated within the mainstream programmes. In addition to strengthening territorial cooperation, the Commission has proposed the creation of a single legal instrument to enable the Member States and sub-national authorities to manage cross-border programmes more effectively. Eligibility will be determined by internal land borders and certain external borders including some regions lying on sea borders.

The Commission is also proposing to make significant changes to the way that EU Cohesion policy is implemented. The key principles underlying the Structural Funds – multi-annual planning, integrated development strategies, partnership, co-financing and concentration – will continue; however, the proposals aim to simplify and decentralise the process further. The main features of the proposals are: a new planning framework; one fund per programme; rationalised and decentralised procedures for financial management, control and additionality; an enhanced partnership principle; a more rigorous approach to monitoring; and more results-oriented and flexible evaluation.

1.3 The structure of the paper

The Commission's February 2004 proposals represented the start of a more formal negotiation process. This took the form of a twin-track approach, financial on the one hand (with the Friends of the Presidency Group helping in the development of the EU budget proposals) and regulatory on the other (through the operation of the Structural Actions Working Group). This paper makes a similar division. It begins by considering the negotiations surrounding the EU budget in general and Cohesion policy in particular (in Section 2) before reviewing the Cohesion policy outcomes for Spain and its regions (Section

3). It then moves on to review the development of the Structural Funds regulations (in Section 4) and their policy and institutional impacts (Section 5). Each section ends by discussing some implications for Spain. Section 6 then draws together these concluding comments in a brief review of the overall implications for Spain of the Cohesion policy reform process.

2. NEGOTIATING THE BUDGET

2.1 The Spanish negotiating position on Cohesion policy funding

The overarching objective for Spain in the negotiation of the 2007-13 Financial Perspectives was to ensure a positive net balance over the whole of the period by minimising the sharpness of the decline in its budgetary position as far as possible. Central to the pursuit of this negotiating goal was the need to increase Spain's relative position in EU expenditure policies (especially through Cohesion policy since, in practice, future CAP resources had already been fixed in 2002) and, on the income side, to minimise its contribution to the EU's own resources (an issue closely tied to the future of the UK rebate).

The first public statement of Spain's formal negotiating position on the financial aspects of Cohesion Policy (and the wider EU budget) was provided by the Minister for Economy and Finance, Pedro Solbes, in a parliamentary plenary session in November 2004.[6] Underlying the government's position was the view that "Cohesion policy remains a core EU policy, as recognised in the draft Constitution and Treaties, and that, for both political and economic reasons, it should be allocated an adequate level of resources." Whilst acknowledging that the policy should be made more effective, the Spanish position was that it should not be "reduced to a minimum token gesture". More specifically, the main financial objectives for Spain in the negotiations were:[7]

- **Cohesion Fund:** A transition period for the Cohesion Fund.
- **Statistical effect (Phase-out) regions:** Regions affected by the statistical effect should be treated similarly or close to Convergence regions – that is, those regions below 75 percent of EU GDP (PPS) per capita.
- **Growth (Phase-in) regions:** Regions that have risen above the 75 percent threshold should receive a similar percentage of resources as those in a similar situation during the current programming period. The region of Cantabria, currently an Objective 1 Phase-out region, should also be included within this category.
- **Regional Competitiveness and Employment priority:** The Spanish position was in favour of the Regional Competitiveness and Employment Objective, unlike some of the net contributor countries (such as the United Kingdom) which wished to see EU Cohesion policy focused on the poorest Member States.

[6] Congreso de los Diputados (2004) Pleno y Diputación Permanente, Año 2004, VIII Legislatura, Núm. 51, Sesión plenaria núm. 47, celebrada el miércoles, 24 de noviembre de 2004

[7] See also Navarro A and Viguera E (2005) Las Perspectivas Financieras 2007-2013 y la Posición de España, Documento de Trabajo (DT) Nº 22/2005, Real Instituto Elcano, Madrid

- **Outermost regions:** Spain had in the past argued and continued to argue that the treatment of the Canary Islands should be improved under the Special Fund for the Outermost Regions, so that the Canarias region receives a comparable level of support as Convergence Objective regions.
- **Other areas:** Spain wished to see better treatment for cities and areas with geographical handicaps, such as Ceuta and Melilla, islands and areas with low population density.
- Also of note, under **Heading 1a of the EU budget (Competitiveness)**, Spain sought the application of criteria which would favour a more equal distribution of resources.

2.2 Background to the Spanish negotiating position

In considering the issues of special relevance to Spain in the negotiations, it is useful to review current allocations of EU expenditure by Member State, since this obviously impacts on Member State views of which budgetary headings are of particular benefit. Information on EU spending is published each year by DG Budget.[8] An overview of allocated expenditure across the EU15 countries by main heading (ie agriculture, structural actions, internal policies, plus administrative expenditure) is provided in Figure 1. The data are 2000-03 averages of the percentages for the four years under review. For comparison purposes, the distribution of population by EU15 Member State is also shown (2002 data).

Figure 1 underlines the current importance to Spain of funding under the structural actions heading (that is, EU Cohesion policy). Over the 2000-03 period, Spain was the main beneficiary of EU Cohesion policy funding, receiving 30 percent of total EU funding. With Cohesion policy accounting for just over one-third of total allocated expenditure across the EU, more than half Spain's allocated expenditure between 2000 and 2003 took the form of Cohesion policy funding, well ahead of agriculture (44 percent of the allocated total for Spain). By comparison, expenditure allocated to Spain with respect to other (internal) policies was low (just 6 percent of the EU15 total) while administrative allocations were very low (less than 1 percent).

[8] The latest publication was made available in September 2005 at http://europa.eu.int/comm/budget/agenda2000/reports_en.htm. The data used in Figure 1 are drawn from the September 2004 report. While there are limits and qualifications to the data (see Section 2 of the report), it is the only such data available and is the data which informed Member State negotiation strategies.

Figure 1: Operating Expenditure by Heading and Member State 2000-03 (%EU15 total)

	Agriculture	Structural actions	Internal policies	Total allocated	Admin	Overall total	2002 population (%EU15)
BE	2.28	0.89	12.08	**2.49**	56.75	**5.50**	2.72
DK	2.87	0.32	2.91	**1.98**	1.00	**1.93**	1.41
DE	14.26	14.46	17.29	**14.54**	3.48	**13.93**	21.68
EL	6.25	9.46	3.43	**7.15**	0.47	**6.78**	2.89
ES	**14.19**	**30.02**	**6.19**	**18.99**	**0.82**	**17.98**	**10.66**
FR	22.63	7.04	13.16	**16.56**	8.23	**16.10**	16.10
IE	4.09	2.79	1.63	**3.46**	0.74	**3.31**	1.03
IT	12.64	13.64	11.09	**12.98**	2.84	**12.42**	15.02
LU	0.08	0.03	1.57	**0.17**	19.51	**1.24**	0.12
NL	3.02	0.94	6.05	**2.51**	1.19	**2.44**	4.24
AT	2.53	0.93	2.96	**2.01**	0.37	**1.92**	2.12
PT	1.86	10.87	2.57	**5.03**	0.33	**4.77**	2.73
FI	1.92	1.11	2.17	**1.67**	0.49	**1.60**	1.37
SE	1.92	0.96	3.18	**1.68**	0.52	**1.61**	2.35
UK	9.48	6.55	13.71	**8.79**	3.25	**8.48**	15.57
EU	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Operating expenditure as a percentage of total allocated operating expenditure							
EU	58.2	34.7	7.1	100.0	5.9	105.9	

Source: EPRC calculations from European Commission, *Allocation of 2003 EU operating expenditure by Member State*, DG Budget, September 2004.

The expenditure outcomes in Figure 1 reflect the Cohesion policy commitment appropriations agreed at the 1999 Berlin European Council (see Figure 2). Spain was the largest beneficiary of the 2000-06 structural actions budget, accounting for almost 27 percent of total commitment appropriations. Of particular note is the importance of Objective 1 funding to Spain, amounting to almost 70 percent of the Spanish structural actions budget. The Cohesion Fund is also of obvious significance, representing just over one-fifth of the Spanish Cohesion policy commitment appropriations.

Figure 2: Commitment Appropriations under Structural Actions 2000-06 (€ millions, 2004 prices)

Heading	Spain	Heading as % Spanish total	EU15	Spain as % of EU15
Objective 1	41672.4	69.5	140817.8	29.6
Objective 1 phase-out	388.6	0.6	9286.4	4.2
Objective 2	2818.7	4.7	21786.8	12.9
Objective 2 phase-out	108.2	0.2	3004.2	3.6
Objective 3	2362.7	3.9	26553.1	8.9
FIFG (ex Objective 1)	220.8	0.4	1221.1	18.1
Cohesion Fund	12357.0	20.2	19717.0	62.7
Total	**59928.5**	**100.0**	**222386.5**	**26.9**

Source: EPRC calculations from data on Inforegio and RAPID release IP/99/442

In the years since the 2000-06 budget allocations were agreed, both Spain and the European Union have changed significantly. Not only has Spain been growing rapidly (impacting on both national and regional eligibility for Cohesion policy support) but the EU has expanded to 25 Member States. With all the new members poorer than Spain, setting traditional eligibility thresholds in terms of EU25 rather than EU15 averages significantly "raised the bar" for the EU15 Member States (the so-called "statistical effect").[9] The very different position of Spain in Cohesion policy eligibility terms is shown in Figure 3. There has been a major reduction in the proportion of the population located in regions qualifying for the highest level of Cohesion policy support (Objective 1 in 2000-06, the Convergence priority for 2007-13), down from 58.5 percent to 31.8 percent (Galicia, Castilla-la Mancha, Extremadura, Andalucía). Related, regions covered by transitional provisions have grown markedly in importance. The Phase-out regions, those impacted by the statistical effect (Asturias, Murcia, Ceuta and Melilla), account for almost 6 percent of the Spanish population for the 2007-13 period, while the Phase-in regions, those which no longer qualify as Convergence regions due to their growth, represent more than one-fifth of the national population (Castilla-León, Comunidad Valenciana and Canarias). Consequently, the funding accorded to such transitional regions was an obvious Spanish priority in the negotiations. Also important, given its current significance, was the fate of the Cohesion Fund in Spain. With GNI (PPS) per head of over 93 percent of the EU25 average (2001-03),[10] Spain lost out on Cohesion Fund eligibility due to enlargement. Finally, funding for the Outermost regions remained a significant issue, the more so since, as already noted, Canarias did not meet the 75 percent Convergence region eligibility threshold post 2006.

[9] Setting the eligibility threshold for Convergence funding at 75 percent of the EU25 GDP (PPS) per head average is equivalent to an 82.2 percent threshold in EU15 terms.

[10] Compared to the 90 percent eligibility cut-off.

Figure 3: Objective 1/Convergence, Phase-Out and Phase-In Coverage (% of population)

	2000-06		2007-13		
	Objective 1	**Phase-out**	**Convergence**	**Phase-out**	**Phase-in**
EU25	34.5	2.9	27.3	3.6	4.0
EU15	22.4	3.5	14.5	4.3	4.1
NMS10	96.7	0.0	92.9	0.0	3.8
Belgium		12.7		12.4	0.0
Czech Rep	88.6	0.0	88.6	0.0	0.0
Denmark					
Germany	17.3	1.6	12.5	6.1	
Estonia	100		100.0		
Greece	100		36.6	55.5	7.8
Spain	**58.5**	**1.3**	**31.8**	**5.8**	**20.7**
France	2.7	1.9	2.9		
Ireland	26.6	73.4			26.5
Italy	33.6	0.6	29.2	1.0	2.9
Cyprus					
Latvia	100		100.0		
Lithuania	100		100.0		
Luxembourg					
Hungary	100.0		72.2		27.8
Malta	100.0		100.0		
Netherlands		1.8			
Austria	3.4			3.4	
Poland	100.0		100.0		
Portugal	66.6	33.4	67.8	3.8	2.3
Slovenia	100.0		100.0		
Slovak Rep	88.9		88.9		
Finland	21.0				13.0
Sweden	11.0				
UK	8.6	3.5	4.0	0.6	4.4

Source: EPRC calculations

In summary, growth processes within Spain, combined with EU enlargement, meant that Spain was in a position where it was bound to lose a considerable level of Cohesion policy funding under the new Financial Perspective. This made it important for Spain to gain as much as possible from the budget negotiations to try to ensure that funding cutbacks remained within politically-acceptable bounds. In this context, it was significant that the budget agreement had to be unanimous; this ensured that Spanish sensitivities (and, indeed, the sensitivities of all Member States) had to be taken into account during the negotiations. On the other hand, it was in the interests of Spain that agreement on the budget should not be overly delayed; relative growth trends meant that Spain could have lost more Cohesion policy funding had the discussions continued into 2006 when a later dataset may have been used for allocation purposes.

2.3 The negotiation process and outcomes: the EU budget as a whole

The process of negotiating the EU budget was lengthy. Initial Commission proposals regarding the next Financial Perspective (2007-13) were published in February 2004.[11] The assumptions underpinning these proposals (and their implications) were then discussed and developed in the Friends of the Presidency Group on the Financial Perspectives which, in the course of the next year, considered almost 100 technical documents (fiches) produced by the Commission.[12] A progress report in March 2005[13] summarised the work of the Group, the clarifications achieved and the developing positions on certain issues. Four days later, following the approach adopted in the run-up to the 1999 Berlin European Council, a first Negotiating Box was produced by the Luxembourg Presidency.[14] This was "designed to provide a solid framework and give focus and momentum to the discussions"[15] by distinguishing between areas (in normal typeface) where there was a degree of agreement (at least at the level of principles) and problem areas (in italics) which remained to be progressed. Four further Negotiating Boxes were considered in April, May and June.[16] Areas of disagreement were narrowed and budgetary ranges became proposed figures. A final set of proposals was made in the last stages of the European Council on 17 June.[17] However, the proposals did not receive the required unanimous approval of the Member States. Three of the main net contributors – the United Kingdom, Sweden and the Netherlands – rejected the package, as did, for different reasons, Finland and Spain. Spanish concerns centred particularly on the net balance position of the country.[18] Two other Member States – Denmark and Italy – abstained.

Although the failure to reach agreement led to considerable rancour in the immediate aftermath of the European Council, the Luxembourg Presidency felt that the basis for an agreement had been created.[19] It argued that the final outcome would not be substantially different from the June Council proposal – "a budget for commitment appropriations representing 1.056% of national wealth and a budget for payment appropriations representing 1% of national wealth". It placed the blame for non-agreement mainly at the door of the net contributors - and, in particular, the United Kingdom for failing to reduce its rebate sufficiently to allow the demands of all net contributors to be met. "Ah, if only

[11] European Commission, *Building our common future. Policy challenges and budgetary means of the enlarged Union 2007-2013*, COM(2004) 101 final, 10 February 2004

[12] See the Temporary Committee on Policy Challenges and Budgetary Means of the Enlarged Union 2007-2013 at http://www.europarl.europa.eu/comparl/tempcom/finp/default_en.htm

[13] CADREFIN 35 of 4 March 2005 (6825/1/05 REV 1)

[14] CADREFIN 43 of 8 March 2005 (7054/05).

[15] Ibid, para 2.

[16] CADREFIN 84 of 21 April 2005 (8292/05), CADREFIN 108 of 19 May 2005 (9065/05), CADREFIN 115 of 2 June 2005 (9637/05) and CADREFIN 130 of 15 June 2005 (10090/05)

[17] In the form of an addendum to CADREFIN 130 on 17 June 2005 (10090/05, ADD 1).

[18] For a more detailed discussion of the Spanish position on the Luxembourg presidency negotiations see: Navarro, A and Viguera, D (2005) 'España y las perspectivas financieras de la UE', Política Exterior, No.106, July/August 2005.

[19] Speech by Jean-Claude Juncker, President of the Council of the European Union, to the European Parliament, Brussels, 22 June 2005

those six, who together, on a day of inspiration wrote a letter, had agreed on the detail of their proposals!"[20]

With the future of the UK rebate at the heart of the disagreement, the United Kingdom Presidency delayed producing a further Negotiating Box until ten days before the December European Council.[21] This left the results of the June negotiations unchanged as they related to the EU15, and tried to satisfy the net contributors by reducing the expenditure flowing to the new Member States by over 8 percent. By way of "compensation", various concessions were made to the new Member States to ease their absorption of EU spending (by, for instance, increasing the co-financing rate from 80 percent to 85 percent, setting the automatic decommitment rule at n+3 rather than n+2 for 2007-10 and making housing projects eligible for ERDF support). As no doubt anticipated by the Presidency, the proposals were not accepted and, indeed, generated considerable adverse comment.[22] Further concessions were made in a second UK Negotiating Box to try to bring the parties closer to agreement.[23] A final Negotiating Box was withheld until the Presidency felt that agreement could be reached.[24] This made more concessions all round. Expenditure committed under the final set of proposals was 1.0459 percent of EU GNI compared to 1.03 percent under the first UK Negotiating Box and 1.056 percent under the 17 June proposals of the Luxembourg Presidency. Also important to the final agreement were developments on the revenue side of the equation. The United Kingdom agreed to reduce the UK rebate by up to €10,500 million (an increase of €2,500 million compared to the second UK Negotiating Box) and additional concessions were made to Austria and, particularly, the Netherlands.

An overview of the Financial Perspective at key stages of the negotiations is set out in Figure 4. Compared to the benchmark provided by 2006 expenditure commitments, the initial Commission proposal involved a much enhanced budget. An increase of almost a quarter was proposed in real terms, taking commitment appropriations close to the own resources ceiling for the budget. A key feature of the negotiations was the attempt by the net contributors to stabilise average expenditure levels at around prevailing levels, a maximum 1 percent of EU GNI. Early in the debate (December 2003), the Group of Six[25] made this proposal in the joint letter to the Commission President referred to above.

[20] Ibid. The Group of Six letter is discussed further below.

[21] UK Presidency Website, European Union Financial Perspectives 2007-13, United Kingdom Presidency Negotiating Box available at http://www.eu2005.gov.uk, 5 December 2005. Although this may seem late in the day, it should be noted that the Luxembourg Presidency did not produce detailed figures until the Fourth Negotiating Box in early June.

[22] The spokesman for the Commission President (Johannes Laitenberger) commented: "You all know the old story of Robin Hood and the Sheriff of Nottingham. The President has made it very clear that he does not expect the British Presidency to take the role of the Sheriff of Nottingham, taking from the poor to give to the rich." Quoted on http://news.bbc.co.uk/1/hi/uk_politics/4488164.stm, 6 December 2005

[23] UK Presidency Website, European Union Financial Perspectives 2007-13, United Kingdom Presidency Negotiating Box available at http://www.eu2005.gov.uk, 14 December 2005

[24] Finally published as CADREFIN 268 of 19 December 2005 (15915/05).

[25] Austria, France, Germany, the Netherlands, Sweden and the United Kingdom

Thereafter, much of the debate concerned the appropriate level of expenditure, coupled with related arguments about the UK rebate, overall net balances and the need to review the future structure of the budget. While the final agreement set the budget for commitment appropriations above the 1 percent target of the Group of Six, payment appropriations were at this level while commitment appropriations in 2013 will be 1 percent of EU GNI.

Figure 4: Financial Perspective by Heading (€mn at 2004 prices)

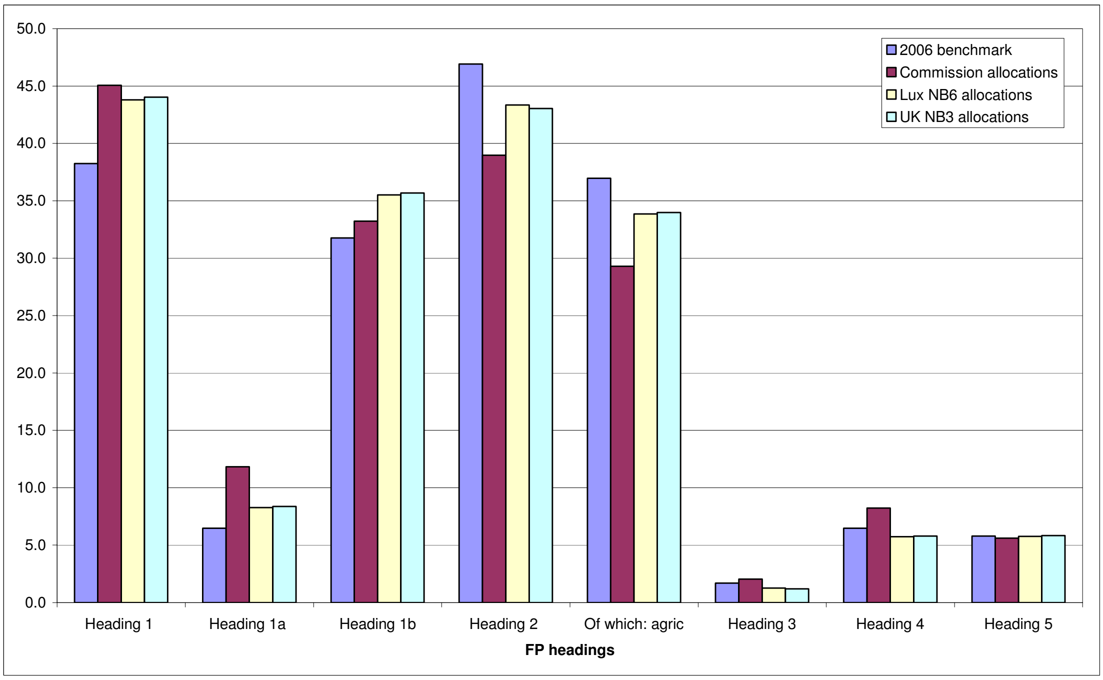
Heading	2006 bench-mark	As % EU total	COM alloc'ns	As % EU total	Lux NB6 alloc'ns	As % EU total	UK NB3 alloc'ns	As % EU total	UK NB3 as % COM	UK NB3 as % 2006
1	**316764**	**38.2**	**463256**	**45.1**	**381604**	**43.8**	**379739**	**44.0**	**82.0**	**119.9**
1a	53662	6.5	121685	11.8	72010	8.3	72120	8.4	59.3	134.4
1b	263102	31.8	341571	33.2	309594	35.5	307619	35.7	90.1	116.9
2	**388486**	**46.9**	**400679**	**39.0**	**377801**	**43.3**	**371244**	**43.0**	**92.7**	**95.6**
Of which: agric	306145	37.0	301074	29.3	295105	33.9	293105	34.0	97.4	95.7
3	**14049**	**1.7**	**20945**	**2.0**	**11000**	**1.3**	**10270**	**1.2**	**49.0**	**73.1**
4	**53613**	**6.5**	**84649**	**8.2**	**50010**	**5.7**	**50010**	**5.8**	**59.1**	**93.3**
5	**48013**	**5.8**	**57670**	**5.6**	**50300**	**5.8**	**50300**	**5.8**	**87.2**	**104.8**
Comp	7287	0.9	800	0.1	800	0.1	800	0.1	100.0	11.0
Total	**828212**	**100.0**	**1027999**	**100.0**	**871515**	**100.0**	**862363**	**100.0**	**83.9**	**104.1**
GNI	75121480		82448058		82448058		82448058			
%GNI	1.10		1.25		1.06		1.0459			

Sources: The Commission allocations and related 2006 data are drawn from Fiche 29 Rev1, as updated to take account of the latest available data, Fiche 17 and Fiche 92. The 2006 benchmark figures consist of 2006 commitment appropriations multiplied by 7. The Luxembourg Presidency figures come from CADREFIN 130 of 15 June 2005 (10090/05), as amended and the UK Presidency data from CADREFIN 268 of 19 December 2005 (15915/05)

Although the overall budget was much reduced compared to the original Commission proposal, the key expenditure headings for the net recipients held up well during the negotiations. The final Cohesion policy budget (Heading 1b) was cut by less than 10 percent compared to the overall fall in commitment appropriations of more than 16 percent. The allocations to headings of less direct benefit to net recipients - Headings 1a (Competitiveness), 3 (Internal policies) and 4 (EU as a global partner) - were reduced by between two-fifths and a half. Of the other headings, administration (Heading 5) was cut by almost 13 percent while spending on natural resources (Heading 2) fell by just over 7 percent. The agricultural component of Heading 2 was largely unchanged in line with the agreement reached at the October 2002 European Council; the decline recorded reflected the inclusion of Bulgaria and Romania within the October 2002 ceilings.

Another way of viewing the outcomes of the negotiations is to compare the final agreement with commitment allocations in 2006 (see the last column in Figure 4). This shows the most significant increases to have been under Heading 1a (Competitiveness), which grew by one-third in real terms (albeit from a low base), and Heading 1b which increased by one-sixth. In contrast, agricultural spending was cut by more than 4 percent in real terms. The relative changes experienced by the different budget headings during the negotiations are set out in Figure 5. Perhaps the most interesting feature is that, at each stage, the proportion of the budget devoted to Cohesion policy increased. This is clearly in line with Spanish interests.

Figure 5: Commitment Allocations as a percent of the EU Total



Although the agreed budget was lower than the Spanish authorities wished, its structure met many of the negotiating goals of Spain – in particular, the relative importance attached to Headings 1b (Cohesion policy) and 2 (Natural resources) which, together, account for almost 90 percent of commitment appropriations. In addition, the allocation of extra resources to Heading 3a (freedom security and justice) to finance the management of EU immigration - a proposal driven by the Spanish Prime Minister at the Hampton European Council meeting - is also expected to be of particular benefit to Spain given its close proximity to Africa and the acute immigration challenges faced over recent years. While the Competitiveness heading (1a) grew in significance relative to the 2006 benchmark position, it was much reduced from the original Commission proposal. Moreover, in line with Spain's negotiating goals, "ensuring balanced access for all Member States" was included in the allocation criteria for the EU's research efforts alongside "excellence".[26]

2.4 The negotiation process and outcomes: Cohesion policy

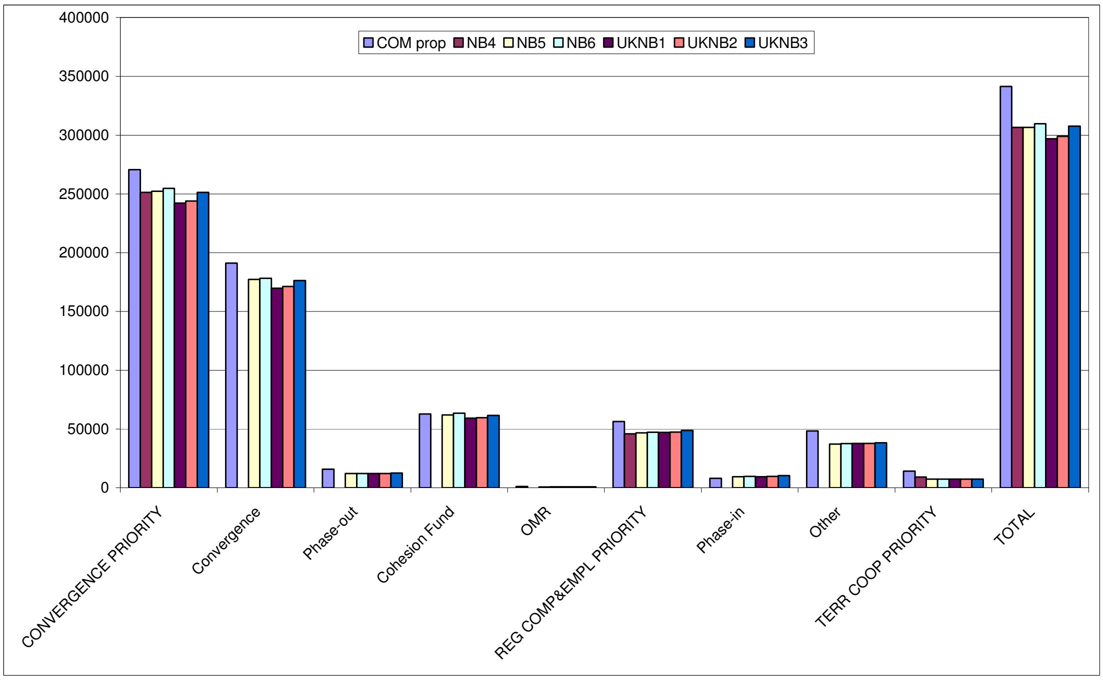
With respect to Cohesion policy, a number of key issues had to be resolved in the course of the negotiations: the allocation of funding between the Convergence priority, the Regional Competitiveness and Employment priority and the Territorial Cooperation priority; related, the split between the new Member States and the EU15 (as determined primarily by the level of absorption capping applied to the new Member States and the assumed future growth rates for these countries); the transitional provisions for regions losing their previous designated status (the Phase-out regions under the Convergence priority and the

[26] CADREFIN 268 of 19 December 2005 (15915/05), para 10.

Phase-in regions under the Regional Competitiveness and Employment priority); provisions relating to the Cohesion Fund (in particular, from a Spanish perspective, whether transitional provisions should apply to countries losing Cohesion Fund eligibility); and the treatment of special geographic areas under the Treaty – specifically, the Outermost regions (Canarias in the Spanish context) and regions of sparse population (in the Nordic Member States).

An overview of Cohesion policy commitment appropriations at different stages of the budget negotiations is provided in Figure 6.

Figure 6: Cohesion Policy Commitment Appropriations 2007-13 (€mn at 2004 prices)



It can be seen that the overall Cohesion policy budget initially fell significantly from the Commission proposal (while remaining well above 2006 benchmark levels – see Figure 4). It recovered a little in the final phase of the Luxembourg Presidency, was cut again in the first UK Negotiating Box and then rose once more as special provisions were introduced in response to country demands in the last stage of the negotiations. In global terms, there was relatively little difference between Cohesion policy funding under the fourth Luxembourg Negotiating Box (€306,508 million) and the final agreement (€307,619 million). At this level, the budget was broadly midway between the 2006 benchmark figure (around €263,000 million) and the original Commission proposal (over €341,000 million).

Figure 6 shows a similar pattern for most components of the Cohesion budget. However, a number of differential points emerge. First, while the Convergence priority (containing just under one-third of the Spanish population) suffered by far the lowest percentage fall compared to the original Commission proposal (just over 7 percent), it was the Regional Competitiveness and Employment priority (13.6 percent decline) which gained funding at virtually every subsequent stage of the negotiations; some two-fifths of the Spanish population live in regions covered by this priority. In contrast, the Territorial Cooperation budget almost halved in the course of the negotiations (to €7,500 million). Under this priority, by far the greatest stress came to be placed on cross-border cooperation. Second, funding for transitional regions proved to be relatively robust during the negotiations – especially the budget for the Phase-in regions which rose from €8,103 million in the initial Commission proposal to €10,385 million. No other component of the Cohesion policy budget increased beyond the original Commission proposal. As mentioned earlier, more than one-fifth of the Spanish population is located in this category of region (see Figure 3). Finally, Figure 6 shows that the Cohesion Fund held up well during the negotiations. This was at least in part due to the special transitional provisions gained by Spain.

In short, Spain benefited from many of the key developments during the negotiations. This is underscored in the sections which follow, where each of the main negotiation issues from a Cohesion policy perspective are considered briefly in turn. A final section (Section 2.5) draws together the important points to emerge from the viewpoint of Spain.

2.4.1 Negotiation issues: allocations by priority

A basic negotiation issue concerned the budgetary split between the Convergence, Regional Competitiveness and Employment, and Territorial Cooperation priorities. As shown in Figure 7, compared to the allocations proposed in the Third Cohesion Report in February 2004,[27] there was, initially, a significant shift away from the Regional Competitiveness and Employment heading and towards the Convergence priority. Then, as the negotiations became more intense, it was the Territorial Cooperation priority which was squeezed as countries impacted by the proposed Regional Competitiveness and Employment cutbacks sought to restore their position. Of particular note, a "safety net" was introduced such that each Member State's share of the Regional Competitiveness and Employment budget could not be less than three quarters of its 2006 share of combined Objective 2 and 3 funding.

Figure 7: Changes in the Percentage Split between Convergence Priorities

	Convergence	Regional Competitiveness and Employment	Territorial Cooperation
Third Cohesion Report (Feb 2004)	78.0	18.0	4.0
Updated COM proposal (Fiche 26REV4, 26.4.05)	79.3	16.5	4.2
NB2	81.0	15.0	4.0
NB3	82.0	15.0	3.0
NB4	82.0	15.0	3.0
NB5	82.3	15.25	2.45
NB6	82.3	15.28	2.42
UKNB1	81.6	15.9	2.5
UKNB2	81.6	15.9	2.5
UKNB3	81.7	15.8	2.4

[27] European Commission, *A New Partnership for Cohesion: convergence, competitiveness, cooperation*, Third Report on Economic and Social Cohesion, February 2004, available at http://europa.eu.int/comm/regional_policy/sources/docoffic/official/reports/cohesion3/cohesion3_en.htm

2.4.2 Negotiation issues: the absorption cap on new Member States

A related issue concerned the division of the Cohesion policy budget between the EU15 and the new Member States. Under the allocation methodology, it was the so-called Berlin method (as amended) which was the basis for the distribution of resources to the EU15. In contrast, for the new Member States, it was what became known as the absorption cap which mainly determined the resources they received. The absorption cap was originally introduced under the argument that there was a level (4 percent of GNI) beyond which it was difficult for Member States to absorb (ie effectively utilise) EU resources. The impact of the absorption cap on individual Member States varies since this is dependent on assumed future growth rates by country. However, at a more general level, the main developments are clear. As early as the first Negotiating Box, a side effect of capping was highlighted: the fact that it resulted in lower aid intensities per head for poorer Member States (contrary to the philosophy underpinning the allocation methodology). To counter this, reduced capping levels were introduced which were lower the more prosperous the Member State. Changes in these effective levels of capping are set out in Figure 8.

Figure 8: Changes in Effective Levels of Capping (as a percent of national GDP)

	Country groups (as % EU25 GNI)								
	<40	40-45	45-50	50-55	55-60	60-65	65-70	70-75	+ 5% pts
NB2	4.0	3.9	3.8	3.7	3.6	3.5	3.4	3.3	-0.1 %pt
NB3	4.0	3.9	3.9	3.8	3.7	3.6	3.5	3.4	-0.1 %pt
NB4	4.0	3.9	3.9	3.8	3.7	3.6	3.5	3.4	-0.1 %pt
NB5	4.0	3.9	3.9	3.8	3.7	3.6	3.5	3.4	-0.1 %pt
NB6	4.0	3.92	3.92	3.82	3.72	3.62	3.52	3.42	-0.1 %pt
UKNB1	3.663	3.590	3.590	3.498	3.407	3.315	3.223	3.132	-0.09 %pt
UKNB2	3.663	3.590	3.590	3.498	3.407	3.315	3.223	3.132	-0.09 %pt
UKNB3	3.7893	3.7153	3.7153	3.6188	3.5240	3.4293	3.3346	3.2398	-0.09 %pt

Apart from an adjustment between the second and third Negotiating Boxes which benefited all but the poorest new Member States (Latvia, Estonia, Lithuania), the capping percentages remained unchanged until the final Luxembourg Negotiating Box (NB6), which saw a further (minor) increase. As already noted, the UK Presidency had to reduce overall expenditure (to create budgetary space to satisfy the net contributors) whilst trying to avoid unravelling the progress made under the Luxembourg Presidency. It chose to leave EU15 allocations unchanged while cutting back on new Member State receipts via an 8.4 percent reduction in effective capping levels (see Figure 8). By way of compensation, and as mentioned earlier, a series of changes were made to ease the absorption of Cohesion policy funding in the new Member States: co-financing rates were increased from 80 to 85 percent, the automatic n+2 decommitment rule became n+3 for 2007 until 2010, and housing projects became eligible for ERDF support. However, these "off-budget" concessions were not sufficient to satisfy the new Member States. Accordingly, the second UK Negotiating Box not only introduced a further easing of regulatory provisions,[28] but also made specific additional Cohesion policy provision for Poland, Hungary, the Czech Republic, Estonia and Latvia, while Slovakia and Lithuania received extra funding towards nuclear

[28] By allowing poorer Member States to count non-reimbursable VAT as eligible expenditure when calculating Member State contributions

decommissioning costs.[29] Finally, in the last UK Negotiating Box, effective capping levels were increased by 3.4 percent, reducing the capping-related cutback to just over 5 percent of the final Luxembourg Presidency proposal (see Figure 8). In addition, to achieve the agreement of all the new Member States, further additional support was provided to Poland (including a transfer of €100 million from Germany).

2.4.3 *Negotiation issues: regions in transition*

Another important topic in the negotiations related to the treatment of so-called transitional regions – those areas losing their former designated status. The question was raised as early as the first Negotiating Box as to whether the proposed arrangements for transitional regions (Phase-out and Phase-in) "constitute an adequate response to the issue of transition".[30] This issue was taken forward in the second Negotiating Box, with significant extra provision being made for those Member States (Greece and Germany) where at least one third of the national population was located in Phase-out regions. In the same Negotiating Box, Spain benefited directly from the decision to provide transitional support for countries losing their Cohesion Fund status due to the statistical effect (discussed further below). Over subsequent Negotiating Boxes, the allocations to Phase-out and Phase-in regions were refined and were made explicit from the fifth Luxembourg Negotiating Box onwards (see Figure 9). The increases recorded in these later stages of the negotiations mainly reflect additional provisions made to Member States outside the standard allocation formulae. Thus, for instance, in the final UK Negotiating Box, additional funding of €1,400 million was made available to Italy (of which €111 million related to Phase-out regions and €251 million to Phase-in regions), €2,000 million to Spain (of which €75 million was indicatively allocated to Phase-out and €75 million to Phase-in) and €225 million to Germany (of which €58 million was Phase-out support). These three countries thus accounted for all but €75 million of the additional Phase-out support recorded in Figure 9.[31]

Figure 9: Changes in Phase-Out and Phase-In Funding

	Phase-Out (€mn)	Phase-Out (% Convergence funding)	Phase-In (€mn)	Phase-In (% Regional Comp/Empl funding)
NB5	12,202	4.84	9,494	20.30
NB6	12,202	4.79	9,695	20.49
UKNB1	12.200	5.04	9,500	20.13
UKNB2	12,202	5.00	9,688	20.39
UKNB3	12,521	4.98	10,385	21.29

Note: The figures in the first UK Negotiating Box (UKNB1) were in billions to one decimal point

[29] Cyprus and Malta also benefited from specific features of the allocation methodology (see para 47 and para 32(1) of the final Negotiating Box). Only Slovenia was left out. However, Slovenia was anyway inclined to accept the proposals since it would have suffered significantly had agreement been delayed and a later dataset been used.

[30] CADREFIN 43 of 8 March 2005, para 33.

[31] Of the remaining €75 million, €50 million probably relates to additional funding for Ceuta and Melilla, though this was gained under the second UK Negotiating Box.

2.4.4 Negotiation issues: Cohesion Fund transitional provisions

As already mentioned, Spain benefited significantly (and exclusively) from the special transitional provisions agreed to help countries "phase-out" from the Cohesion Fund. There was no precedent for such an approach; Ireland lost Cohesion Fund status at the end of 2003 without any phase-out period. On the other hand, the introduction of transitional provisions took cognisance of the fact that the Spanish loss of eligibility was not due to growth *per se* but rather was attributable to the statistical effects of enlargement.

The proposal that there should be transitional provisions for the Cohesion Fund was introduced as early as the second Negotiating Box. By the fifth Negotiating Box, the proposal was for a two-year transition, involving funding for Spain of €2,000 million, €1,200 million in 2007 and €800 million in 2008. However, in the final hours of the Luxembourg Presidency, this was pushed up to €2,800 million, spread over four years. The UK Presidency saw a further €450 million allocated. This took the total transitional allocation to €3,250 million, covering the full 2007-13 period: €1,200 million in 2007; €850 million in 2008; €500 million in 2009; €250 million in 2010; €200 million in 2011; €150 million in 2012; and €100 million in 2013. This was a very significant allocation, representing around 10 percent of the final Cohesion policy budget for Spain.

2.4.5 Negotiation issues: regions with specific characteristics

There were two other aspects of the Cohesion policy negotiations which were of particular interest to Spain. One concerned the treatment of the Outermost regions (in the Spanish context, Canarias). As "regions with specific characteristics recognised under the Treaties",[32] the Outermost regions were grouped together for negotiation purposes with the sparsely-populated areas of Finland and Sweden. It was under the third Negotiating Box that specific additional provision was first made for such regions. The initial proposal was that additional funding should be provided to the value of €20 per inhabitant per year – worth €248.7 million to Canarias over the 2007-13 period. The rate of provision was subsequently raised to €30 per inhabitant per year in the fifth Negotiating Box (worth €374.5 million)[33] and €35 per inhabitant per year in the sixth Negotiating Box (€436.9 million).[34] Canarias also benefited from further additional provision (€100 million) under the final Negotiating Box of the Luxembourg Presidency. In total, the extra €536.9 million awarded represented an increase of almost three-quarters in the Regional Competitiveness allocation to Canarias; however, this leaves per capita aid levels for Canarias at only a little over half Convergence region levels.

2.4.6 Negotiation issues: additional provisions

The last Cohesion policy element of the negotiations involved a series of so-called "additional provisions". These were introduced because the general nature of the

[32] CADREFIN 108 of 19 May 2005, paras 32 and 33

[33] CADREFIN 130 of 15 June 2005, para 44

[34] Addendum to CADREFIN 130 of 17 June 2005, para 44

allocation methodology did "not allow an adequate response to a number of objective situations",[35] thus leading to the special treatment of certain regions and countries. Such provisions were part of the process of trying to ensure that all Member States were in a position to sign up to the negotiated agreement. They first appeared as a separate heading in the fifth Luxembourg Negotiating Box, increased by over €520 million in the final June Negotiating Box and rose significantly in both the second and third UK Negotiating Boxes (by €1,350 million and €4,077 million respectively - see Figure 10). From the fifth Luxembourg Negotiating Box to the final UK proposal, they grew by over €7,000 million as the respective Presidencies strove to achieve an agreed solution.

In discussing the additional provisions, it should be noted that there is a degree of arbitrariness surrounding whether particular "additions" are classified as being distinct from the general allocation mechanism. Thus, for instance, the transitional provisions relating to the Cohesion Fund (which, as has been noted, were not part of the traditional allocation mechanism and are of specific benefit to Spain) are not incorporated within the "additional provisions" heading. On the other hand, a number of other transition-related adjustments *are* included: the enhanced treatment accorded to Member States with at least one-third of their population in Phase-out regions (para 44);[36] the treatment of regions which qualify for transitional support but which were not eligible for 2000-06 Objective 1 funding (para 45); the treatment of Cyprus, which was not an Objective 1 region from 2004-06 but which would have been had revised data been used (para 47); and the treatment of Itä-Suomi and Madeira as if they were Phase-out regions when they have Phase-in status (para 48). In similar vein, the provision to increase funding under the Territorial Cooperation priority by 50 percent for regions formerly on external borders (EU15/EU12) or on EU25/EU2 borders (para 51) covers a number of countries and could equally be viewed as part of the allocation method for the Territorial Cooperation priority.

Focusing on those additional provisions which can be readily quantified (see Figure 10), it can be seen that Spain benefited significantly. As already discussed, there was additional funding for Canarias of €100 million (under para 49); the already-mentioned provision for the Outermost regions, worth €436.9 million to Canarias (para 50); the previously-noted additional allocation of €2,000 million under the ERDF to enhance Spanish R&D provision (para 54 bis); and a further €50 million for Ceuta and Melilla (para 54 ter). These additions total €2,586.9 million, more than 36 percent of the total quantified additional provisions (€7,006.9 million). Having said that, there were other country-specific additions from which Spain did not benefit – including €4,070 million under the rural development heading and €755 million (plus reduced rates of VAT call) on the revenue side of the budget. Even so, once such additional allocations are taken into account, Spain still did well in terms of those additional provisions which can be quantified, receiving more than one-fifth of the country-specific additions. In addition, the transitional provisions relating to the Cohesion Fund were clearly of major benefit to Spain.

[35] CADREFIN 268 of 19 December 2005, para 43

[36] In practice, Germany and Greece

Figure 10: Changing Value of Additional Provisions between NB5 and UKNB3 (€mn)

UKNB3 para	Beneficiary	NB5	NB6	UKNB1	UKNB2	UKNB3
44	Germany	n.a.				
44	Greece	n.a.				
45	Transitional areas	n.a.				
46	Poland	114.2	114.2	114.2	1084.7	1221.7
46 bis	Hungary				n.a.	140.0
46 ter	Czech Republic				200.0	200.0
47	Cyprus	n.a.				
48	Finland	n.a.				
48	Portugal	n.a.				
49	**Spain**		**100.0**	**100.0**	**100.0**	**100.0**
50	**Spain**	**374.5**	**436.9**	**436.9**	**436.9**	**436.9**
50	Finland	164.4	191.8	191.8	191.8	191.8
50	Sweden	203.2	237.1	237.1	237.1	237.1
51	Border regions	n.a.				
52	Ireland	100.0	100.0	100.0	100.0	100.0
52	UK	100.0	100.0	100.0	100.0	100.0
53	Sweden		150.0	150.0	150.0	150.0
53 bis	Estonia				47.6	47.6
53 bis	Latvia				81.9	81.9
54	Austria		150.0	150.0	150.0	150.0
54	Germany					75.0
54 bis	**Spain**					**2000.0**
54 ter	**Spain**				**50.0**	**50.0**
54 quarter	Italy					1400.0
54 quinto	France					100.0
54 sexto	Germany					225.0
Total	**Total**	**1056.2**	**1579.9**	**1579.9**	**2929.9**	**7006.9**
Total	**Spain**	**374.5**	**536.9**	**536.9**	**586.9**	**2586.9**
Increase	**Total**	**1056.2**	**523.7**	**0.0**	**1350.0**	**4077.1**
Increase	**Spain**	**374.5**	**162.4**	**0.0**	**50.0**	**2000.0**

Notes: The focus is on the changes introduced between the fifth Luxembourg Negotiating Box and the third UK Negotiating Box. For those entries where the value of the concession is not made explicit in the Negotiating Box (n.a. in the table), there was no subsequent change to the value of the concession (except under para 46 bis). It should be noted that the above table does not list all of the concessions made in the final stages of the negotiations. There were also rural development "add-ons" (under para 63), which totalled €4,070 million, and own resources "add-ons" (under para 78) which, in addition to reduced VAT calls, benefited the Netherlands to the tune of €605 million and Sweden to the value of €150 million.

2.5 Implications for Spain

The basic conclusion arising from the above review must be that, set alongside its original negotiating goals (see Section 2.1), the outcome of the Cohesion policy budget negotiations was positive for Spain. It certainly managed to meet many of its objectives. Above all, Spain achieved very significant transitional support (€3,250 million) following the loss of eligibility for the Cohesion Fund, with the negotiated transitional phase extending over the entire 2007-13 period. In addition, while it did not meet its goal of Phase-out regions being treated similarly to Convergence regions,[37] it did achieve a significant increase in the Phase-in budget, taking it well above the original Commission proposal. More than one-fifth of the Spanish population fits within the Phase-in category.[38] Spain also managed to ensure

[37] Specific extra provision was limited to countries where Phase-out regions made up more than one third of the national population (compared to just 6 percent in Spain). On the other hand, it is of note that this concession was made at the same time as transitional Cohesion Fund support was made available to Spain.

[38] On the other hand, it could not achieve Phase-in status for Cantabria given its growth performance.

that the Regional Competitiveness and Employment priority was retained at a reasonable level of funding in the face of the negotiating stance of some countries that resources should focus exclusively on poor countries and/or regions. With regard to Canarias, extra support worth €536.9 million was won. Spain also gained specific extra provision for Ceuta and Melilla (€50 million). Finally, not only did Spain mange to ensure that there was at least an element of "balanced access" to Competitiveness funding (under EU budget heading 1a), but it also gained major Cohesion policy support for Spanish R&D (€2,000 million).

On the other hand, it is clear that the overall Cohesion policy budget flowing to Spain will be much reduced from 2000-06 levels. The next section considers future Spanish Cohesion policy funding in more detail, comparing it in particular to current allocations.

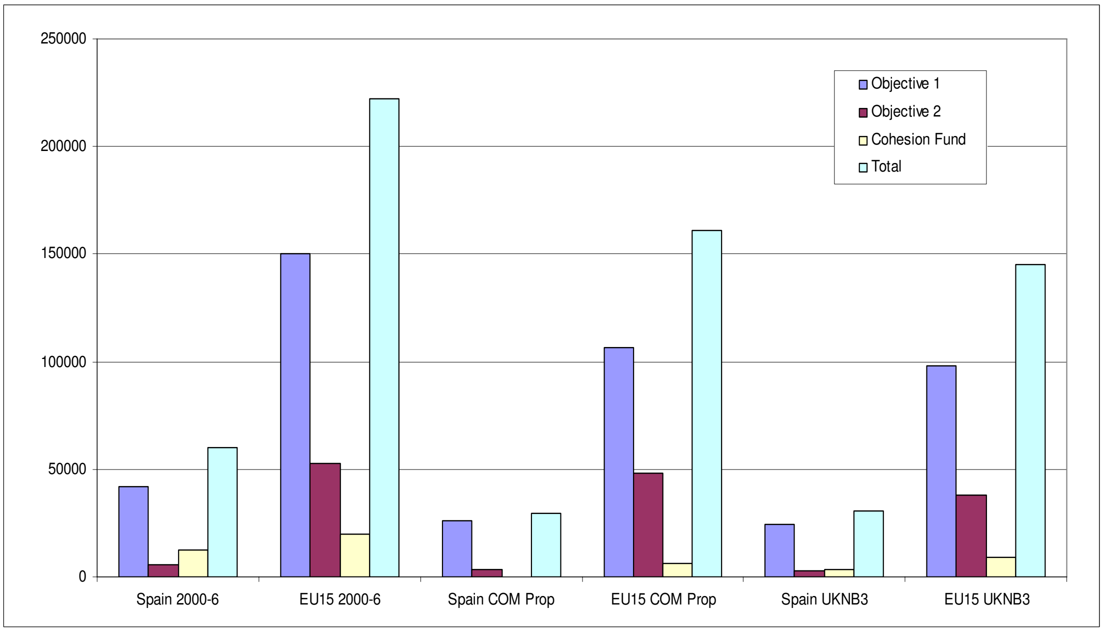
3. COHESION POLICY – NATIONAL AND REGIONAL OUTCOMES

As already discussed, the financial implications for Spain of the reform of Cohesion policy post-2006 flow from two main factors: first, changes in eligibility for Cohesion policy support, which are partly, but not entirely, due to enlargement and shifting EU averages; and second, changes in the overall budget allocation and the architecture of the reform. This section begins by looking at the *national level* implications of Cohesion policy reform before considering the implications for the *regional level* in those areas of policy where financial allocations are disaggregated. In both cases, it compares the outcome of the 1999 Berlin European Council with the third UK Negotiating Box (UKNB3) and, at the national level, with the Commission proposals (COM prop).

3.1 Overall Cohesion policy allocations

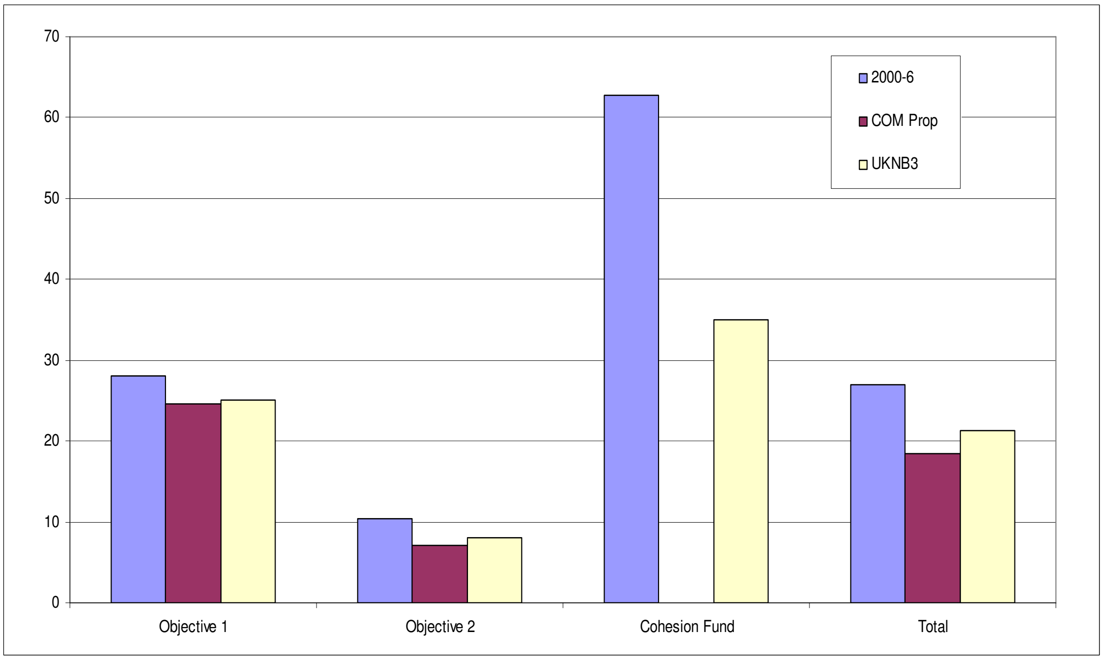
As noted earlier (see Figure 2), Spain was the single largest beneficiary of the structural actions budget in the 2000-06 Cohesion policy planning period, accounting for almost 27 percent of total commitment appropriations. The different architecture proposed for Cohesion policy in 2007-13 complicates direct comparisons with 2000-06. However, setting the new structure aside and grouping spending in various categories, a clear picture of the significance for Spain of the new proposals can be obtained. This is illustrated in Figure 11 which covers just the EU15 Member States. For Spain, it can be seen that there is a sharp decline in commitment appropriations in each category of expenditure. On the other hand, and as already discussed, in the course of the negotiations, Spain managed to maintain (and indeed increase) its overall level of funding (compared to the original Commission proposal) – and this despite significant cutbacks in funding flows to the EU15 as a whole.

Figure 11: Impact of COM Proposals and UKNB3 on Commitment Appropriations for Spain (€m, 2004 prices)



Notes: (i) For the 2000-06 period, spending has been grouped as follows: Objective 1 includes Objective 1 Phase-out; Objective 2 includes Objective 2 Phase-out, Objective 3 and FIFG outside Objective 1 (see Figure 2); **(ii)** For the 2007-13 proposals, Objective 1 includes Phase-out, Phase-in and OMRs (Outermost regions); **(iii)** Community Initiatives (2000-06) and the Cooperation priority (2007-13) are excluded from these figures.
Source: EPRC calculations from Eurostat data, data on Inforegio and RAPID release IP/99/442

Figure 12: Spanish Share of Cohesion Commitment Appropriations (% of EU15 total)



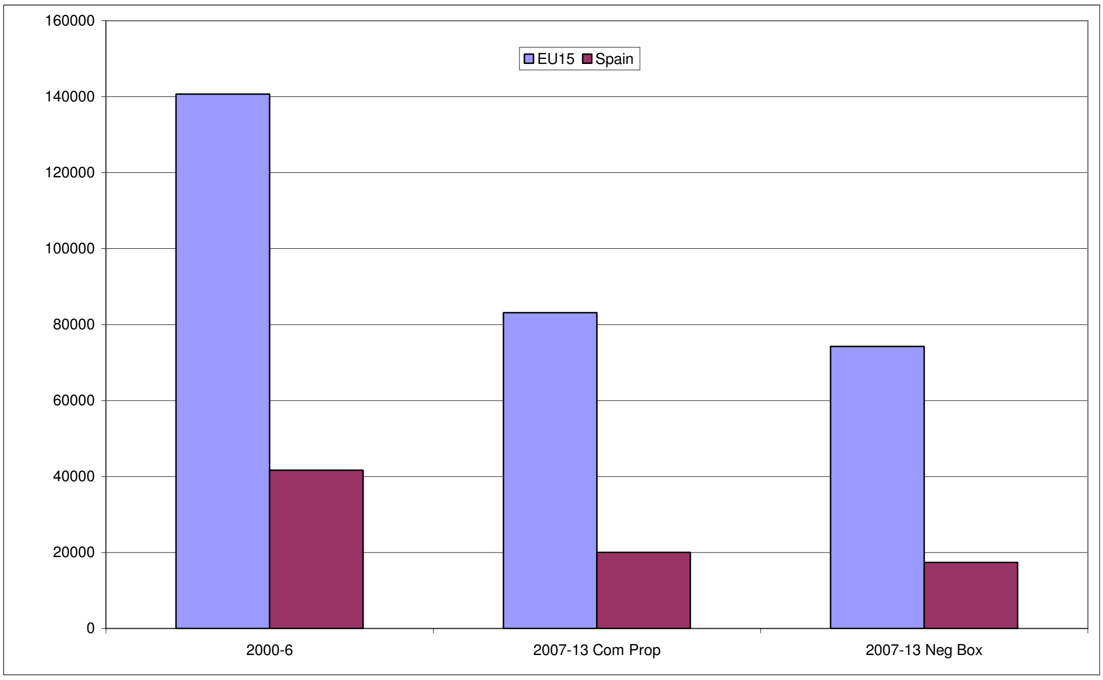
Source: EPRC calculations from Eurostat data, data on Inforegio and RAPID release IP/99/442

Figure 11 shows that the proposed allocation to Spain fell significantly in absolute terms – from around €60 billion (2004 prices) in 2000-06 to under €30 billion under the Commission proposal (but over €30 billion under UKNB3). It also fell in relative terms. Expressed as a proportion of the EU15 commitment allocations, Spain will receive a significant reduction in its share of overall EU15 funding compared to the 2000-06 period (see Figure 12). Against this, it can be seen that, in the course of the negotiations, Spain managed to increase its funding share to more than one-fifth of the EU15 total.

3.2 Objective 1 / Convergence

As discussed in the context of Figure 3, one of the main reasons for the scale of the impact on Spanish commitment appropriations concerns changes in the eligibility of the Spanish regions for Convergence support, due both to enlargement and the growth of the Spanish economy. Less than one-third of the Spanish population is now located in regions qualifying for full Convergence status, compared to almost three-fifths for the 2000-06 period. Related, transitional status has become important for Spain, with almost 6 percent of the population in Phase-out regions and over one-fifth in Phase-in regions. Because of the changes in eligibility and the impact of enlargement, comparisons between the 2000-06 period and the outcomes under UKNB3 for 2007-13 are not straightforward. Nevertheless, it is clear that, within the EU15, the new proposals (both COM prop and UKNB3) involve a significant reduction in Convergence funding. The Spanish share in total EU15 Convergence funding is estimated to fall from over 29 percent in 2000-06 to around 24 percent under UKNB3 (see Figure 13).

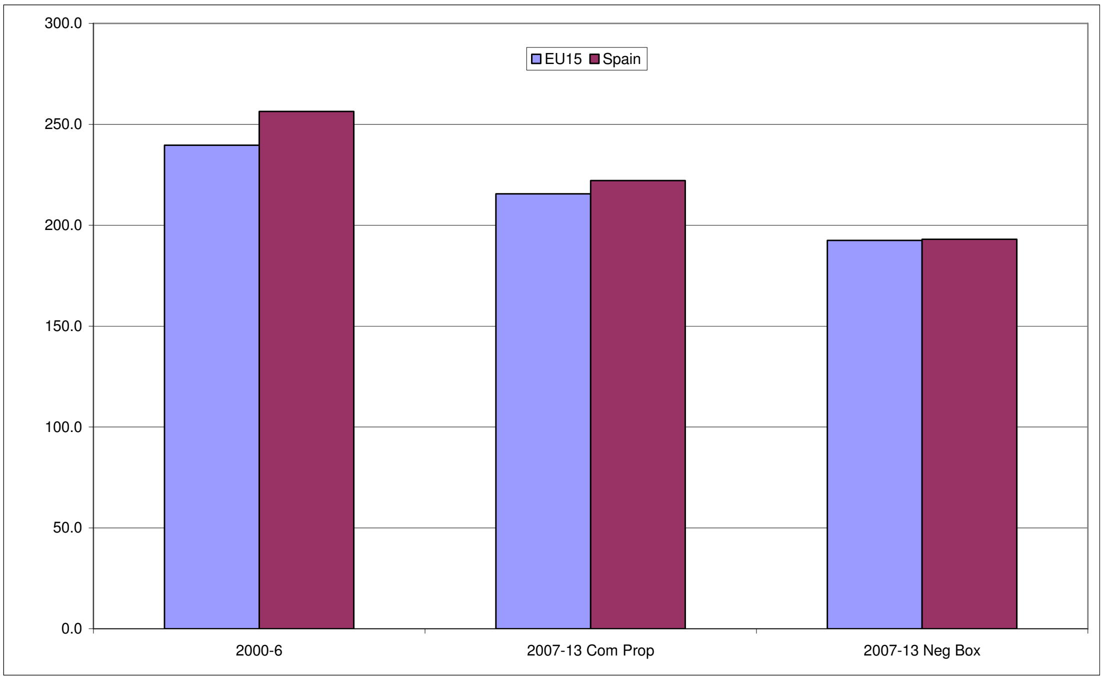
Figure 13: Implications for EU15 Convergence Region Total Allocations (€m, 2004 prices)



Source: EPRC calculations

The reforms introduced in respect of EU Cohesion policy also imply a decline in aid to Convergence regions measured in *per capita* terms (see Figure 14). This reduction is much less marked than that in the overall budget allocations. Spain continues to receive a higher per capita allocation than the EU15 average.

Figure 14: Implications for Convergence Regions - Per Capita Annual Allocations (€, 2004 prices)



Source: EPRC calculations

3.3 Cohesion Fund

Another key element from the Spanish perspective concerns eligibility for the Cohesion Fund. The Cohesion Fund contributes to the Convergence priority under the new architecture. Eligibility for the Cohesion Fund is defined in Article 5(3) of the draft Regulation as concerning Member States whose per capita Gross National Income (GNI), measured in purchasing power parities and calculated for the last three years available, is less than 90 percent of the Community average, and which have a programme for meeting the economic convergence conditions referred to in Article 104.

Figure 15: GNI (PPS) Per Head 2001-03 (EU25=100)

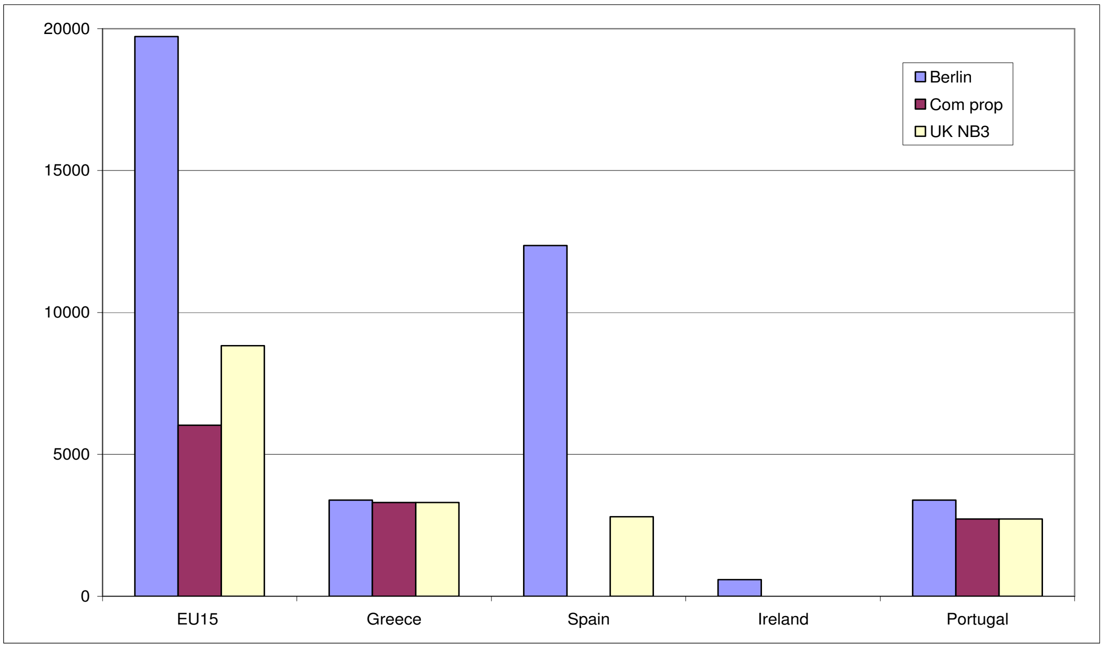
Eligible Member States		Ineligible Member States	
Latvia	38.6	**Spain**	93.3
Estonia	41.5	**Italy**	107.8
Lithuania	42.9	**Germany**	109.2
Poland	45.7	**Ireland**	110.5
Slovakia	50.9	**Finland**	112.0
Hungary	55.6	**Sweden**	115.1
Czech Republic	65.1	**France**	115.5
Malta	71.2	**Belgium**	119.5
Portugal	75.2	**United Kingdom**	119.6
Slovenia	76.1	**Netherlands**	120.2
Greece	77.3	**Austria**	120.8
Cyprus	85.4	**Denmark**	122.7
		Luxembourg	190.9

Source: EPRC calculations from DG ECFIN AMECO database.

The current recipients of the Cohesion Fund are Greece, Portugal and Spain, together with all of the new Member States (with effect from 2004). Ireland ceased to be eligible at the end of 2003 following the mid-term review. Using GNI data for 2001-03, Figure 15 lists the GNI per head figures for Member States relative to the EU25 average. The table makes clear that all of new Member States, plus Greece and Portugal, would qualify for the Cohesion Fund post-2006, but that Spain would cease to be eligible.

As discussed earlier, the initial Commission proposal did not include any transitional arrangements for the Cohesion Fund. This was a key element in the Spanish position on the reforms and, as discussed in the last section, ultimately resulted in special phase-out provisions being made for Spain. The implications for Spain of the reform proposals for the Cohesion Fund are illustrated in Figure 16. This shows a dramatic shift in the Spanish situation: from having been the main beneficiary in 2000-06, no allocation was initially proposed by the Commission. Transitional arrangements were sought and, as already discussed, resulted in funding of €3.25 billion (compared with over €12.3 billion in 2000-06).

Figure 16: Implications for Cohesion Fund Total Allocations (€m, 2004 prices)



Source: EPRC calculations

3.4 Outermost regions

Reflecting the changes to the Treaty regarding the Outermost regions (OMRs), the draft Structural Funds Regulation provides for a special budget line for the seven regions concerned; there was no such special treatment in the 2000-06 period. In the Spanish context only Canarias is designated as an Outermost region.

The allocation for the Outermost regions was around €1100 million for 2007-13 under the Commission proposal, of which about €493 million was for Spain. During the negotiations, these allocations fell to around €983 million and €437 million respectively. In addition, however, a sum of €100 million was allocated specifically to Canarias, although the budget line was not specified. Taking the OMR and the Phase-in allocations together, the allocation for Canarias is about 50 percent more in per head terms as for the other Phase-in regions (Castilla-León and Valencia).

3.5 Regional Competitiveness and Employment

The Regional Competitiveness and Employment Objective contains two strands: Phase-in regions (former Objective 1 regions now above the 75 percent threshold even without the statistical effect); and Regional Competitiveness and Employment regions (all regions not classified under the Convergence, Phase-out and Phase-in headings). For 2000-06, Objective 2 is targeted at areas of industrial, rural or urban change. Objective 3 is not strictly a spatial objective, but rather channels European Social Fund (ESF) monies to all regions not covered by Objective 1 (in Objective 1 areas, ESF monies are incorporated into the overall programmes). By contrast, for 2007-13, it is proposed to abandon spatial targeting of the Objective 2 type in favour of a more thematic, all-region approach. In looking at 2007-13, a key point is that Spain is the single largest beneficiary of Phase-in status, accounting for over 45 percent of the EU population falling into this category (see Figure 17).

Figure 17: Objective 2/3 and Competitiveness & Employment Coverage (% of population)

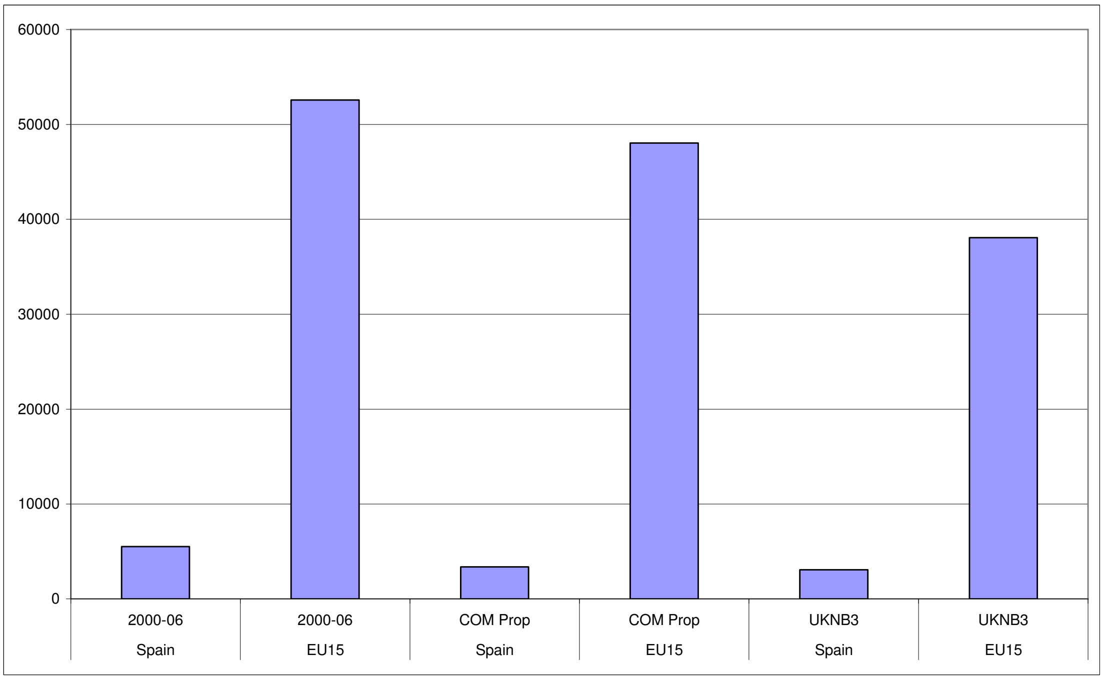
	2000-6		2007-13	
	Objective 2	**Objective 3**	**Phase-in**	**Competitiveness & Employment**
EU25	15	62.6	4.0	65.1
EU15	18	74.1	4.1	77.1
NMS10	0.9	3.3	3.8	3.3
Belgium	12	87.3		87.6
Czech Rep	3.5	11.4		11.4
Denmark	10	100		100
Germany	13	81.1		81.4
Estonia				
Greece			7.8	0.1
Spain	22	40.2	20.7	41.7
France	31	95.4		97.1
Ireland			26.5	73.5
Italy	13	65.8	2.9	66.9
Cyprus	30	100		100
Latvia				
Lithuania				
Luxembourg	23	100		100
Hungary			27.8	
Malta				
Netherlands	15	98.2		100
Austria	25	96.6		96.6
Poland				
Portugal			2.3	26.1
Slovenia				
Slovak Rep	3.3	11.1		11.1
Finland	31	79	13.0	87
Sweden	14	89		100
UK	24	87.9	4.4	91

Note: Objective 3 covers all areas, except those covered by Objective 1.
Source: Inforegio; EPRC calculations from Eurostat data.

However, it is not strictly relevant to compare Phase-in funding with past Objective 2 and 3 funding since, as discussed earlier, the areas concerned are transitional areas previously covered by Objective 1.

In 2000-06, Objective 2 regions were selected by the Member States in cooperation with the European Commission, subject to a national quota – in the Spanish case around 22 percent of the population (8.8 million inhabitants). Regarding Regional Competitiveness and Employment regions, the key difference for the 2007-13 period is that assistance will not be limited to designated areas but, instead, will be allocated on a thematic basis. In effect, this means that the eligible areas will rise from 22 percent of the population under Objective 2 to 41.7 percent under the Regional Competitiveness and Employment Objective. Clearly this complicates any attempts to compare allocations between the two periods. Nevertheless, combining Objective 2 and 3 funding for 2000-06 and comparing this with 2007-13 shows a clear decline in funding in the course of the negotiations (see Figure 18). EPRC calculations suggest that Spain's share of EU15 Objective 2/3 funding would fall from around 10.5 percent in 2000-06 to around 8 percent in 2007-13 (slightly above the Spanish share under the Commission proposal - 7 percent); this reflects the effective extension of eligibility for Regional Competitiveness and Employment funding to all areas not classed as Convergence, Phase-out or Phase-in regions.

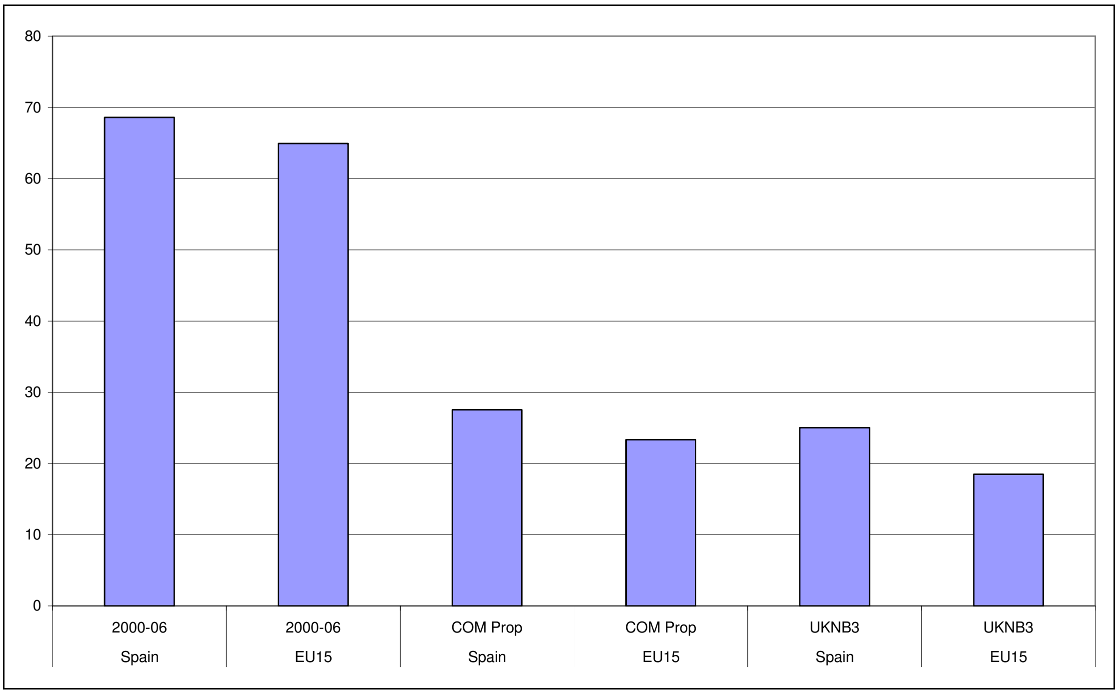
Figure 18: Objective 2/3 and Competitiveness & Employment Funding (€m, 2004 prices)



Source: EPRC calculations

Partly because of this extension in coverage, changes in aid intensity are difficult to compare between the funding periods; in practice, the allocation to any given area will depend on decisions about thematic and/or spatial priorities. However, an overall measure of the impact of change – and the potential dilution of funding - can be drawn by taking account of Objective 2 and 3 allocations in Objective 2 areas (ie. setting aside Objective 3 allocations made to non-assisted areas) and comparing these with the Regional Competitiveness and Employment allocations. This is done in Figure 19.

Figure 19: Aid per head per annum under Objective 2 and the Regional Competitiveness & Employment Objective (€, 2004 prices)



Note: The 2000-06 figure includes Objective 3 allocations to Objective 2 regions, but not those made elsewhere.

3.6 Regional-level implications of Cohesion policy reform

Turning to the sub-national level, the overall fall in Convergence allocations to Spain is closely related to the changing eligibility of the Spanish regions for Cohesion policy support. As can be seen from Figure 20, only four of the current 12 Objective 1 regions (Galicia, Castilla-La Mancha, Extremadura and Andalucía) will retain Convergence region status. Of the other current full Objective 1 regions, four are due to be classified as Phase-out regions (Asturias, Región de Murcia, Ceuta and Melilla) and two as Phase-in regions (Castilla-León and Valencia) while, despite being a Phase-in region, Canarias will receive significant extra funding due to its Outermost region status.

It is not possible to determine the ultimate impact of the above changes in eligibility and allocations on the funding provision for individual regions. The main reason for this is that there is not a direct relationship between the Berlin funding methodology and levels of support distributed to the regions, notwithstanding the fact that the Berlin methodology for the allocation of Objective 1 support is determined 'bottom up' on the basis of NUTS II disparities in GDP per head and unemployment rates. The lack of a direct relationship partly reflects the operation of multi-regional programmes and partly national government decisions on the distribution of funds. These arrangements are defended by the central government on the grounds that the internal distribution of funding is largely a Member State responsibility (the Commission's allocations are only "indicative") and also because it has important competencies in policy areas within the remit of Cohesion policy. Moreover, as the Structural Funds represent only one of the instruments within the overall architecture of central government investment activity in the regions (others include the Inter-Territorial Compensation Fund, domestic regionalised or non-regionalised sectoral investments, and investment from other public sector agencies/bodies), the national view is that it is the aggregate "policy-mix" that should guide decisions over redistributive outcomes rather than a strict adherence to EU funding formulae under a single instrument.[39]

Nevertheless, because of the 'bottom-up' nature of the funding formulae, it is possible to establish the *theoretical* allocations to each region for 2007-13 and to compare these with the *theoretical* allocations under the Berlin formula in 1999 and the actual allocations for the 2000-06 period. The theoretical allocations should be treated with caution since they do not represent *actual* outcomes; however, they do illustrate the impact of changes in eligibility and prosperity, as well as negotiating prowess, on the distribution of funding.

Figure 20: Changes in Objective 1 Status 2000-06 / 2007-13

	2000-6	**2007-13**
Andalucía	Objective 1	Convergence
Castilla-La Mancha	Objective 1	Convergence
Extremadura	Objective 1	Convergence
Galicia	Objective 1	Convergence
Asturias	Objective 1	Phase-out
Murcia	Objective 1	Phase-out
Ceuta	Objective 1	Phase-out
Melilla	Objective 1	Phase-out
Castilla y León	Objective 1	Phase-in
Valencia	Objective 1	Phase-in
Canarias	Objective 1	Phase-in; OMR
Cantabria	Objective 1 phasing-out	Competitiveness & Employment

Source: Inforegio and FP Working Document Fiche 57, Rev 4.

3.6.1 Convergence regions

The discussion that follows focuses on the theoretical funding allocation to current Objective 1 regions in Spain, set in the context of actual funding allocations for 2000-06. As already mentioned, these regions account for just over 58 percent of the Spanish population and almost 70 percent of Spanish commitment appropriations for 2000-06. A further 20 percent is accounted for by the Cohesion Fund, but as this is not explicitly regionalised, it is not possible to draw conclusions for the regions about changes in the Cohesion Fund allocation.

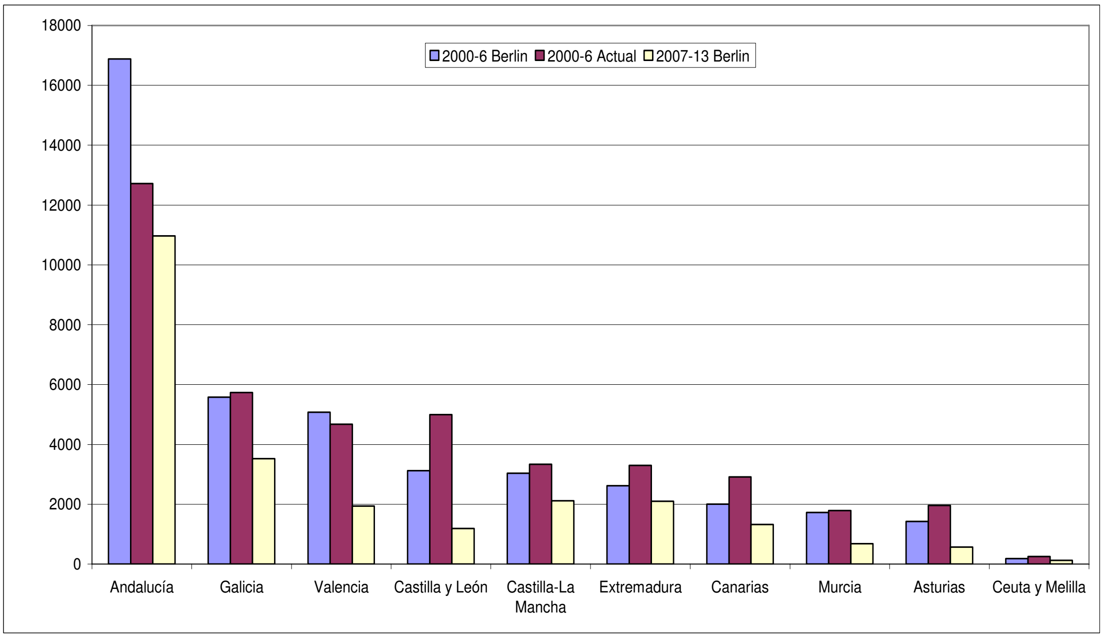
A key point to note is that the overall decline in funding in Spain derives from a fall in Convergence funding which is, itself, largely a product of the relative improvement in prosperity of the Spanish regions. As such, all the current Objective 1 regions see a significant decline in their allocations under the formula for 2007-13 (see Figure 21). It is of

[39] This view is also supported by the current government. See the intervention by Pedro Solbes in the parliamentary committee for Economy and Finance, 24 April 2006.

note that there is a large degree of variation depending on whether the calculations are based on 2000-06 Berlin-method allocations or actual allocations.

Under the 2000-06 Berlin methodology scenario, most regions fall into one of two groups: those where the decline in allocations is around 60 percent – Valencia, Castilla-León, Murcia and Asturias; and those where the reduction is around 30 to 35 percent – Andalucía, Galicia, Castilla-La Mancha, Canarias and Ceuta and Melilla. The impact of the special additions in mitigating the reduced allocations to Canarias and Ceuta and Melilla is clear from these groupings – their reductions have been pegged at the levels of those applicable to most Convergence regions. The region of Extremadura would see a theoretical reduction of less than 20 percent in the budget allocation. This reflects its relatively poor performance in terms of GDP per head: for example, for 1994-96, GDP(PPS) per head stood at 55 percent of the *EU15* average; for 2000-02, the equivalent figure is 59 percent of the *EU25* average – a significant relative decline. The corresponding figures for Andalucía are 57 percent of the EU15 average for 1994-96 and 69 percent of the EU25 average for 2000-02.

Figure 21: Allocations to Objective 1 Regions 2000-06 and 2007-13 (€m, 2004 prices)

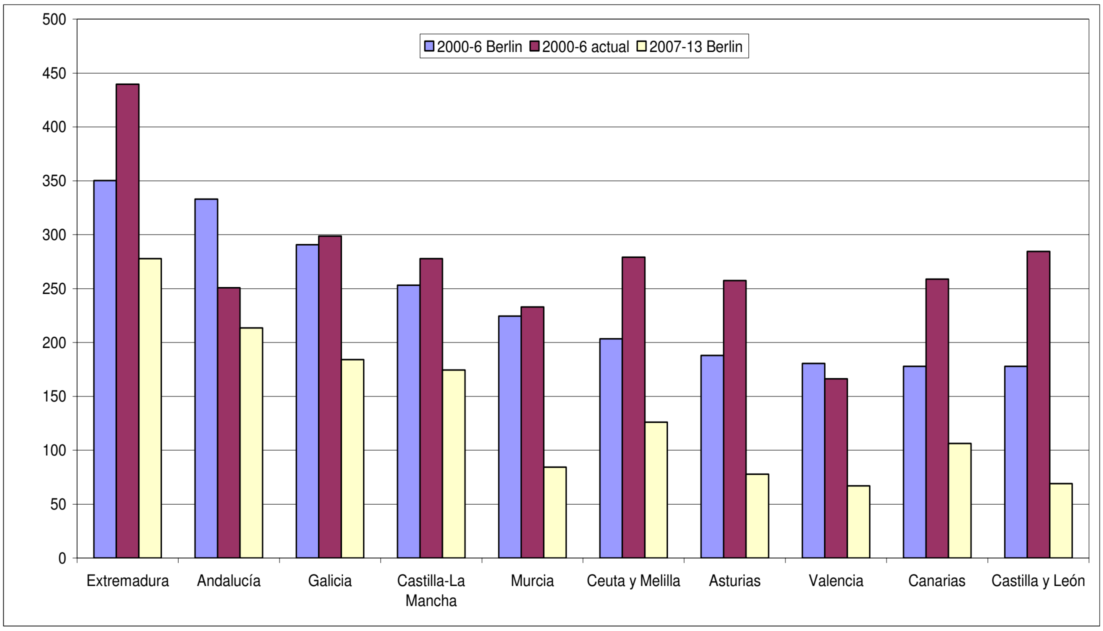


Source: EPRC calculations and Marco Comunitario de Apoyo (2000-2006) para las Regiones Españolas del Objetivo 1.

The magnitude of decline for individual regions is significantly different when the theoretical allocations for 2007-13 are compared with the *actual* regional allocations for 2000-06, particularly in the cases of Andalucia, Asturias, Castilla-León, Extremadura, Canarias and Ceuta and Melilla. Under this scenario, three main groups can be identified: Extremadura, Castilla La Mancha and Galicia (where the decline is around 35-40 percent), Ceuta and Melilla, Canarias, Valencia and Murcia (where the range is from 50 to over 60 percent) and Asturias and Castilla-León (with falls of 70-75 percent). In contrast to the previous scenario, it is now the region of Andalucía which sees the lowest theoretical fall (around 15%), reflecting the significantly lower actual allocation in 2000-06 compared to the Berlin methodology allocation - and this despite its relatively strong growth performance over the period.

This pictured is mirrored in the per capita allocations illustrated in Figure 22. This figure also throws into relief the impact of the special pleading made in the budget negotiations for Ceuta and Melilla and Canarias.

Figure 22: Per Capita Annual Allocations to Objective 1 Regions 2000-06 and 2007-13 (€m, 2004 prices)

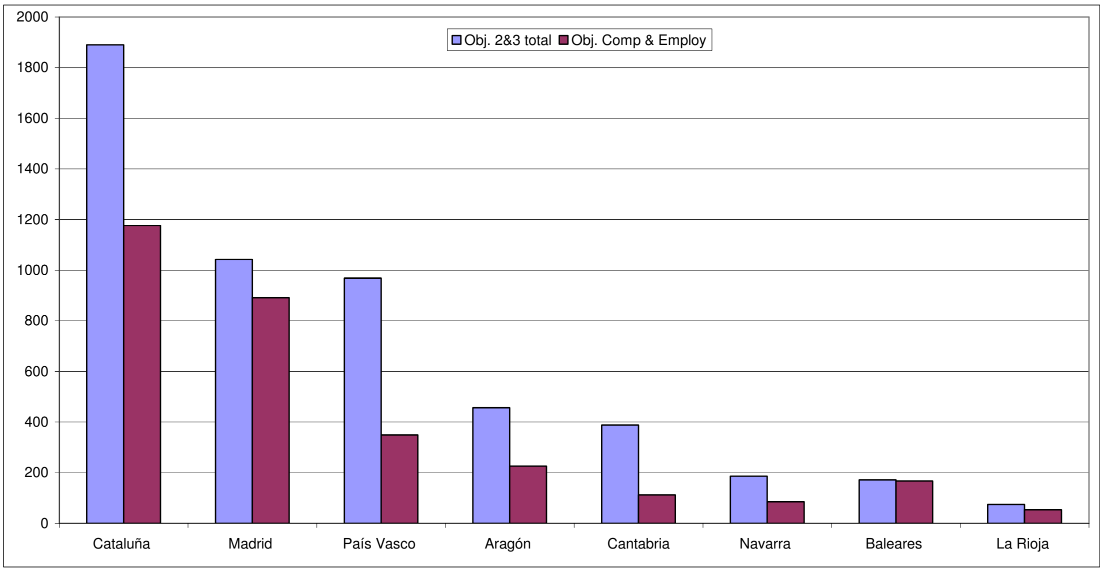


Notes: (i) The population figures used are 1996 for the 2000-06 allocation and 2002 for the 2007-13 allocation. **(ii)** The Phase-out and Phase-in allocations have been averaged as an annual figure over the period, whereas in practice the amounts will be tapered.
Source: EPRC calculations and Marco Comunitario de Apoyo (2000-2006) para las Regiones Españolas del Objetivo 1.

3.6.2 Regional Competitiveness & Employment

As already noted, the basis for allocating funding under the Regional Competitiveness and Employment strand is significantly different from that under Objective 2; in particular, there are no specifically-designated assisted areas. This is not, however, to say that, in practice, funding will be allocated on a flat per capita basis; as for the Convergence regions, the actual allocation will doubtless take account of a number of criteria. Nevertheless, because Competitiveness & Employment region coverage is almost double Objective 2 coverage, and overall funding has declined, the impact on the existing recipients is likely to be significant (see Figure 23).

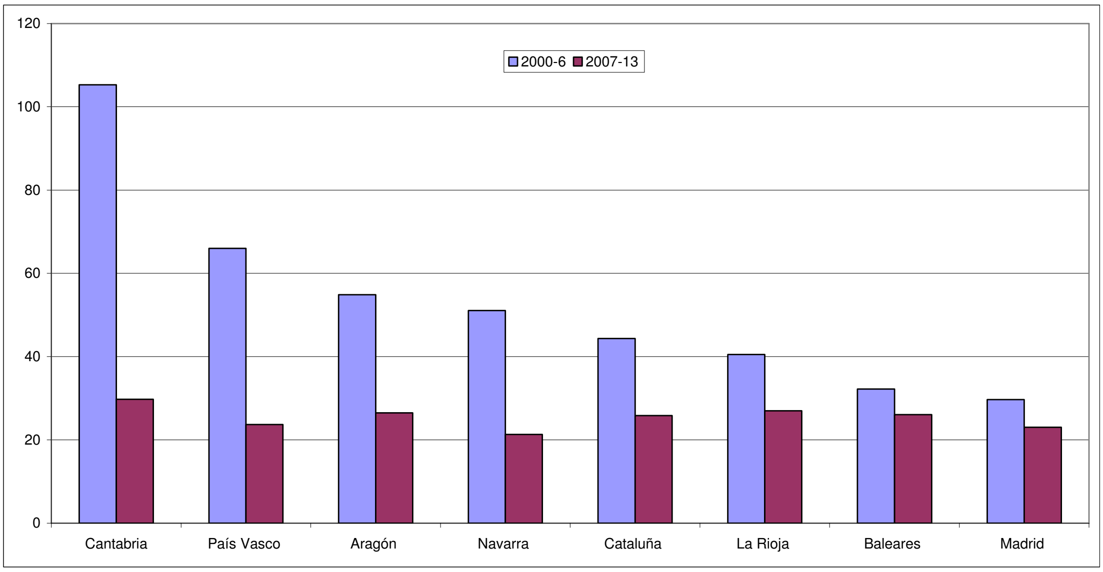
Figure 23: Allocations to Objective 2/3 Regions 2000-06 and Competitiveness & Employment Regions 2007-13 (€m, 2004 prices)



Note: The region of Cantabria was a transitional Objective 1 region in 2000-06.
Source: EPRC calculations, Plan Objetivo No.2, Zonas españolas incluidas en el Objetivo nº 2 de los Fondos Estructurales Europeos and Marco Comunitario de Apoyo 2000-2006 España Objetivo nº 3: Apoyar la adaptación y modernización de las políticas y sistemas de educación, formación y empleo.

Cantabria aside (where the ending of Objective 1 transitional arrangements implies a 70 percent decline in actual receipts), the most significant differences between current (Objective 2 and 3) allocations and those implied by the allocation keys used for the Regional Competitiveness and Employment Objective concern País Vasco, Navarra and Aragón where the percentage decline is in the order or 65, 55 and 50 percent respectively. At the other end of the scale, the relative decline in Baleares (2 percent) and Madrid (15 percent) is much lower, mainly reflecting the significantly lower Objective 2 eligible population coverage in the 2000-06 period. In the remaining two intermediate regions, Cataluña and La Rioja, the decline is in the order of 40 to 30 percent respectively. The differential impact on the regions is also clearly demonstrated in the per capita allocations illustrated in Figure 24.

Figure 24: Per Capita Annual Allocations to Objective 2/3 Regions 2000-06 and 2007-13 (€m, 2004 prices)



Notes: (i) The region of Cantabria was a transitional Objective 1 region in 2000-06. **(ii)** The total regional population figures used are 1996 for the 2000-06 allocation and 2002 for the 2007-13 allocation.
Source: EPRC calculations, Plan Objetivo No.2, Zonas españolas incluidas en el Objetivo nº 2 de los Fondos Estructurales Europeos and Marco Comunitario de Apoyo 2000-2006 España Objetivo nº 3: Apoyar la adaptación y modernización de las políticas y sistemas de educación, formación y empleo.

However, as stressed earlier, there is not necessarily a direct connection between the allocation keys produced on the basis of theoretical allocations under the Commission methodology and actual receipts. Indeed the Commission has written to all the Member States suggesting an alternative allocation, based on weightings that it considers are more appropriate for the country concerned.[40] Moreover, in practice, it will be for the Member States to decide how to share out Regional Competitiveness and Employment funding.

3.7 Implications for Spain

Spain was the single largest beneficiary of the structural actions budget for 2000-06, accounting for almost 27 percent of total commitment appropriations across the EU15. Enlargement, shifting EU averages and domestic growth have impacted on the eligibility of Spanish regions for Cohesion policy support, reducing the available allocation to Spain from around €60 billion (in 2004 prices) for 2000-06 to under €30 billion for 2007-13 under the Commission's initial proposal and just over €30 billion in the final UK Presidency agreement. All Cohesion policy categories experienced significant cutbacks; on the other hand, there were some notable additional funding sources won during the negotiations, including transitional Cohesion Fund support of €3250 million, an extra €2000 million of ERDF assistance for Spanish R&D and specific provisions of almost €537 million for Canarias and €50 million for Ceuta and Melilla. Overall, the fact that the Spanish Cohesion policy

[40] These letters are not in the public domain and it is not known what breakdown the Commission has suggested to Spain.

budget increased in the course of negotiations which saw a reduction of almost 10 percent in total Cohesion policy funding was a significant achievement.

Even so, the implications for Spain of a budgetary cutback of the order of one-half are obviously major. Moreover, the reduced funding does not apply uniformly but has potentially significant differentiated regional impacts. Thus, in most continuing Convergence regions (Extremadura, Castilla La Mancha and Galicia) a theoretical funding decline of the order of 35-40 percent is experienced, the exception is Andalucia where the cutback is closer to 15 percent due to the significantly lower 2000-06 allocation relative to the Berlin-based methodology. For those regions losing Objective 1 status, two groups can be identified: those where the decline ranges from 50 to around 60 percent - Ceuta and Melilla, Canarias, Valencia and Murcia - with Ceuta and Melilla and Canarias at the lower end of the range due to the additional provisions in the latter stages of the negotiations; and those witnessing a decline of 70 to 75 percent - Asturias, Castilla-León and Cantabria - largely because of the significantly greater actual 2000-06 allocation than under the theoretical Berlin method in the former two regions and the ending of transitional arrangements in the latter.

With respect to the current Objective 2 (future Regional Competitiveness and Employment Objective) regions, the magnitude of decline is greatest in País Vasco, Navarra and Aragón (65, 55 and 50 percent respectively). This is followed by an intermediate group comprising Cataluña and La Rioja where the fall is in the order of 40 and 30 percent respectively. At the other end of the scale, the decline in Madrid (15 percent) and, particularly Baleares (2%), is much lower, reflecting the relatively lower Objective 2 eligible population coverage in the 2000-06 period.

Such differential impacts obviously increase the pressures on the Spanish government to modulate the impact of the Cohesion policy funding changes; it remains to be seen, however, just what will be done in this regard.

4. NEGOTIATING THE REGULATIONS

The formal negotiations on the Commission's draft European Structural Funds regulations began in July 2004. The negotiations were pursued along two parallel tracks: the European Structural Funds regulations in the Council's Structural Actions Working Group (SAWG) and wider budgetary and financial matters through the Ad-Hoc Group on the Financial Perspectives (the Friends of the Presidency group). This section provides a more detailed analysis of the content and key implications of the Commission's proposals, including the main areas of contention and the changes made to the various titles of the general regulation during the negotiations.[41] The analysis draws on research undertaken for the EoRPA regional policy research consortium,[42] including interviews with national officials in Spain, as well as a review of the Commission's regulatory proposals, unpublished compromise texts and the latest draft of the regulations following the agreement by the Council on 5 May 2006. A final section draws together the key implications for Spain.

4.1 Objectives and general rules on assistance (Title I)

The objectives and general rules on assistance comprise five chapters which set out the Structural Funds' scope and definitions, objectives and missions, geographic eligibility, principles of assistance, and financial framework. Compared to the 2000-06 period, the main changes are fourfold. First, the proposals aim to provide for a clearer distribution of tasks between Member States and the Commission by defining the principles governing relations between them. Second, a more precise definition of the elements required for programme implementation has been provided to increase the level of legal security for the Member States. Third, the number of objectives has been reduced to three, increasing the geographical and thematic concentration of Cohesion policy. A final key change is the application of proportionality to the principle of additionality. Since issues relating to the financial framework and geographic eligibility have already been discussed in detail, the focus below is on the key principles of assistance.

Complementarity, consistency, compliance (Article 8): This principle states that the Structural Funds should complement national, regional and local interventions, which are consistent with EU priorities, as reflected in the Community Strategic Guidelines, the National Strategic Reference Frameworks and the Operational Programmes. The main change introduced during the negotiations has been the addition of thresholds for earmarking Structural Funds to EU priorities (with relevant categories of expenditure defined in a new annex): 75 percent under the Regional Competitiveness and Employment Objective and 60 percent for the Convergence Objective. The thresholds apply to the EU15, although the New Member States may adopt them voluntarily. The Member States are required to progressively increase the contribution made towards meeting the set targets

[41] Given space restrictions, Titles 8 (committees) and 9 (final provisions) are omitted due to their lesser significance.

[42] See: Bachtler J and Wishlade F, Searching for Consensus: The Debate on Reforming EU Cohesion Policy, EPRC European Policies Research Papers No 55, 2004; and Bachtler J and Wishlade F, From Building Blocks to Negotiating Boxes: The Reform of EU Cohesion Policy, EPRC European Policies Research Papers No 57, 2005

relative to their respective national baseline averages over the 2000-06 period. A final change is the application of the principle of coordination to the different Funds, the EAFRD, the EFF, the EIB and other existing interventions; indeed, coordination has now been incorporated within the proposed article title.

Partnership principle (Article 10): The Commission's proposal aims to strengthen the partnership principle by broadening the list of partners to include urban authorities for the first time and by naming the list of 'appropriate bodies' (e.g. representing civil society, environmental partners, non-governmental organisations, and bodies responsible for promoting equality between men and women). Resistance to this proposal has been expressed by the majority of Member States who, though generally supportive of the principle, consider the Commission's approach to be too prescriptive. In particular, they would like to replace the word "namely" by "such as" in the header listing the partnership authorities and bodies. Some Member States have also proposed the addition of 'environmental' to the 'economic and social partners', although this is not considered necessary by others who believe that environmental authorities are already adequately covered within the article. There has also been opposition to the extension of the partnership principle to the preparation and monitoring of the National Strategic Reference Framework.

Proportionality (Article 11): The proportionality principle is a new feature of the reform proposals, which, according to the Commission's initial formulation, allows for interventions to be proportional to the EU contribution in relation to control, evaluation and the participation of the Commission in Monitoring Committee meetings. During the course of the negotiations, most Member States agreed that the scope of proportionality should be further extended. Amongst the main new fields suggested were strategy development, programming and management, the selection of indicators and reporting. On the other hand, some Member States (especially amongst the new Member States) were completely opposed to the principle (arguing that it is discriminatory), whilst others argued that specific fields of application should be excluded (e.g. the participation of the Commission in Monitoring Committees). The latest compromise increases the precision of the text, including the extension of proportionality to new fields, but based on total public, instead of EU, expenditure.

Additionality (Article 13): The Commission's proposals provide for important changes to the additionality principle (under which EU support should be additional to rather than simply replacing national funding) by restricting its verification to the Convergence Objective and by providing for financial corrections in the case of non compliance. Some new Member States expressed strong opposition arguing that the proposal introduces a form of discrimination by differentiating between Convergence Objective and other regions. A broadly-held view amongst the Member States is that the verification of additionality should be made more flexible and the provisions relating to financial corrections should be weakened or even eliminated.

Gender Equality (Article 14): For the first time, a separate article on gender equality has been included in the general regulation in order to 'ensure that equality between men and women and the integration of gender perspective is promoted during the various stages of implementing the funds'. During the course of the negotiations, a number of Member States proposed extending the principle to include non-discrimination on the basis of race, ethnic group, religion, disability, age and sexual orientation. Others, including Spain, would prefer to stress the importance of gender equality by providing it with greater visibility in the regulation.[43] On the other hand, some Member States have argued that the article is unnecessary as gender equality is already a horizontal principle.

4.2 Strategic approach to cohesion (Title II)

The new strategic approach to cohesion represents an important change from the previous policy period. It introduces a new strategic layer of planning involving the adoption of Community Strategic Guidelines (CSG) at the EU level to support the drawing up of National Strategic Reference Frameworks, which will in turn form the basis for drafting the new generation of Operational Programmes. The other current programming documents (Community Support Frameworks, Single Programming Documents and Programme Complements) will be discontinued. The Commission's aim is to strengthen the legitimacy of EU Cohesion policy, improve the monitoring of the impact of Structural and Cohesion Funds as well as of EU priorities, and to increase the coherence between Community priorities and national/regional priorities. The title is structured into three chapters, covering the Community Strategic Guidelines, the National Strategic Reference Framework, and strategic follow-up and annual debate.

Community Strategic Guidelines (Articles 23-24): In terms of the content of the CSG, a majority of countries have expressed support for the Commission's proposals but with two firm caveats. The first, as argued by Spain and others (e.g. France, Finland, UK, Ireland and Portugal), is that the CSG should be high-level, succinct and non-prescriptive. The second key condition is that the CSG should not contain a national strand. Other issues of concern from a Spanish perspective relate to the need to place stress on the coordination and articulation of Cohesion policy with other Community policies with a territorial impact and also on the underlying objective of cohesion (e.g. by specifically referring to Articles 158 and 159 of the Treaty). With respect to the provisions for mid-term review to take account of changes in Community priorities, the Member States have demanded that this should only be justified where the changes are "major" and that there should be no obligation to modify the National Strategic Reference Framework (NSRF) or Operational Programmes (OPs).

National Strategic Reference Framework (Articles 25-26): The Commission proposals envisage that the NSRF will be in two sections. A strategic section will specify the strategies for the Convergence and Competitiveness Objectives consistent with the CSG and including territorial and thematic priorities. In the operational section, a list of OPs and an indicative annual allocation by Programme, Fund and Objective will be specified. Interviews with Spanish officials indicate that they would have preferred the operational part of the NSRF to have greater weight and detail (e.g. in terms of the types of concrete actions that it will

[43] Interviews indicate that Spanish representatives had proposed this on at least two occasions during the negotiations.

be possible to finance) in order to increase the certainty for drafting and negotiating the OPs. In terms of changes during the negotiations, provisions for a limited number of quantified performance and impact indicators have been opposed by most Member States, while optional provisions have been added for the inclusion of the territorial objective and the specification of the procedures for coordinating EU Cohesion policy with national, sectoral and regional policies. Last, the Commission's proposal that the NSRF be "negotiated with the Commission" has been revised to require Member States only to prepare the NSRF "in dialogue with the Commission".

Strategic follow-up and annual debate (Articles 27-30): Member State opposition to the Commission draft has centered on three key areas. First, the proposal that Member States report annually on the progress and achievements of their Cohesion policy programmes in meeting Community strategic objectives has been diluted; reporting will now take place on a triennial basis. Second, strategic monitoring has been integrated into an (albeit simple) section of the annual National Reform Programmes relating to the Lisbon agenda. Third, the provisions for Commission reporting have been made vaguer and, arguably, weaker. For example, references to "follow-up measures to be taken by Member States and the Commission in light of its Conclusions" have been deleted. The latest draft simply states that the Commission will provide a summary assessment of the triennial Member States' reports incorporated within the Cohesion Report which will then be examined by the Council and submitted to other EU institutions for debate (the European Parliament, the Council, the European Social Committee and the Committee of the Regions).

4.3 Programming (Title III)

Major changes to programming have been proposed. To simplify decision-making processes, the Community Support Framework and the Programming Complement will no longer be required, leaving only one programming and management tool: the mono-fund Operational Programme. A second key change involves increased flexibility in managing Operational Programmes, particularly regarding financial management which will now only take place at the priority level. The programming title is structured into two chapters, general provisions on the Structural Funds and the Cohesion Fund, and programming content.

General provisions on the Structural Funds and the Cohesion Fund (Articles 31-35): In terms of the presentation and approval of Operational Programmes, the main concern of the Member States has related to the need to specify deadlines. In addition, some Member States have opposed the provisions for the Commission to change draft Operational Programmes, leading to a less restrictive formulation. According to the initial proposals, the Commission "shall request the Member State to revise the programme accordingly" when it is inconsistent with the CSG or NSRF. In the latest version, the Commission can only "invite the Member State to provide all necessary additional information, and, where appropriate, to revise the proposed programme accordingly". In terms of the revision of Operational Programmes, the negotiations have focused on clarifying the reasons permitting revision, requiring agreement with the Member State concerned to launch the process and introducing a deadline for Commission approval. Opposition by the new Member States to mono-fund (as opposed to integrated) programmes and to the inclusion of the Cohesion Fund in mainstream programming (which implies the application of the decommitment rule) has not been successful. Finally, most Member States have favoured an increase in the cross-financing rate between ERDF and ESF programmes from 5 percent to at least 10 percent.

Programming content (Articles 36-44): The core Commission proposals relating to the content of Operational Programmes are unlikely to be subject to much change, despite criticism of excessive detail from some Member States. The main changes envisaged include eliminating the requirement to list of reasons justifying the approach to thematic, geographical and financial concentration (under the Regional Competitiveness and Employment Objective) and the requirement to specify actions for adapting to changes in the European and international economic environment (under both the Regional Competitiveness and Employment and the Convergence Objectives). In addition, provisions for the inclusion of a list of cities, for related procedures for urban sub-delegations, and for actions for inter-regional cooperation seem likely to become optional in the face of Member State opposition.

With respect to the treatment of major projects, some countries have expressed concerns about delocalisation and have proposed the establishment of preventative checks, while others, including Spain, would like to see large projects subject to a standard threshold of €50 million. However, these changes are unlikely to be introduced given the lack of overall support.

Finally, the percentage annual allocation allowed for funding European Commission technical assistance has been reduced from 0.3 percent to 0.25 percent. This contrast with new provisions to create a specific Operational Programme for Member States' technical assistance, although the funding limits for this remain as initially proposed by the Commission.

4.4 Effectiveness (Title IV)

The key proposed regulatory changes under this title primarily involve an increased degree of flexibility for evaluation, modifications to the performance reserve and the establishment of a new national reserve. Ex-ante evaluation will be compulsory for each programme under the Convergence Objective but, for the other two Objectives, Member States can decide what level of evaluation is required (programme, groups of programmes, themes, Funds) based on their needs. Mid-term evaluations are to become optional, although evaluation should be undertaken during the programming period where problems arise and/or programme modifications are required. Compared to the current period, where compulsory ex-ante, mid-term and ex post evaluations are required for all interventions, the proposals imply greater flexibility through a significant reduction in the number of evaluations required and by allowing Member States to implement evaluations adapted to their needs. The other two main proposals involve setting the performance reserve – renamed the "quality and performance reserve" – at the Community level and a new National contingency reserve to respond to unforeseen circumstances (disasters, etc.).

Evaluation (Articles 45-47): Most Member States have called for even more flexibility on evaluation. Opposition to uniform evaluation methods established by the Commission (e.g.

by Spain and Greece) has led to the specification that Commission guidance should only be "indicative". The requirement to carry out an ex-ante evaluation for the NSRF has been dropped. Under the Convergence Objective, provisions have been made to undertake ex-ante evaluations for more than one programme where duly justified, while the need to draw up an evaluation plan has been made optional. In addition, the setting of a compulsory date for undertaking a mid-term evaluation has been rejected and the reasons justifying the need to undertake an evaluation during the programming period have been relaxed, satisfying particular concerns raised by a national official interviewed in Spain.

Reserves (Articles 48-49): The Member States have expressed mixed views about the proposal for a Community reserve for quality and performance; some are in support and others firmly opposed. The result is that the reserve is to become national and optional instead of Community-based and compulsory. This contrasts with the current period where the performance reserve was obligatory for all programmes, although it was also implemented at the national level (after similar objections during the negotiations for the current regulations). The proposed national contingency reserve will also become optional and provisions have been made for its allocation to a specific national programme or within Operational Programmes. Interview evidence suggests that Spain is unlikely to set up a contingency reserve.

4.5 Financial contribution by the Funds (Title V)

The key objectives underpinning the proposed changes are to increase the flexibility in the financial management and monitoring of Operational Programmes, to reduce the probability of conflicts between national and Community rules, and to simplify EU co-financing arrangements. The Commission proposed that this be achieved by applying co-funding rates at the measure (instead of priority) level; by replacing detailed EC regulations on common eligibility rules with national eligibility rules; and by providing for Fund participation to be calculated on the basis of public expenditure alone. The main areas of disagreement during the negotiations and the changes proposed to the four chapters which make up this title are discussed below.

Contribution of the Funds (Article 50-53): The possibility for modulating assistance is no longer reserved for those priorities which are important for the Community Strategic Guidelines, but is now also available for national and regional priorities too. Greater flexibility has also been introduced into the co-financing arrangements; ceilings will only be applicable at the level of the Operational Programme, whereas the original formulation applied co-financing caps at the priority level. Three further changes were made in the final UK Presidency budget agreement which eased co-financing rules for the poorer Member States. First, in Member States where average per capita GDP from 2001 to 2003 was below 85 percent of the EU25 average (the ten new Member States plus Greece and Portugal) the ERDF or ESF co-financing rate was increased by 10 percent to 85 percent. Second, other countries eligible for the Cohesion Fund (in practice, Spain) are now eligible for an ERDF or ESF co-financing rate of 80 percent for both Convergence Objective (up from 75 percent) and Phase-in regions (up from 50 percent). Third, in Member States where average per capita GDP from 2001 to 2003 was below 85 percent of the EU25 average and for German Eastern *Länder* under the Convergence Objective, the calculation of total eligible expenditure now includes private, as well as public, expenditure.

Revenue-generating projects (Article 54): Member States concerns have centred on clarifying the definition of a revenue-generating project and introducing new provisions regarding deductions (where it is not possible to estimate the revenues in advance) and clawback after programme closure (within a maximum period of three years).

Eligibility of expenditure (Article 55): The main change proposed is for the eligibility date for expenditure to be brought forward to the date of the submission of the Operational Programme rather than 1 January 2007. A specific reference to large projects has also been added under eligible expenditure, with some Member States (e.g. France, Greece, Hungary and Slovakia) requesting that the preparation costs for such projects also be granted eligibility.

Durability of operations (Article 56): Some countries have supported the Commission's proposal of a seven-year durability period within which aid may be recovered if substantial modifications are made to the recipient firm or public body or as a result of the cessation of activities, while also proposing reinforced guarantees to prevent delocalisation risks (e.g. France, Netherlands, Austria and Germany). However, strong opposition from the new Member States suggests that the durability period is likely to remain at five years, as in the current regulations.

4.6 Management, monitoring and controls (Title VI)

The Commission proposed a number of important changes to management, monitoring and control requirements. The functions of the three main authorities (certifying, managing and audit) and Member States responsibilities will be more clearly defined from the outset. The principle of proportionality will be applied to management and control rules in relation to the intensity of EU participation and the level of funding in the programmes. An independent Member State body will assess the conformity of management and control systems at the beginning of the programming period to provide the Commission with guarantees on the systems in place. The introduction of a national audit strategy will allow annual and final certification of systems in place. Greater cooperation between national authorities and the Commission is proposed to avoid duplication of effort and EC audits will only be undertaken in exceptional circumstances. The title is structured into four chapters, covering management and control systems, monitoring, information and publicity, and controls:

Management and control systems (Articles 57-61): In terms of general principles, opposition to the proposed obligations relating to adequate resources for each body, effective internal audit arrangements, and the existence of procedure manuals, has led to a less-binding compromise stating that Member States shall provide "procedures for ensuring the correctness and regularity of expenditure". Requirements for "effective" arrangements for auditing the operations of the system have also been made less strict. Under the article on the designation of authorities, the separation between the functions of paying and receiving payments has been abolished. Two other changes in relation to the audit authority are the extension of the period within which the Member States must present the audit strategy by three months to nine months, and a new provision to allow the submission of a document on the legality and regularity of programme closure expenditure.

Monitoring (Articles 62-67): In terms of Monitoring Committees, the main changes include a new provision to allow for the creation of a single Monitoring Committee for several programmes; the dropping of the reference to partners (Article 10 of the regulation) in relation to the Committee's composition; and the extension of the deadline for approving selection criteria by two months to six months. Changes to the arrangements for monitoring include the specification of a new provision for electronic data exchange between the Commission and the Member States and the elimination of the reference to Commission examination of the monitoring and evaluation indicators. Last, with regard to the annual report and final report on implementation, the main area of opposition by the Member States concerned the requirement to provide information on financial implementation by field of intervention.

Information and publicity (Article 68): The only likely change to information and publicity requirements is the restriction of these activities to co-financed programmes; this eliminates their application in respect of operations.

Controls (Articles 69-73):[44] Changes to the control proposals mainly concern management and control systems falling within the responsibility of the Member States, though proportionality thresholds have also been adjusted. The deadline for the submission to the Commission of a description of the control systems has been extended from three months from programme approval to twelve months. The Member States have also argued that the accompanying report should be required to provide an assessment of the "setting up" of the systems, as opposed to the systems per se (which would imply the transfer of a new responsibility to the Member States). Further, where corrective measures are to be taken, the Member States must inform the Commission of these and their subsequent implementation, replacing the original provisions for a plan to be drawn up in agreement with the Commission. In terms of the application of the principle of proportionality, a number of Member States have been pushing for an increase in the thresholds within which the Commission automatically relies on national audit controls - involving Operational Programmes where the EU co-financing rate is under 40 percent (compared to 33 percent) and with total public expenditure of €750 million (compared to €250 million). Some new Member States, notably Poland and Hungary, remain strongly opposed to such provisions on the grounds that they introduce a form of discrimination.

4.7 Financial management (Title VII)

The main proposals under this title include provisions for the pre-funding of 7 percent for the Structural Funds and 10.5 percent for the Cohesion Fund; intermediary payments at

[44] For an extensive analysis of the implications of the proposed reforms to control systems from the perspective of one of the Spanish negotiating officials, see: Rodriguez Laso A (2005) '"Auditoría Única" y Control de los Fondos Estructurales: Los sistemas de control en el próximo periodo 2007-2013', Cuenta con IGAE, Marzo 2005, No.11, pp20-29

priority level, with application of the rate for the priority to the amount of public expenditure presented by the Member State; the possibility of operating "partial" programme closure for completed operations; and the introduction of transparent rules for the interruption, suspension or retention of payments. The main objectives of these reforms are to simplify payment procedures and programme closure; to improve the legal security for actors and increase transparency; and to clarify payment procedures under the Structural Funds regulation by bringing it into line with the Council's general financial regulation applicable to the EU budget.

Financial management (Articles 74-98): In terms of budgetary commitments, a number of Member States (e.g. France, Czech Republic, Austria, Belgium, Italy) have demanded that the notification of annual commitments should continue to be made by 30 April each year. Similar flexibility is sought under the common rules for payments, with a majority of countries proposing that provisional forecasts for payment applications should continue to be submitted by the end of April rather than the end of January, as proposed by the Commission. With regard to the requirement for electronic exchanges of financial transactions, exceptions have been made in the case of "forces majeur", notably IT systems' malfunctions or the lack of a lasting connection. Proposed changes to the declaration of expenditure include a more precise formulation of "total" eligible expenditure paid by beneficiaries (although some countries have opposed this given that Community financing is based on public expenditure); a slightly increased margin of flexibility for pre-financing aid schemes; and the inclusion of certified expenditure paid in contributions to financial engineering funds.

Modifications to the pre-financing proposals were made in the final UK Presidency agreement. Advance payments under the Structural Funds will be 7 percent over three years for the EU10 plus Romania and Bulgaria, and 5 percent over two years for the EU15. For the Cohesion Fund, the respective figures will be 10.5 percent and 7.5 percent. A further change introduced during the negotiations is that interest earned from advance payments will be regarded as a national resource towards the Member States' public contribution.

The main changes to the proposals on interim payments are the elimination of the requirement that reference payments are conditional on obtaining assurance on management and control systems (since this is already covered by the modifications to the title on controls) and the setting of a deadline for Commission responses on the acceptability of payments requests.

With regard to payments of balance and programme closure, Member States' demands have mainly centred on extending the date for the Commission receiving the relevant documents by six months, clarifying the provisions for Commission acceptance of the closure declaration (notably in terms of the independence of the audit authority), extending the date for decommitting funds by six months, clarifying the situations/dates for the declaration of programme closure, and stipulating that amendments of the balance will not affect the date of the closure of the programmes.

The main issue of contention under the proposals for the interruption, withholding and suspension of payments relates to the procedures for the withholding of payments, which a number of Member States would like to see deleted. A reduction of the interruption of payments period from six to three months is also sought. Regarding the suspension of payments, some countries (e.g. Spain) would like greater accuracy in the drafting of the article.

Member State views over "automatic decommitment" have been mixed. The new Member States have strongly opposed the extension of the rule to the Cohesion Fund, while a majority of the EU15 have supported this proposal. Changes under the UK Presidency budget agreement have led to the extension of the n+2 rule across all funds by one year (i.e. n+3) for those Member States where average per capita GDP from 2001 to 2003 was below 85 percent of the EU25 average (namely, the ten new Member States plus Greece and Portugal). Other modifications include greater flexibility where legal proceedings and administrative appeals prevent declarations and with regards to delays in the case of large projects.

Financial corrections (Articles 99-103): The main issues of contention in relation to financial correction are demands for greater definitional clarity and a distinction between the terms irregularity and administrative error. Broad opposition has been expressed to the "presumption of a systematic problem" where the irregularity concerns a statement of expenditure.

4.8 Implications for Spain

The Commission's reform proposals introduced a new rationale for Cohesion policy, a new policy architecture and new implementation arrangements. In terms of policy rationale, many of the changes proposed go with the grain of developments in Spain. The enhanced stress on the Lisbon and Gothenburg agendas fits well with changes which have already been made in the domestic policy environment. In similar vein, the increased weight attached to territorial cohesion chimes with specific Spanish views about the treatment of the Outermost regions (Canarias) and more general concerns in Spain about the position of areas facing geographic handicaps (especially islands, mountainous regions and border areas).

As regards the new architecture of Cohesion policy, the main Spanish interest has been on the financial implications of the new approach, unsurprising given the significant impact of enlargement on Convergence coverage in Spain and the related importance of agreeing satisfactory transitional provisions (for Phase-out and, especially, Phase-in regions). However, also important to Spain has been the retention of the Regional Competitiveness and Employment Objective in the face of pressures from some countries that it be discarded, limiting Cohesion policy to poorer regions and Member States. The related shift from a geographic to a thematic focus under this priority was also welcomed by Spain. Taken together with the award of significant transitional Cohesion Fund support and the creation of a Technological Fund, this has allowed the whole country to remain eligible for some form of Cohesion support, a significant consideration in a highly-devolved country like Spain.

With respect to specific implementation issues, Spain obviously has very considerable experience and expertise in the operation of the Structural and Cohesion Funds, built up over three programming cycles. It is thus comfortable with the retention of the key Structural Funds principles of multi-annual planning, integrated development strategies, partnership, co-finance and concentration, all of which have by now been successfully internalised. At the same time, the Commission's declared intentions of simplifying procedures (through, for instance, a more proportionate approach) and also of further decentralising processes also reflects domestic trends and concerns.

As in most Member States, perhaps the key implementation issue for Spain will be whether the proposed regulatory changes lead to a more simplified and decentralised approach *in practice*. Certainly, most of the general changes proposed (under Title I) fit with Spanish interests or, at worst, are Spain-neutral. For instance, the need align EU, national, regional and local priorities through a system of Community Strategic Guidelines, National Strategic Reference Frameworks and Operational Programmes is viewed positively in Spain. Moreover, the new Lisbon targets are not considered to be a problem, the belief being that Spanish programmes will easily meet the targets set. The strengthening of the partnership principle also reflects domestic priorities while, as in most other (EU15) Member States, the introduction of proportionality and the new restrictions relating to the additionality are both welcomed. As mentioned earlier, Spain also favours the new separate article on gender equality in line with the increased domestic prominence of this issue in recent years.

The new strategic approach to cohesion (Title II) is also viewed positively in Spain. Indeed, as noted above, Spanish officials would have preferred the operational part of the NSRF to be given greater weight and detail as a way of helping to ease the OP drafting process. As in all Member States, the reduced reporting requirements which seem to be emerging from the negotiations (with reporting now planned only every three years, apart from limited annual reporting as part of the Lisbon process) are obviously also favoured.

The remaining titles relate to more technical implementation issues – programming, effectiveness, co-financing, monitoring and control, and financial management. As is to be expected, the negotiations have seen Member States supporting, and indeed trying to strengthen, moves towards simplification. There are two areas where the changes introduced have been of particular interest to Spain: first, in respect of evaluation, where pressures from Spain (and others) has led to a more indicative approach being adopted combined with greater flexibility in the need to undertake evaluations during the programming period; and second, with regard to co-financing rates, where the budget negotiations increased the rate of EU co-finance from 75 percent to 80 percent for the Spanish Convergence regions and from 50 percent to 80 percent for the Phase-in regions.

5. POLICY AND INSTITUTIONAL IMPACTS

This section analyses the likely policy and institutional impacts of Cohesion policy reform in Spain. The first part provides an overview of regional views and key issues on the regulatory and financial impacts of the reform proposals. The second part focuses on the preparations currently under way for implementing the future regulations, in terms of the process of developing the National Strategic Reference Framework and future Operational Programmes and their potential content. The analysis draws on interviews with programme managers and officers in ten regions between December 2005 and March 2006, supplemented by a review of the Updated Mid-Term Evaluations for selected regions.

5.1 Regional views on the budgetary and regulatory frameworks

5.1.1 Regulatory issues

The Commission's regulatory proposals for Cohesion policy reform have been broadly welcomed by the Spanish regions consulted. The general view is that the proposals do not represent a radical change from the current arrangements, but rather a further progression in the direction already introduced by the previous round of Cohesion policy reform. A commonly held view amongst the interviewees is that, to the extent that the reforms simplify programme management and introduce the principles of proportionality and subsidiarity, the new implementation system is unlikely to present a challenge, not least because of the well-consolidated experience which has been gained of managing significantly higher levels of EU funding within a more rigid and administratively complex framework. Nevertheless, a number of important issues were raised during the consultations.

Simplification: Although the proposals for simplified implementation arrangements have been broadly welcomed, practically all the regions consulted expressed doubts over whether simplification would actually be delivered in practice. This is partly because the regulations are perceived to be rather vague (more so than the current regulations according to some), implying a wide margin for Commission interpretation during the implementation stage, and also because of the experience in the current period where simplification was also promised but did not subsequently materialise. In addition, some regions questioned the Commission's motivation for reform, arguing that the changes were largely a self-interested reaction to the expected administrative challenge for the Commission of implementing Cohesion policy in an expanded EU of 25, rather than a genuine attempt to simplify Cohesion policy for the Member States.

Programme documentation: The elimination of the Programme Complement is viewed as a positive step in terms of streamlining the development and adoption of programmes, as well as increasing the flexibility of subsequent management and implementation. On the other hand, it remains likely that a similar document will be required by the regions, if only for internal management purposes. Similar benefits were expressed in relation to the suppression of the Community Support Framework and Regional Development Plans. The introduction of the National Strategic Reference Framework was generally welcomed by the regions and, unlike in some federal countries with strong regional governments such as

Germany, was not considered to raise "new" conflicts with respect to the domestic institutional balance between central and regional government in the field of regional development.

Financial management: Related to the previous point, programme managers welcomed the streamlining of financial programming and implementation through the reduction to two financial tables (covering the whole programme annually and by priority for the whole period respectively). Again some doubts were expressed over whether the Commission would cease to be able, or at least to continue to try, to influence activity at the measure level.

Mono-fund programmes: There was a mixed response in relation to proposals for mono-fund programmes. One programme manager had strong reservations, fearing a loss of policy coordination between the funds at all levels (EU, national and regional), a duplication of organisational structures and bodies at each of these levels, and a major loss in what is perceived to be a core element of Cohesion policy added value. This was especially felt to be the case in a context of much lower levels of future Structural Funds receipts where the "economic" benefits of Cohesion policy support are less significant. On the other hand, a number of other programme managers welcomed the mono-fund proposals, arguing that the different nature of the funds (in terms of policy characteristics, types of expenditure, regulatory guidelines etc.) make their 'genuine' integration into a single document extremely difficult in practice. In this context, it was considered somewhat ironic that, in the current period, the Spanish government originally submitted mono-fund programmes in order to simplify the programming process but was required by the Commission to reconvert these into integrated programmes.

Cohesion Fund: A number of Spanish regions welcomed the proposals to integrate the Cohesion Fund within the mainstream programmes. It is felt that this could increase the coherence and synergies between ERDF and Cohesion Funded interventions and also provide the regions with a greater degree of financial certainty because of the need to programme the fund annually and on a regional basis (at least for the share devolved to the regions and local corporations) at the start of the new period.

Audit controls: A further positive development observed by a number of regions concerns the proposals to commit to stronger coordination between the Commission, central government and the regions in terms of audit controls and the application of the proportionality principle. It is hoped that this will reduce the duplication of control checks as well as the excessive burdens placed on programme managers in terms of time and legal uncertainty, although some interviewees remain cautious over whether this commitment will be followed through in practice.

Expenditure and thematic eligibility: Another area of expected flexibility welcomed by the regions is the proposal to decentralise decisions on expenditure eligibility to the national level (with certain exemptions such as VAT). This was contrasted with the current period where a specific regulation governing eligible expenditure contains a detailed range of restrictions. With respect to the thematic priorities, future Convergence regions were satisfied with the proposals, considering them to offer an even broader "menu" of eligible interventions than in the current period (e.g. Andalucía). On the other hand, in some regions, concerns were noted with respect to potential co-funding restrictions in specific areas such as waste treatment actions (Madrid and La Rioja) and training related innovation activities outside the region (Castilla-La Mancha), notwithstanding general overall satisfaction with the future thematic priorities.

5.1.2 Financial issues

The scale and impact of the expected cuts in Cohesion policy funding to the Spanish regions can only be fully determined after an Inter-Institutional Agreement has been reached on the final EC budget and the official allocations by Member State are made known by the Commission. Nonetheless, four main factors can be highlighted which condition regional authorities' views on the financial impacts of Cohesion policy reform. These concern: EU policy changes and designation status; decisions over the internal distribution of funding within Spain; trends in domestic regional policy expenditure; and future changes to the regional financing model and related compensatory mechanisms.

(i) EU policy changes and designation status

For each region, the current level of Structural Funds receipts and the implications of relative growth trends and enlargement for future designation and budgetary allocations are evidently key factors determining the magnitude of decline in Cohesion policy resources. As already noted, the greatest relative falls will occur in those regions losing Objective 1 status – whether due to the statistical effect of enlargement (Asturias, Murcia, Ceuta and Melilla), natural growth (Valencia, Canarias and Castilla-León) or the ending of 'transitional' arrangements (Cantabria).[45] Within these three groupings, the relative cut in funding will be greatest in the latter two groups given their direct incorporation into the Regional Competitiveness and Employment Objective, although the position of Canarias relative to Valencia and Castilla-León is significantly ameliorated by its status as an Outermost region and the negotiation of special provisions, as previously noted.[46]

Two further financial constraints impact upon the last two groups as a result of their shift to Regional Competitiveness and Employment status. The first relates to the new domestic co-financing rates. For Cantabria, the impact is negative given that the rate will increase to 50 percent (up from 25 percent in the current period), although no particular difficulties in

[45] In the Cantabrian case, there is considerable resentment by the current regional government about its designation as a future Regional Competitiveness and Employment Objective region and the loss of financial resources that this implies. It is considered that in the negotiations for the current period, the region was prematurely and unfairly designated as a transitional (instead of full) Objective 1 region due to the use of outdated population data from 1991, despite the availability of more recent data at the time, and the central government's greater concern with ensuring that Valencia retained Objective 1 status in view of the far greater number of inhabitants and funding involved.

[46] According to central government officials, Canarias is expected to receive 50 percent of current Structural Funds receipts in the next period. See: Serrano C, Montoro B and Viguera E (2006) Resultados del Acuerdo de Perspectivas Financieras 2007-2013, Boletín ICE Economico, No.2689.

raising the necessary co-finance are expected, not least in view of the reduced funding involved. This contrasts with lower co-financing requirements for Phase-in regions (20 percent for Castilla-León and Valencia, down from the current 25 percent, but 15 percent for Canarias as an Outermost region) and Convergence regions, as a result of the modifications to the Commission proposals under the UK Presidency's EU budget agreement. The second concern, expressed by the Phase-in region consulted (Castilla-León) as well as by Cantabria, relates to the loss of eligibility for national regional policy funding: at present, national regional incentives for business are restricted to areas with Article 87(3)(a) status under EU Competition policy rules; while the Inter-Territorial Compensation Fund for public works investment is currently only available to Spanish Objective 1 regions.

Although Phase-in regions may benefit from transitional arrangements on losing Article 87(3)(a) to (c) status, there is still considered to be a future threat for business and investment attraction in a region such as Castilla-León where a significant part of the territory is surrounded, on the one side, by Madrid which has strong competitive advantages as the capital city, and, on the other, by future Convergence regions in Spain (Galicia and Extremadura) and Portugal (Norte and Centro regions), which retain full aid area status. With respect to the loss of eligibility for the Inter-Territorial Compensation Fund (which currently only applies to Objective 1 regions with GDP per capita less than 75 percent of the EU average), concerns in Castilla-León over the loss of this important source of infrastructure funding are evident from requests by the Regional President to the central government that those provinces within the region that remain below the 75 percent threshold maintain eligibility (e.g. the provinces of Zamora and Salamanca).

In Cantabria, similar issues have been raised, fearing the conversion of the region into a so-called "island of inequality" due to its position between Asturias and Castilla-León, which remain eligible for national regional incentives, albeit on less generous terms, and the País Vasco which has a highly autonomous fiscal system providing important flexibility in terms of expenditure and policy incentives.[47] More recently, however, the Regional Minister for Economy and Finance has claimed that, despite the region's future designation as a Regional Competitiveness and Employment region, continued eligibility for both national regional incentives and the Inter-Territorial Compensation Fund has been successfully negotiated with the central government.[48]

In terms of Phase-out regions, mixed views were reported about the transitional funding arrangements agreed by the European Council in December 2005. The programme manager

[47] Parlamento de Cantabria, Diario De Sesiones, Año XXIV, VI Legislatura, 15 de abril de 2005, Número 75 Página 1771 Serie B, Comisión De Economía y Hacienda, Sesión celebrada el viernes, 15 de abril de 2005, Comparecencia del Consejero de Economía y Hacienda, a petición propia, a fin de informar sobre los acuerdos alcanzados por los Presidentes de Cantabria, Córcega y Molise sobre el futuro reparto de fondos europeos.

[48] Parlamento de Cantabria, Diario de Sesiones, Año XXV, VI Legislatura, 8 de Marzo de 2006, Número 105 Página 2567 Serie B, Comisión de Economía y Hacienda, Sesión celebrada el Miércoles, 8 de Marzo de 2006, Comparecencia del Consejero de Economía y Hacienda, a petición propia, a fin de informar sobre el último Comité de Seguimiento del POIC 2000-2006. That said, the new regional aid map also has to be agreed with the Commission.

for Murcia strongly objects to the provisions for more favourable financial treatment for Phase-out regions where these account for over one-third of the total population of the country concerned. This is viewed as unfair and against the spirit of cohesion as it leads to a situation where regions with a similar level of GDP per capita to Murcia, but within a richer Member State (Germany), receive more funding – and this despite the fact that Spain has a higher proportion of its population designated as Objective 1/Convergence. Similar criticisms have been expressed by regional government Ministers in Asturias.[49] On the other hand, the programme manager from the city of Melilla unsurprisingly welcomed the "special provisions" for an additional €50 million to be shared with Ceuta in connection with the immigration challenges faced, viewing the extra envelope as a significant contribution to offsetting the reduction in overall funding for the city from de-designation. Officials from the central government claim that Ceuta and Melilla will only lose 30 percent of current receipts as a result.[50]

(ii) Decisions over the internal distribution of funding

A second key factor influencing the financial outcome for individual regions concerns the final decision over the internal distribution of Structural Funds resources within the Spanish state, both in terms of the mainstream Structural Funds programmes (and the participation of the central government within these) and the territorial distribution of the Cohesion Fund and the new Technological Fund.[51] All the regions consulted highlighted the importance of increasing regional participation in the allocation of the global Structural Funds budget within Spain, involving the reduction or elimination of centrally-managed multi-regional programmes and/or less central participation in regional programmes.

Similarly, obtaining a fair (and if possible devolved) share of the Cohesion Fund and the new Technological Fund is a top priority for the regions in the current negotiations with the central government. With respect to the Technological Fund, there are clear tensions between the regions. In a joint statement to the Ministry of Economy and Finance, the current Objective 2 regions have requested that the central government change the criteria proposed by the Commission for the territorial distribution of the Fund in order to increase the allocation to regions with greater potential demand and spending capacity. Convergence regions (e.g. Galicia and Andalucía) firmly oppose this, arguing that the Technological Fund is ERDF-funded and must therefore be distributed according to equity criteria at the regional level in line with its Treaty base. They also argue that the proposed

[49] La Nueva España (2005) 'Valledor reclama que Asturias reciba al menos 600 millones de los fondos de cohesión de la UE' 18.01.06, No.1157

[50] Serrano C, Montoro B and Viguera E (2006) Resultados del Acuerdo de Perspectivas Financieras 2007-2013, Boletín ICE Economico, No.2689.

[51] The indicative split of the €2000 million Technological Fund is 75 percent for Convergence Objective regions (of which 5 percent for Phase-out regions) and 25 percent for Regional Competitiveness and Employment Objective regions (of which 15 percent for Phase-in regions). However, the Spanish government is entitled to change these percentages at any point before the adoption of the Structural Funds General Regulation.

changes would be inconsistent with the government's advocacy of "technological cohesion" at the EU level.

For its part, the central government has stated its intention to use the Cohesion Fund as a buffer by concentrating resources in those regions witnessing the largest relative decline in funding compared to the current period.[52] More recently, the Minister of Economy and Finance, has argued that no phasing-out region should witness a cut of more than 33 percent relative to the current period or 50 percent in the case of Phase-in regions, in line with the negotiation position at the EU level.[53] However, the issue of increasing regional participation in the national Structural Funds budget allocation remains controversial and will most certainly be resisted by the central government, especially given the new context of budgetary relations between Spain and the EU. A high ranking official from the Directorate General for EU Funding has argued that, because of the significant increase in Spain's contributions to the EU budget over the next programming period, and given that this contribution is financed exclusively through the Treasury and not regional government budgets, it would be inappropriate to further increase the fiscal squeeze on the central government by reducing its participation within Cohesion policy (46 percent of total funds over the 2000-06 period).[54] This argument is contested by regions such as Cataluña given their status as net contributors to the Spanish state budget and hence indirectly to the EU budget too.[55]

(iii) Trends in domestic regional policy spending

A third factor influencing the significance of future cuts in Cohesion policy funding relates to the level of current Structural Funds receipts as a proportion of regional economic development spending. In the 2000-06 period, the Objective 1 regions with the lowest financial dependency - calculated as the percentage of Structural and Cohesion Funds expenditure as a proportion of public budgetary expenditure eligible for co-financing – were Cantabria (as expected given its transitional Objective 1 status), Valencia and Asturias (with a range of 18-22 percent), followed by Andalucía, Murcia, Galicia and Melilla (30-32 percent) and Castilla-La Mancha, Castilla-León, Ceuta, Extremadura and Canarias (33-37

[52] Navarro A and Viguera E (2005) Las Perspectivas Financieras 2007-2013 y la Posición de España, Documento de Trabajo (DT) Nº 22/2005, Real Instituto Elcano, Madrid. The Prime Minister has specified that phase-in and phase-out regions would be prioritised, in his report to the *Cortes* (Parliament) on the final EU Council budget which took place on 21st December 2005.

[53] Diario de Sesiones del Senado, Año 2006, VIII Legislatura, Comisiones. Núm. 303, Comisión General de las Comunidades Autónomas, celebrada el lunes 3 de abril de 2006, Comparecencia, a petición del Grupo Parlamentario Popular en el Senado, del señor Vicepresidente Segundo del Gobierno y Ministro de Economía y Hacienda, D. Pedro Solbes Mira, para tratar sobre las repercusiones financieras en las Comunidades Autónomas de la negociación del reparto de fondos europeos a partir de 2007

[54] Cordero Mestanza G (2005) 'La rentabilidad económica y social de los Fondos Estructurales: experiencia y perspectivas' *Presupuestos y Gasto Público*, Núm. 39, Secretaría General de Presupuestos y Gastos, Instituto de Estudios Fiscales. The Minister for Economy and Finance has restated these views more recently in a Senate debate (April 2006).

[55] Generalitat de Catalunya Memorandum (2005) Posición del Gobierno de Cataluña en relación de las perspectivas financieras de la UE 2007-13 y la reforma de la política regional, Febrero 2005.

percent).[56] Given these percentages, the expectation is that Phase-in regions such as Castilla-León and Canarias will experience a relatively greater impact on domestic budgets, than, for instance, Valencia (the other Phase-in region).[57] On the other hand, according to interviewees in Castilla-León, the Structural Funds expenditure profile in the current policy phase has been heavily weighted towards the first three years so that by 2006 the transition to the new programming period will be relatively smooth. It is noteworthy that in Andalucía, the largest Cohesion policy beneficiary in Spain, the relative decline in the Structural Funds' share of the regional domestic investment budget has been very significant in recent years, accounting for 15 percent in 2005 compared to a high of 35 percent (in 1996).[58]

(iv) Future changes to the regional financing model

A last issue with a crucial bearing on broader budgetary relations concerns the forthcoming reforms to the regional government financing model in Spain, partly related to the ongoing debates over reform to the regions' statutes of autonomy. The government is aiming to further increase the financial autonomy and fiscal co-responsibility of the regions, building on longer-term trends in the evolution of the system.[59] These changes could provide an important cushion to absorb declining Cohesion policy revenue within overall regional government budgets in the future.[60] Other proposals closely connected to the future financing model, but aiming specifically to address the expected shortfall in Cohesion policy revenues, include an increase in funding for Convergence regions through a significantly strengthened Inter-Territorial Compensation Fund and, for other regions, the creation of a similar compensatory fund financed through public debt.[61] Subsequent statements by the Minister for Economy and Finance, Pedro Solbes, seem to suggest that the latter proposal has been shelved in favour of reducing the national public debt.[62]

In the Catalan case, and as part of the negotiations over the reform to its statute of autonomy, the central government has committed to increasing infrastructure investment in the region (excluding Inter-Territorial Compensation Fund expenditure) to reach a share

[56] Cordero Mestanza G (2005), *op.cit.*

[57] Cordero Mestanza G (2005), *op.cit.*

[58] Parlamento de Andalucía, Diario de Sesiones, Comisión de Asuntos Europeos, Número 35, Serie B VII Legislatura Año 2005, Sesión celebrada el Miércoles 19 de octubre de 2005.

[59] Current proposals include increasing the share of taxes available to the regions (from 33 percent to 50 percent in income tax, from 35 percent to 50 percent in VAT, and from 40 percent to 50 percent in "special taxes") as well as increasing their regulatory powers over them (in the case of income tax).

[60] The negotiations over the new model are expected to be concluded by the end of 2006 and to come into force in January 2008.

[61] El País (2005) 'El Gobierno creará un fondo para compensar las menores ayudas de la UE' 23.11.05; EFE (2005) Gobierno busca alternativas fondos UE y reforma fiscal progresiva, Efe, Madrid, 22.11.05.

[62] El País (2006) 'Solbes cierra 2005 con el primer superávit en las cuentas públicas de la democracia' El País, 01.03.06.

equivalent to the Catalan contribution to national GDP over a seven year period. This addresses a long-standing criticism from political and social actors in the region of not receiving a "fair share" of state infrastructure investment. This should provide an important boost to infrastructure projects in Cataluña, especially given the high reduction in Cohesion Fund investment anticipated in the region. At present, six other regions are also requesting increased state funding in their proposed statutes of autonomy, although these demands have yet to be agreed by the central government.[63]

5.2 Implementing the new regulations: the National Strategic Reference Framework

At the time of writing, EU regulatory and financial frameworks had yet to be approved. Nevertheless, as in other EU Member States, the Spanish administration has begun the process of developing future strategies and programmes to allow a timely start to programme implementation. This section reviews the process and likely content of the National Strategic Reference Framework while the next considers the associated Operational Programmes, focusing on the key changes in relation to the current period and the potential challenges involved.

5.2.1 NSRF process

The National Strategic Reference Framework (NSRF) in Spain is being coordinated and drafted by the Directorate General for EU Funding (Ministry of Economy and Finance). The process involves various rounds of consultation, involving other government Ministries and the regions, and external support from an economic development consultancy. It can best be characterised as "mixed or collaborative" (similar to the approaches adopted in the UK, Austria, Finland, Sweden and France) as opposed to "top-down" (as in Denmark, Luxembourg, Ireland or the Netherlands) or "bottom-up" (as in Belgium and Germany)[64]

The NSRF was at an early preparatory stage during the fieldwork stage for this research (February 2006). The process of determining the key programming decisions will be mainly concentrated between March and June 2006. The development of the NSRF was initially launched in 2005 with a request (in March and again in June) by the Ministry of Economy and Finance to the regions for socio-economic and SWOT analyses, future strategic priorities and the relative weighting of these priorities.

Not all regions were able to respond immediately or fully to this request. In particular, given the budgetary uncertainty over Cohesion policy resources, a number of regions were uneasy about assigning relative weightings to strategic priorities, especially when domestic regional development strategy processes had not been finalised. For example, in Castilla-La Mancha, the pact for competitiveness, which represents an important component of the

[63] El País (2006) 'Seis autonomías buscan mejor financiación y perfilar su definición en los Estatutos' El País, 02.05.06

[64] Polverari L, McMaster I and Gross F (2005) A strategic approach to cohesion? Developing 2007-13 Structural Funds programmes, IQ-Net thematic paper, 17(2), European Policies Research Centre, University of Strathclyde, Glasgow.

overall regional development strategy, was only signed in December 2005. Also, the employment pact, which will determine the regional strategy for human resources and training to 2010 and underpin ESF co-financed interventions, was still in the process of negotiation during February 2006. Similarly, in Murcia, the process for developing the so-called Horizonte 2010 Plan, the overarching regional economic development strategy for the next programming phase, had not moved beyond the initial launch stage. A number of regions therefore utilised the results of their Updated Mid-Term Evaluations in relation to the socio-economic analysis and SWOT updates to inform their initial input to the National Strategic Reference Frameworks.

The Directorate General for EU Funding obtained further input from central government Ministries during the end of 2005 and early 2006, which helped it to determine their potential contribution and participation to priorities and interventions under the competence of the state in the NSRF. During the same period, multilateral meetings were held between the central and regional governments to discuss the scope of eligible interventions under the new programmes. There were also informal meetings in the regular regional policy and economics forum which addressed a wider range of issues on future programming. Preliminary discussions were held, too, with the Commission in the annual meetings addressing the planning and direction of the future programmes, amongst other matters. Further multilateral meetings are scheduled between the central government and the regions before the summer in order to finalise the draft NSRF and parallel OPs, enabling formal negotiations with the Commission to take place during the September-December 2006 period. A provisional timetable including the key stages in the drafting and approval of the NSRF and OPs is provided in Figure 25.

From the perspective of the central government, the development of the NSRF does not present a particular challenge because the Directorate General for EU Funding has always played a strong coordinating role in the programming process, particularly in the Objective 1 Community Support Framework, but also with respect to the Objective 2 SPDs. The overall assessment of the process amongst the regions consulted was mixed. Some expressed dissatisfaction with the transparency and level of feedback received from the central administration in collating and aggregating the input of regional governments and other central Ministries to the NSRF. One programme manager considered the process to be less organised than in the previous programming period where deadlines were proposed well in advance to complete the (albeit more onerous) regional development plans and documentation. Others argued that the process is well on track, pointing instead to failures at the EU level in terms of the delays in reaching budgetary agreement and the subsequent approval of the draft regulations and Community Strategic Guidelines which must form the basis for the drafting of the programming documents. Further, the point was made that, in the previous policy phase, the programming process was not anyway completed until almost two years after the budgetary and regulatory agreements had been reached, not least because of the need to approve the Programme Complements. Set against this, the current process is perceived to be well on schedule, potentially allowing a much more timely start to the new round of programmes.

Figure 25: Provisional calendar for negotiating the NSRF and OPs in Spain: 2007-13

Period	Member State	Commission	Council
October 2005	1st meeting on the NSRF between the Commission and central government		
January 2006	2nd meeting on the NSRF between the Commission and regions Informal agreement between the Member States and the Commission on the NSRF index		
February	Internal central government discussions on the NSRF Discussions between the central government, regions and relevant Ministries	Informal discussions between Commission services and central/regional governments, including sectoral themes (multiregional programmes, Technological Fund etc.)	
March	Development of NSRF Priorities: objectives, strategic priorities and approach		
April	NSRF draft ready to initiate informal negotiations with the Commission		
May	NSRF negotiations with Commission, to continue in June/July		
June	OP's drafted		Formal adoption of Structural Funds Regulations
July			
August			
September	OP negotiations between the Commission services and central/regional governments		Formal adoption of Community Strategic Guidelines
October			
November	Formal submission of NSRF and OPs to the Commission		
December	Formal approval by the Commission of OPs and NSRF		
January 2007			

Source: DG Regio (2006) Marco Estratégico Nacional de Referencia: Objetivos estratégicos y ámbitos fundamentales en relación con España en el período de programación 2007-2013, Borrador de Trabajo elaborado por DG REGIO en colaboración con DG EMPL, 10 March 2006

5.2.2 NSRF content

As noted above, the programming of the draft NSRF and Operational Programmes is not expected to be completed until July 2006.[65] Nonetheless, some indication of the likely structure and content of the NSRF can be gleaned from the document's index page, the Spanish Lisbon National Reform Programme, central government reactions to the Commission's proposals for the Community Strategic Guidelines and a recent statement by the Minister of Economy and Finance on the future priorities.

[65] The precise content of the NSRF was still unknown by the regions at the end of February 2006, although they had been supplied with a contents page indicating the structure and key headings of the document.

Figure 26 National Strategic Reference Framework in Spain: 2007-13

Heading	Content	Pages	EU Regulatory base
1. Economic and Social Cohesion in Spain: convergence and regional competitiveness in the globalised, knowledge economy.	Analysis of economic development disparities.	40	Art.25, Heading 4a
1.1. Introduction (explanation of the strategy development process including consultation with partners) 1.2. Trends in the world economy: globalisation and technological development 1.3. Trends in the European economy: internal market, euro and enlargement 1.4. Analysis of the Spanish economy 1.5. Analysis of the labour market 1.6. Analysis of regional disparities over the last decade and future perspectives 1.7. Analysis of social disparities 1.8. SWOT analysis by main regional typologies: competitiveness and convergence 1.9. Analysis of Spanish regions' position in relation to Lisbon objectives			
2. Objectives and Priorities of the NSRF	Adopted Strategy	60	Heading 4b
2.1. Introduction (including approach to "Lisbon earmarking" by Objectives) 2.1.1. NSRF and the Commission's CSG 2007-13 2.1.2. Relationship and synergies with Lisbon NRP 2.1.3. Horizontal programming principles: equal opportunities, sustainability and partnership. 2.2. Strategic Lines 2.2.1. Research, Technological Development and Innovation 2.2.2. Business Development 2.2.3. Information Society 2.2.4. Promoting entrepreneurship and improving the adaptability of workers, firms and entrepreneurs 2.2.5. Promoting Employability, Social Inclusion and Equal Opportunities 2.2.6. Increasing and improving human capital 2.2.7. Transport 2.2.8. Energy 2.2.9. Environment and sustainable development 2.2.10. Rural and urban development2.2.11 Technical assistance			
3. Performance and/or Adjustment Reserve			
4. Territorial Cooperation	Includes priority themes, areas (maps) and key actors	5	
4.1. Cross-border cooperation 4.2. Trans-national cooperation 4.3. Inter-regional cooperation			
5. List of Programmes (regional and multi-regional by Objectives, including the Cohesion Fund)	Includes strategic priorities by objectives	5/tables	Heading 4c
6. Indicative annual financial allocation by Fund	Breakdown by programmes	10/tables	Heading 4d
7. Convergence Regions		5	Heading 4e
7.1. Measures to increase administrative efficiency 7.2. Coordination between funds 7.3. Coordination with other EU policies and finance 7.4. Ex-ante verification of additionality and co-finance guarantees			
8. Statistical Annexes			
8.1. Analysis of national economic trends 8.2. Regional statistics 8.3. List of authorities and contact details			

Source: DG Regio (2006) Marco Estratégico Nacional de Referencia: Objetivos Estratégicos y ámbitos fundamentales en relación con España en el período de programación 2007-2013, Borrador de Trabajo elaborado por DG REGIO en colaboración con DG EMPL, 10 March 2006

An overview of the structure of the NSRF is provided in Figure 26, which sets out the key headings that are expected to appear in the document's index page. In terms of the strategic orientation, ten priority lines have been identified, including: research, technological development and innovation; business development; the information society; promoting entrepreneurship and improving the adaptability of workers, firms and entrepreneurs; promoting employability, social inclusion and equal opportunities; increasing and improving human capital; transport; energy; environment and sustainable development; rural and urban development.

The strategic context underpinning the central government's future economic development priorities in relation to the EU's Lisbon agenda is provided in the Spanish National Reform Programme (NRP), submitted to the European Commission in October 2005. The two core objectives identified are to gain per capita income parity with the EU25 average by 2010 as well as an employment rate of 66 percent. To achieve the objectives, seven priorities have been established concerning macroeconomic and budgetary stability; transport infrastructure and water resources; human capital; R&D and innovation; competition, regulation and public sector efficiency and competitiveness; the labour market; and entrepreneurship. Specific objectives and a range of concrete measures for each of the priorities are listed in the NRP. However, the document does not specify how the future NSRF or Operational Programmes will align with and contribute to the National Reform Programme, a criticism also noted by the Commission in its review of the NRP.[66] It remains unclear which priorities/measures will be incorporated within the future NSRF or what their relative weighting will be.

A better indication of the likely content of the future Structural Funds programmes in relation to Cohesion policy (as opposed to broader Lisbon) priorities can be obtained from the central government's reactions to the Community Strategic Guidelines. At the start of 2005, the Commission held bilateral meetings with the Member States to discuss its proposals for the Community Strategic Guidelines and to exchange views on the targeting of priorities according to national and regional development needs. The meeting with the Spanish authorities took place in February 2005. At the meeting, the Spanish delegation suggested a range of potential lines of action that could fit with the "ten issues of Community interest for Cohesion policy" proposed by the Commission. According to an interview with one participant, a key objective of the Spanish delegation was to gain more detailed operational insight into the types of intervention that the Commission would be targeting. The lines of action proposed by the Spanish delegation are listed below (Figure 27). This provides a provisional outline of the potential interventions being considered by the central government, albeit at an early stage of the programming process.

[66] Although this is to be expected given that the National Reform Programme was submitted 3 months before the key strategic decisions over the programming of the Structural Funds were to be taken.

Figure 27: Future Priorities and Actions?

EU Priorities	Potential Action Lines
Accessibility	Completion of the basic infrastructure network/national multi-modal axes Cross-border multi-modal axes South-West Europe High-Speed Trains Railway inter-operability with French corridors Railway axis Portugal-Spain-Rest of Europe
Information Society	E-government (public administration, health, justice, cultural heritage) Science and Education (national system of primary and secondary education) Business (productivity, universities, training) Science and Education (participation and internet access) Environment (New technologies and the environment)
Environment	Water supply and treatment infrastructure (desalination plants) Developing risk prevention and mechanisms for natural conservation of resources Deficit reduction in environmental infrastructures Protection of forest resources and biodiversity Sustainable construction models (more environmentally efficient) Implementing the Gothenburg Strategy Complying with VI Environmental Action Plan Complying with the EU Water Framework and other Environmental Directives Application of Best Available Techniques (BATs) R&D for waste prevention and recycling
Kyoto Protocol	Development of renewable energies (apart from wind energy) Developing an energy efficiency and savings plan and diversification of sources of energy for SMEs
Efficient public administration	Regulatory security Optimisation of IT tools Optimisation of controls Optimisation of co-financed actions
Employment	Promoting equal opportunities Improving the life-long training system and targeting new needs Promoting networks and training for researchers Promoting full/part-time indefinite contracts and risk prevention plans Promoting entrepreneurship Guidance, training and personalised unemployment plans Social inclusion plans Transnational and interregional cooperation (mainstreaming EQUAL)
Innovation and technology	Improving R&D infrastructures Improving participation in EU R&D Framework Programmes Promoting integration between research centres and researcher training Increasing private sector involvement Creation of Technology Platforms Increasing participation in large European platforms Increasing R&D expenditure (25%p.a.) Increasing transnational/regional R&D and Innovation collaboration Boosting the mobility of R&D and Innovation personnel
Innovation and businesses	Strengthening the innovation system Strengthening university-business networks Technology diffusion and renewal Support for regional innovation strategies (clusters and technology centres) Innovative SME support (adapting to regulation such as REACH) Boosting R&D and Innovation entrepreneurship
Financing	Improving risk capital investments
Cooperation	Promoting cross-border cooperation Promoting cooperation between regions with commercial/historic links (Mediterranean/N. Africa) Supporting island regions

Source: Directorate General for EU Funding

More recently, the Minister for Economy and Finance has specified the proposed ERDF priorities for the future Convergence regions (including Phase-out) and future Regional Competitiveness and Employment regions (including Phase-in) (see Figure 28 and Figure 29).[67] As illustrated in the tables, the priorities maintain a high degree of continuity with

[67] Diario de Sesiones del Senado, Año 2006, VIII Legislatura, Comisiones. Núm. 303, Comisión General de las Comunidades Autónomas, celebrada el lunes 3 de abril de 2006, Comparecencia, a petición del Grupo Parlamentario Popular en el Senado, del señor Vicepresidente Segundo del Gobierno y Ministro de Economía y Hacienda, D. Pedro Solbes Mira, para tratar sobre las repercusiones financieras en las Comunidades Autónomas de la negociación del reparto de fondos europeos a partir de 2007

respect to the current period. The Minister also commented that a greater emphasis would be given to R&D and innovation, although infrastructure needs would also be covered alongside continued support for environment and transport infrastructure programmes that are currently being implemented.

Figure 28: Objective1/Convergence Objective Priorities

2000-06	2007-13 (ERDF)
1. Improving competitiveness, employment, and developing production structures	1. Knowledge-society (R&D and the information society).
2. The knowledge society (innovation, R&D, the information society)	2. Business development and innovation.
3. Environment, natural habitats and water resources	3. Environment, natural spaces, water resources and risk prevention.
4. Human resources, employment and equal opportunities	4. Transport and energy.
5. Local and urban development	5. Sustainable, local and urban development.
6. Transport and energy networks	6. Social infrastructures.
7. Agriculture and rural development	7. Technical assistance and institutional capacity.
8. Fisheries and aquaculture	
9. Technical assistance	

Figure 29: Objective 2/Competitiveness and Employment Objective Priorities

2000-06	2007-13 (ERDF)
1. Competitiveness and business development	1. Knowledge-society, innovation and business development
2. Environment, natural habitats and water resources	2. Environment and risk prevention.
3. The knowledge society (innovation, R&D, the information society)	3. Transport and telecommunications networks and services
4. Transport networks and alternative Energy Sources' Infrastructure	4. Sustainable, local and urban development.
5. Local and urban development	5. Technical assistance.
6. Technical assistance	

A key aim for the Commission (through the introduction of the National Strategic Reference Framework) is to increase the coherence between EU priorities, particularly the Lisbon/Gothenburg themes, and national and regional Structural Funds programmes. Early statements by national officials in Spain have indicated that the new strategic orientation was not perceived to be a particular challenge. For instance, at a conference organised by the Commission on the Lisbon strategy and Cohesion, Miguel-Angel Fernández Ordóñez, the (then) Secretary of State for Finance and the Budget, claimed that 80 percent of Structural Funds resources in Spanish Objective 2 regions already target the Lisbon strategy, compared to 60 percent in Objective 1 regions.[68] Similarly, when the proposal to earmark a

[68] Miguel Angel Fernández Ordóñez, Secretary of State for Finance and Budget, Ministry of Finance, Speech at the Conference on "Cohesion and the Lisbon Agenda: The Role of the Regions", Brussels, 3 March 2005.

proportion of Structural Funds resources to contribute to Lisbon objectives was subsequently presented by the Commission at the Hampton Court Council meeting in October 2005, the Spanish Secretary of State for EU Affairs, Alberto Navarro, claimed that it was merely a matter of "cosmetic presentation" and that the use of the Structural Funds in Spain already exceeded the 60 percent threshold by a wide margin.[69]

However, at this stage there was no clear EU guidance on how Lisbon/Gothenburg objectives and themes could be operationalised in practice, notwithstanding the publication of the Commission's draft Community Strategic Guidelines. A more recent assessment by the central government has disaggregated Structural Funds expenditure over the 2000-06 period by the main categories of expenditure proposed for earmarking Structural Funds to Lisbon/Gothenburg objectives (as annexed to the General Regulation). According to these calculations, the proportion of Structural Funds expenditure corresponding to the Lisbon strategy over the 2000-06 period has averaged 41 percent in Objective 1 regions and 54 percent in Objective 2 regions, somewhat below the EU-level targets for the future programming period (60 percent for Convergence Objective and 75 percent for the Competitiveness and Employment Objective).[70] A comparison of the overall national baseline positions for all EU Member States shows that Spain is ranked just below the EU15 and EU10 average (Figure 30).

Figure 30: Earmarking Baseline Figures by Country (2000-06)

Source: DG Regio

[69] Diario de Sesiones de las Cortes Generales, Comision Mixta para la Unión Europea, Año 2005, VIII Legislatura, Núm. 48, Sesión Núm. 13, celebrada el martes, 25 de octubre de 2005, en el Palacio del Congreso de los Diputados

[70] DG Regio (2006) Marco Estratégico Nacional de Referencia: Objetivos Estratégicos y ámbitos fundamentales en relación con España en el período de programación 2007-2013, Borrador de Trabajo elaborado por DG REGIO en colaboración con DG EMPL, 10 March 2006

However, given the future reduction in funding and recent trends in domestic economic policies it is unlikely that raising these overall percentages in the coming period will pose particular difficulties in Spain. Central government economic policy plans have certainly been giving increased prominence to Lisbon-oriented themes, notably in relation to the competitiveness agenda, through initiatives such as the 'Plan for Dynamising the Economy and Boosting Productivity', which was approved in February 2005 and which underpins much of the National Reform Programme. EU and domestic policy frameworks are therefore becoming increasingly aligned. Despite this, the central government's strategy throughout the negotiation of the regulations has been to argue for gradual changes in the next policy phase in order to provide a smooth transition to the new strategic approach embodied in the reforms - not only in terms of the level of funding but also in the types of interventions that can be funded.[71]

5.3 Implementing the new regulations: Operational Programmes

5.3.1 OP process

As with the NSRF, the Operational Programmes (OPs) were at an early stage of development during the fieldwork, not least because of the unavailability of precise figures on future allocations to regional programmes. Most regions were, however, in the process of consulting relevant partners (predominantly regional government departments) with the aim of having a draft OP ready before the summer (end of July). In general, the regions consulted considered that the process of developing the new OP's would be very similar to that for the current programming period. Some regions believed that there would be a greater degree of partner consultation and involvement in the drafting of the programmes this time round, partly because social and economic, environmental, and gender equality partners have become more firmly embedded within the Structural Funds framework during the implementation of the 2000-06 programmes. There was also expected to be a greater use of external support from economic development consultancies in developing the programmes (e.g. País Vasco, Andalucía and Murcia) and, for some, a greater effort to align domestic strategies more closely with the future EU programmes (notably in Andalucía and Murcia).

5.3.2 OP content

A core change underpinning the reform of EU Cohesion policy is the greater strategic focus on Lisbon/Gothenburg themes, centred on the Community Strategic Guidelines and the new National Strategic Reference Framework. Most of the regional authorities consulted did not consider that the new approach would present particular difficulties in designing the new strategies, not least because the current programmes are already making a sizeable contribution to Lisbon/Gothenburg themes but also because of increasing alignment between domestic regional development strategies and EU policy objectives.

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[71] Kaiser J.L. (2005) XXIV Jornada Temática: "Evaluación Ambiental Estratégica y Fondos Comunitarios 2007-2013". Logroño, 30 de junio de 2005, Red de Autoridades Ambientales, p17.

Support for these conclusions is provided in a number of the Updated Mid-Term Evaluations (UMTEs). The Madrid programme update argues that 98 percent of ERDF investment targets Lisbon objectives, notably in terms of improving competitiveness, research and innovation through Priority 1 (Improving the competitiveness of the productive fabric) and 3 (The knowledge society). Nonetheless, it is recognised that, to move closer towards the Lisbon targets, a significant effort is still required in R&D, the integration of females into the labour force and employment levels. The País Vasco update also observes a high correlation between the programme and the Lisbon objectives, although the actual impact on these objectives is considered to be only moderate because of the relatively low level of Structural Funds resources as a proportion of overall domestic regional development expenditure.

It is not only Objective 2 programmes that are assessed positively in the UMTEs with respect to Lisbon. The update for the Castilla-La Mancha Objective 1 programme finds that some 90 percent of the programme is related to the Lisbon/Gothenburg objectives, notably in terms of improving competitiveness and the business environment. Priority 1 (Improving the business fabric) and 4 (Developing human resources, employability and equal opportunities) are singled out as playing a particularly important role. On the other hand, the update recommends the need to increase expenditure on R&D, to make greater progress in the integration of females into the labour market and to increase the level of training in the workforce.

In Andalucía, the update commends the strong contribution made by the programme to the European Employment Strategy. A very significant emphasis on sustainable development is also noted. Over half of eligible expenditure is considered to target key Gothenburg objectives, particularly "improving the transport system and spatial planning" (through Priorities 5, 6 and 7) and "a more responsible management of natural resources" (through Priority 3). In the city of Melilla, a future Phase-in region, the update argues that there is a clear and direct contribution to Lisbon objectives, especially in relation to employment, human capital, the environment, and, to a moderate extent, the knowledge society, the business fabric and equal opportunities. On the other hand, in Extremadura (the poorest Objective 1 region in Spain), an evaluation undertaken for the European Commission in early 2005 found that only 32 percent of Structural Funds expenditure was related to Lisbon and Gothenburg objectives,[72] mainly due to the lack of complementary between the region's key regional development challenges, particularly infrastructure deficits, and the Lisbon Strategy.

A weakness with the UMTE analyses is that they are based on the evaluators' assessment of the alignment between the "objectives" of programme priorities and measures with (and their contribution to) Lisbon/Gothenburg targets (e.g. competitiveness and productivity, the creation of high quality jobs etc.). They do not reflect the correspondence between the typology of funded interventions with these targets, and their relative importance within the overall programme. As already noted, this is unsurprising given the lack of clarity and

[72] Danish Technological Institute (2005) Thematic Evaluation of the Structural Funds' Contributions to the Lisbon Strategy, Synthesis Report, February 2005

guidance at the EU level on the operationalisation of Lisbon/Gothenburg in policy content terms.

Trends in domestic regional economic development strategies also suggest a close degree of congruence with EU priorities, particularly with regards to R&D and innovation. In the País Vasco, the government has refocused its economic development priorities in recent years in line with Lisbon and Gothenburg objectives, a strategy known as the Basque “second economic transformation”. Amongst the key initiatives are the Basque Environmental Strategy for Sustainable Development 2002-2020 and the Energy Strategy 2010, which are closely aligned with EU sustainable development and Kyoto objectives. The White Paper on the Basque Innovation System is also of note, building on the previous 2000-04 Basque Science, Technology and Innovation Plan (PCTI).[73] Interestingly, only 4 percent of the €2.2bn investment effort under this plan was accounted for by EU funding. A similar RTDI drive is apparent in Madrid through the Fourth Plan for Scientific Research and Technological Innovation (IV PRICIT) and the related White Paper on Innovation 2005-2008. In Cataluña, the recently-agreed Strategic Agreement for Internationalisation, Quality Employment and Competitiveness is closely aligned with Lisbon, especially in terms of RTDI and employment. The Catalan 2005-2007 Action Plan for Policies Targeting Females is of particular note given the close connection with the key Lisbon target of increasing female labour market participation and employment rates.

Similar trends are also apparent in the less economically-advanced regions. In Andalucía, the regional government has made a firm commitment to boosting the Knowledge Society, often referred to as the “third modernisation”. Evidence of this drive can be seen in the “Plan for Innovation and Modernisation of Andalucía” (PIMA), an integrated €5.8 billion strategy over the 2005-10 period, prioritising electronic equal opportunities, business development and entrepreneurship, environmental and energy sustainability, universities and knowledge industries, the information society, and intelligent public administration. The regional government’s Agency for Innovation and Development of Andalucía (IDEA) - the RDA formerly known as the Institute for Promotion of Andalucía - has also been strongly prioritising innovation in its business support schemes and activities over recent years.[74] Other recent initiatives include the creation of the Andalucian Technology Corporation at the end of 2005, incorporating 36 businesses and 7 financial bodies that aim to foster R&D and innovation activities in the region. The corporation expects to generate €200 million for joint R&D projects over the next four years, half of which should come from the public sector (including EU funding).[75]

[73] Gobierno Vasco (2001) ‘Plan de Ciencia, Tecnología e Innovación’ Servicio Central de Publicaciones del Gobierno Vasco, Vitoria-Gasteiz.

[74] Yuill D, Polverari L, Mendez C, Michie R, Gross F, Downes R and Novotný V (2005) Innovative Forms of Support to Firms in Europe: A Comparative and Forward-Looking Analysis, Report to the Italian Institute for Industrial Promotion (IPI) and Ministry of Productive Activities, European Policies Research Centre, University of Strathclyde, Glasgow.

[75] El País (2005) La Corporación Tecnológica se crea con la meta de canalizar 200 millones a I+D en cuatro años, El País, 11.10.2005

Comparable initiatives are evident in La Rioja, with the establishment of an Agency for Knowledge and Technology which is expected to be operational by mid-2006, and the recent creation of Technology Centres, an experience which is already well consolidated in other Spanish regions such as Valencia (e.g. through the so-called RED IMPIVA - a network of 23 Technology Centres and 4 Business and Innovation Centres coordinated by the Regional Development Agency). Interview evidence indicates that the current EU-funded "Regional Innovative Actions Plan" in La Rioja has provided an important learning experience for developing R&D actions in the 2007-13 period. A new Plan for Innovative Actions was initiated in January 2006 and will run in parallel to the new programmes, further enhancing the absorptive capacity of the region, particularly amongst SMEs. Castilla-León has also drawn on EU funding to support the region's strong R&D and innovation policy drive since the mid 1990s - notably as one of the pioneering EU regions selected for piloting the European Commission's "Regional Innovation Systems" strategy-building methodology.[76] Castilla-León is currently a Spanish leader in terms of domestic R&D and innovation investment effort.[77]

Another good example of increased domestic regional policy activism in the field of R&D is Cantabria where there has been a five-fold increase in the R&D and innovation expenditure component of the region's 2006 annual budget, with the launch of the first 'Plan for Scientific Research, Technological Development and Innovation'. In Murcia, a broader range of Lisbon-oriented objectives is being reinforced through modifications to the "Strategic Plan for the Development of the Region" (2000-06) in November 2004.[78] The changes introduced aim also to provide a solid basis for the design of the future Structural Funds strategy in 2007-13.[79]

Further confirmation of the relatively close fit between future Cohesion policy priorities and current domestic strategies is available in the chapter on "recommendations for future programming priorities" in some of the UMTEs. In terms of Objective 2 regions, the updates for La Rioja and Cataluña provide a matrix analysis of potential domestic projects and actions currently available in each of the regions that both address the main development challenges identified in the updated socio-economic analyses and also closely fit with each of the priorities and sub-priorities proposed by the Commission in the draft Community

[76] Del Castillo J, Barroeta B and Urizar I (2003) 'Regional Innovation Strategies: The Key Challenge for Castilla y León as one of Europe's Less Favoured Regions' in Morgan K and Nauwelaers (Eds.) Regional Innovation Strategies, London and New York: Routledge.

[77] European Trend Chart on Innovation (2005) 'Annual Innovation Policy Trends and Appraisal Report: Spain 2004-2005', Enterprise Directorate-General Enterprise, European Commission: http://trendchart.cordis.lu/reports/documents/Country_Report_Spain_2005.pdf

[78] Región de Murcia (2005) Adaptación del Plan Estratégico de Desarrollo de la Región de Murcia 2004 – 2006, Consejería De Economía, Industria E Innovación, Dirección General de Economía, Planificación y Estadística, Noviembre 2004.

[79] Asamblea Regional de Murcia, Diario de Sesiones, Comisión de Economía, Hacienda y Presupuesto, Año 2005 VI Legislatura Número 37, Sesión Celebrada el Día 1 de Marzo De 2005, Comparecencia del Consejero de Economía, Industria e Innovación para informar sobre la adaptación efectuada, con el consenso de los agentes sociales y económicos, en el Plan Estratégico de Desarrollo de la Región.

Strategic Guidelines. The País Vasco update provides a particularly exhaustive analysis in this respect, and concludes that all the strategic priorities and a majority of specific objectives within the region's new domestic development strategy are eligible for inclusion within the 2007-13 Operational Programmes.

With respect to Objective 1, the UMTE for Castilla-La-Mancha considers that the future strategic priorities identified by the evaluators correspond closely to the draft Community Strategic Guidelines and, in large measure, to the expenditure priorities currently available in the region's 2005 annual budget. EU priorities targeting the labour market, which are closely related to social and territorial cohesion, are considered to offer the greatest fit with existing expenditure programmes, notably in terms of education, health, and business and employment promotion. On the other hand, the evaluators also note that, despite the availability of investment measures for innovation that address important deficits in this policy area, further effort is needed in establishing technology transfer mechanisms and a more integrated science and technology system.

Notwithstanding these general patterns, differences amongst the regions are clearly evident, reflecting variations in regional specificities, levels of economic development, policy approaches etc. This implies varying adaptation pressures and responses to the new EU policy rules, not least because of the differing categories of designated EU Cohesion policy areas in Spain. Those regions shifting directly into the Regional Competitiveness and Employment Objective (i.e. the Phase-in regions and Cantabria) are expected to face the greatest adaptation challenge given the much more limited range of interventions eligible for co-financing, compounded by the highest relative reduction in funding vis-à-vis other categories of region. In these regions, the current programming structure is likely to be significantly simplified with a greater degree of concentration on key priorities in order to avoid fragmentation of effort. In Cantabria, for example, interview evidence indicates that the intention is to dedicate as much as possible to R&D and innovation, in line with recent domestic policy trends. With a much reduced budget, it is considered pointless to spread resources thinly over the large number of interventions presently co-funded.

A potential risk for these regions is that resources will be diverted away from basic development activities which may still require attention. For instance, the large geographic size of Castilla-León and its medium population level suggest a continuing need for basic infrastructure, for which co-financing possibilities seem likely to be much more limited in future.[80] On the other hand, interview evidence indicates that this may not pose as significant a challenge as expected given that current transport infrastructure priorities (i.e. for the year 2005/06) are funded exclusively through domestic funding streams. Moreover, comments by the Spanish Secretary of State of Finance and the Budget suggest

[80] While significant progress has been made in recent years through the construction of motorways and the consolidation of the main transport networks, smaller roads are still needed, particularly to connect isolated centres in the North and the centre of the province of Avila.

that provisions were made during the negotiations for greater flexibility in financing infrastructure spending in Phase-in regions.[81]

Similar challenges are present in the Phase-out regions (Asturias, Murcia, Ceuta and Melilla), although a more flexible margin for co-financing eligible interventions is permitted.[82] For these regions, it vital that appropriate account is taken of the reduced resources available in the future programmes whilst laying the basis for a smooth transition to the Regional Competitiveness and Employment Objective. For example, the UMTE for Murcia recommends a much higher degree of policy targeting in the next programme, concentrating expenditure on those policy areas that address EU policy priorities most efficiently by drawing on the lessons learnt during the current period. While basic challenges (notably in relation to rail and water infrastructures) should continue to be addressed, the evaluators also stress the need for a stronger focus on softer forms of intervention such as public-private partnerships in order to diminish the grant dependency culture. More specifically, it is envisaged that the future development model for Murcia will centre on four strategic lines: concentrating expenditure on the main productive and employment investment policy areas; refocusing business promotion policies towards internationalisation and the incorporation of innovation through a model based on services and personalised assistance; addressing desertification and depopulation through an integrated strategy (not only agricultural) that allows the generation of new activities compatible with sustainable development; and, improving the conciliation between family life and work in order to create jobs and increase social cohesion.

For the existing Objective 2 regions moving to the Regional Competitiveness and Employment Objective, the key challenge is to increase the thematic concentration of the programmes. For example, the input of Cataluña to the NSRF (see Figure 31 and Figure 32) envisaged four Priorities (as opposed to the current five, not including technical assistance). These are based on the Commission's thematic proposals and cover the Knowledge Economy, Accessibility, Environment and Energy, and Local Development. Whilst it appears that that there is a certain degree of Priority repackaging - by combining the previous Priorities for "business development" (Priority 1) and "R&D and Innovation" (Priority 2) into a new Knowledge Society Priority - interview evidence indicates that the intention is to raise the quality of interventions and refocus the Measures within each of the Priorities towards Lisbon/Gothenburg themes (e.g. by targeting energy efficiency, renewable energy and the protection of natural areas as opposed to traditional environmental infrastructure such as water treatment plants). Given the already high focus on such themes, the current Objective 2 programmes are well placed to adapt to the new requirements. Moreover, given the relatively low level of expected funding in relation to domestic budgets, no particular difficulties are expected in finding suitable interventions for inclusion within the future programmes.

[81] Diario de Sesiones del Senado, Año 2005, VIII Legislatura, Comision de Economia y Hacienda, celebrada el jueves, 17 de noviembre de 2005, Comparecencia del Secretario de Estado de Hacienda y Presupuestos, D. Miguel Ángel Fernández Ordóñez.

[82] However, in the city of Melilla, the UMTE highlights the lack of regulatory provisions to cover the specific comparative geographical and natural disadvantages of such cities.

Figure 31: Catalan 2000-06 SPD Priorities

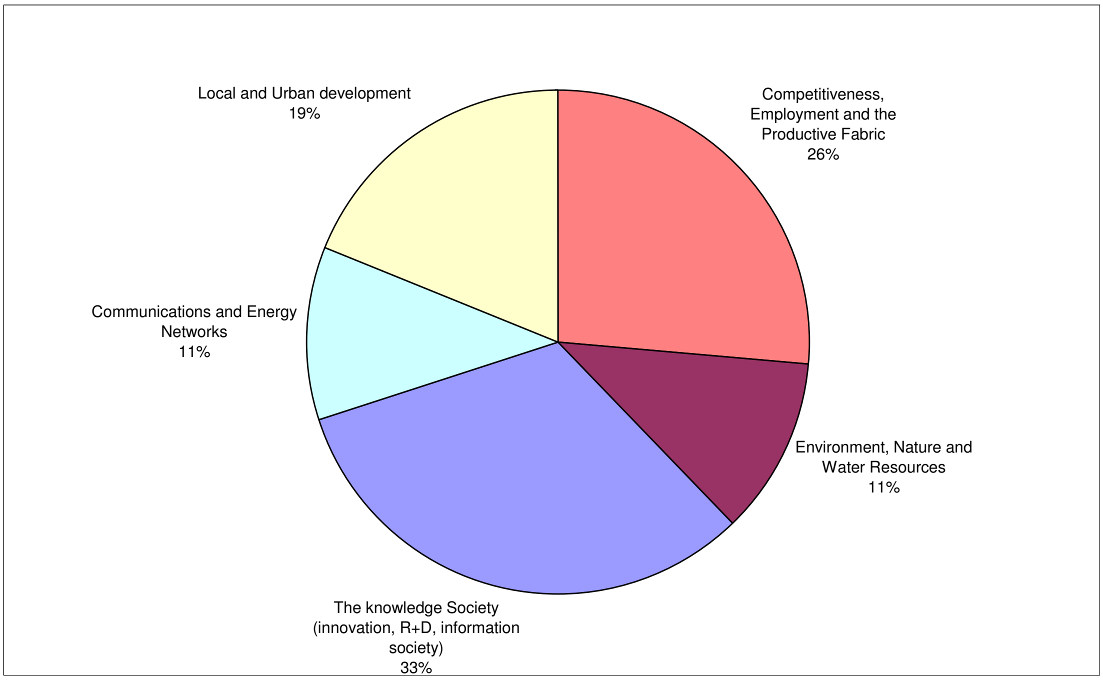
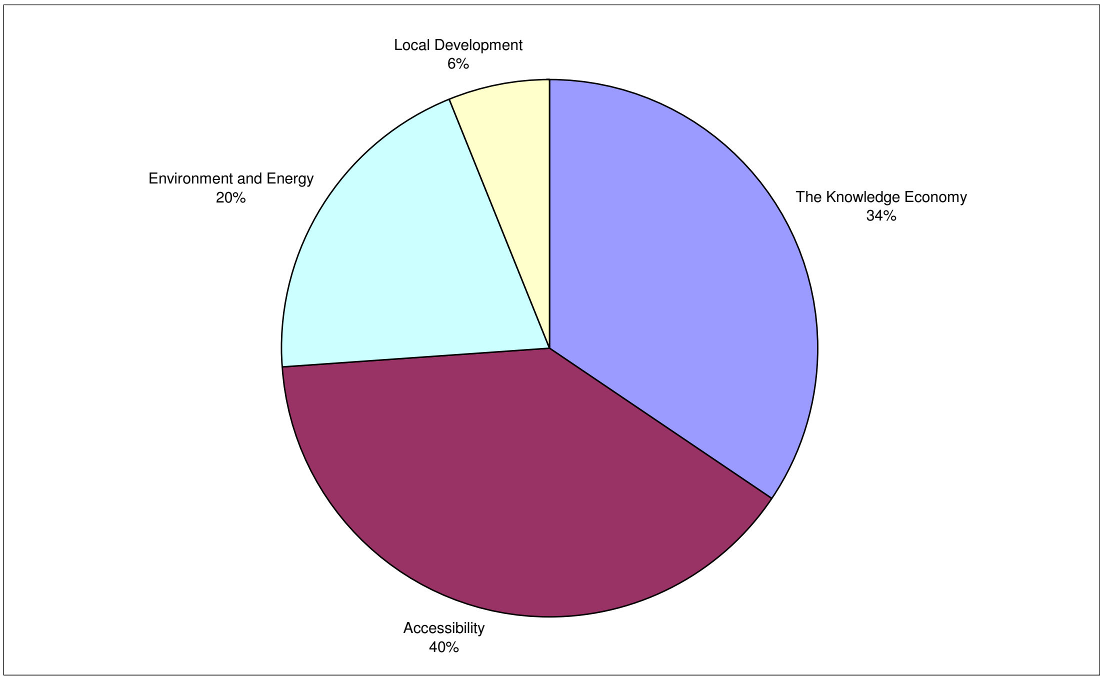


Figure 32: Catalan 2007-13 ERDF OP Priorities?



With respect to the Spanish Objective 1/Convergence regions, the primary challenge is to increase the strategic focus on competitiveness factors whilst continuing to address basic infrastructure deficits and other preconditions for sustainable growth. For example, in Galicia, the region's situation on the periphery of Europe means that accessibility and infrastructure deficits are likely to continue to be an important focus of the future strategy. According to the programme manager, the main challenge is not so much to concentrate on a narrower range of Priorities - as may be appropriate in other Spanish regions receiving a much lower future resources - but rather to strengthen the weighting of those Measures which generate greater added value in terms of raising competitiveness and economic activity.

In a similar way, the UMTE for Andalucía argues that the general thrust of the future strategy should be one of continuity rather than change. The main objective should continue to be job creation, prioritising investment in education infrastructure and training. Increased investment in health infrastructure and the completion of the basic transport network is also required. In terms of the key territorial challenges, rural areas and those dependent on fisheries will continue to need support as agriculture remains a significant sector in the regional economy. Traditional environmental infrastructures (such as water purification and supply) are expected to form an important component of the strategy, although a strengthened emphasis on the forestry sector (biodiversity and environmental protection) is recommended. A more significant proposed change is the recommendation to create a horizontal programme priority for research, technological development, innovation and the information society for 2007-13 to address the region's competitiveness deficit in relation to national standards.

The Castilla-La Mancha UMTE also recommends a greater focus on such themes. It proposes a widening of the scope and strengthening of the content of the current Operational Programme's objectives by redefining the priorities and moving from a relatively simple model of economic promotion, largely based on investment in the stock of economic and human capital, to one that focuses more on innovation and investment in intangibles (Figure 33). On the other hand, the evaluators also note that the attraction of capital and labour to the region will require continued and strengthened investment in transport infrastructure, particularly in light of the strategic territorial position of the region within Spain.

Figure 33: Towards a New Development Model in Castilla-La Mancha

Policy Scope	Current Focus: 2000-06	Future Focus: 2007-13
Human resources	To create new jobs and improve the qualifications of the labour force	To create high quality jobs, improve the adaptability and stability of the workforce, invest in human capital and to encourage equal opportunities
Investment in public capital	To improve the endowment of infrastructure	To improve accessibility, social cohesion and competition between the different forms of transport
Environment	The protection, prevention and regeneration of the natural environment	Sustainable development and the effective mainstreaming of the environment into other policy areas.

Source: QUASAR Consultores, Actualización de la Evaluación Intermedia del POI Objetivo 1 2000-06 de Castilla La Manch, Consejería de Economía, Industria y Comercio, 2005, p 271

5.3.3 Programme management and delivery

The main issues in relation to the future management and delivery of the Operational Programmes which were raised in the interviews with the regions and in the UMTEs concerned Managing Authority status, the regionalisation of the ERDF and ESF, the coordination of the Structural Funds, and monitoring and evaluation.

A number of regions are pushing for Managing Authority status to be devolved to the regional level (e.g. Cataluña, País Vasco, Andalucía). The update for Andalucía justifies this on the grounds of the further decentralisation of policymaking powers to the regions that has taken place throughout the current programming period in parallel with a significant strengthening of the Andalucian government's administrative systems and management capacity. Similarly, in Cantabria, the programme manager made the point that the regional government had been a Managing Authority for the Interreg South West Programme since 2000 (a function which is being extended in the next phase), and suggested that this was evidence of the region's capacity to fulfill this role for the mainstream Operational Programme. Not all regions have been as proactive in demanding Managing Authority status. For example, the Madrid programme management tends to support the status quo, based on a model of co-responsibility between the central government and the regions. The designation of Paying Authority status to regions in areas lying within the policy competence of regional governments has also been requested by some regions. The País Vasco, for instance, considers that this would prevent delays in receiving both financial advances and the main blocks of funding, and would avoid the regional government having to temporarily plug funding gaps from its own resources.

In terms of policy coordination, a number of UMTEs stress the importance of creating suitable mechanisms for coordinating the Structural Funds given the requirements for mono-fund programmes in the next programme period (e.g. Madrid, Andalucía, Melilla). Interviews in Murcia suggest that the programme management is strongly committed to this. This is also seen in the UMTE's integration of ERDF, ESF and EARDF objectives in the strategic guidelines proposed for the future OP's.

The issue of the regionalisation of the Structural Funds is a long standing bone of contention between the central government and regional governments. In a joint statement to the Ministry of Economy and Finance, the Spanish Objective 2 regions have called for the programming of the ERDF and ESF to be regionalised in the 2007-13 period.[83] A number of UMTEs and programme managers interviewed are particularly keen on regionalising the ESF, especially in light of the recent transfer of active labour market policy competence to the regional level. According to the UMTE for Murcia, this would allow future interventions to more closely match the specific needs of the regions and increase coordination and synergies with other regional government interventions. Similarly, the regional government of Madrid has, through a number of different initiatives,[84] defended the view that the

[83] Objective 2 regions meeting on 22nd December 2004 in Olite, Navarra.

[84] Memorando en Defensa del futuro Objetivo Competitividad Regional de fecha 18 de marzo de 2005 promovido por los Presidentes de Aquitania, Las Marcas, West Midlands y Cataluña, al que se adhirió

programming of funds for employment, quality, work productivity and social integration should be decided at the regional level (in line with the European Employment Strategy) by eliminating multi-regional ESF programmes. A further solution to overcome the perceived lack of coordination between national and regional ESF programmes, as envisaged in the update for Murcia, is the incorporation of the multi-regional programmes within the regional programmes and the designation of the central government as an implementing body.

A related point, although not specific to the ESF, was highlighted in the UMTE for La Rioja, namely the need for central interventions in the regional OPs to take greater account of regional specificities in order to improve the utilisation of EU resources. A similar proposal is made in the update for Cataluña which recommends an increase in funding for central government RTDI policies in the region (largely under Priority 3) given its high spending capacity relative to other regions.

In terms of monitoring and evaluation, a common theme emerging from the experience of the current programming period is the need to improve the quantification of indicators. For example, a number of UMTEs note the need to set annual or mid-term targets for physical progress to enable more objective assessments of the effectiveness of programmes (e.g. Melilla, La Rioja, Cataluña) and a closer integration between physical and context indicators to facilitate the evaluation of impacts (e.g. Cataluña). A related weakness has been the lack of data on expected unit costs for physical indicators, which is required to facilitate the evaluation of the efficiency of interventions (e.g. La Rioja and Cataluña UMTEs). In terms of the functioning and composition of the Monitoring Committees, interviews with programme managers suggest that there is unlikely to be any notable changes in the next period given general satisfaction with the current arrangements, although some noted a need for a strengthening of the strategic dimension of meetings.

5.4 Implications for Spain

The aim of this section has been to review the policy and institutional impacts in Spain of Cohesion policy reform. In line with this, consideration was given first to regulatory and then to financial issues, before moving on to programme implementation and management. Different from the other sections in this report, there has been a particular focus on regional views, based on a programme of interviews with regional programme managers in late 2005/early 2006.

In general, the Spanish regions have welcomed the Commission's regulatory proposals relating to the future of Cohesion policy. The regional view is that they do not represent radical change but are rather a progression of current arrangements. While, based on past experience, there are some doubts about whether simplification will be achieved in practice, the steps taken to streamline programming are viewed positively. This includes the dropping of the Programme Complement, the Community Support Framework and

la Comunidad de Madrid; la Resolución nº 5/2005 del Pleno de la Asamblea de Madrid por la que se aprobó la Proposición no de Ley 4/05; el Dictamen del Comité de las Regiones de 16 de junio de 2004 sobre el Tercer Informe sobre la Cohesión Económica y Social.

Regional Development Plans. The National Strategic Reference Framework is also broadly welcomed, as is the less onerous approach to Financial Tables. There is less of a common regional view with respect to mono-fund programmes, some feeling that this would lead to a less coordinated approach while others consider that the new approach is more in line with the realities of the situation. However, most other key changes generated a positive regional response: including the integration of the Cohesion Fund with mainstream programmes; the move to coordinate audit controls and reduce duplication in line with the proportionality principle; and the proposal to decentralise decisions on expenditure eligibility to the national level.

From a regional perspective, the budgetary impact of the new financial agreement is obviously of considerable potential significance, especially for those regions losing full Convergence status – with Asturias, Murcia and Ceuta and Melilla becoming Phase-out regions; Castilla-León, Valencia and Canarias qualifying as Phase-in regions (though Canarias was also designated an Outermost region); and with Cantabria, a current Objective 1 Phase-out region, becoming a Regional Competitiveness and Employment region. In addition, there are other potential "knock-on" effects for the regions concerned. For instance, nationally-funded regional incentives in Spain are currently restricted to areas qualifying for regional aid under Article 87(3)(a) of the EU Treaty (that is, the full Convergence regions); regions which lose this status may no longer qualify for national regional aid. In similar vein, the Inter-Territorial Compensation Fund, which operates as a fiscal equalisation mechanism in Spain, is currently restricted to Objective 1 regions with GDP (PPS) per head of less than 75 percent of the EU average.

However, within the devolved Spanish system, there is a keen awareness of these issues – both the direct impact of the reduced availability of the Structural Funds (and associated increased demands for domestic co-finance) and related impacts in terms of regional aid and access to the Inter-Territorial Compensation Fund. There is also seen to be scope to take steps to offset (at least some of) their negative effects. In this context, it is interesting that some regions (eg Castilla-León) have already requested a change of treatment, while others (eg Cantabria) claim to have negotiated continued eligibility for both regional aid and the Inter-Territorial Compensation Fund despite the change in designation status. It will be interesting to see to what extent and in what way national "buffers" will be introduced to moderate the impact of the proposed changes to Structural Funds flows. Certainly Spain has a number of levers which it can pull in this regard – relating to the domestic distribution of the mainstream Structural Funds, the Cohesion Fund and the Technological Fund, not to mention various domestic adjustments, not least in the form of the forthcoming reforms to the regional government financing model in Spain.

Moving on to consider implementation issues, the process of developing the National Strategic Reference Framework (NSRF) is going well from a central government perspective (where the Directorate General for EU Funding has always played a strong coordinating role in the development of programmes) but has received more mixed reviews from the regions. While the regions were asked to make strategic inputs in the first half of 2005, this was not always easy to achieve given the uncertainty at the time about levels of Cohesion funding and the fact that not all of the domestic policy building blocks were in place. Moreover, a number of regions expressed some dissatisfaction with transparency and feedback levels, though others viewed the process as being well on track given the uncertainties and delays at the EU level. Overall, the view was that the potential for a timely start to the next programme phase was higher than last time round.

As regards the content of the NSRF (and the associated Operational Programmes), it is still relatively early in the process to be definitive other than to say that the indications are that there will be a significant Lisbon component to the Spanish approach. This is not, however, viewed as a particular challenge. The Lisbon agenda already has a degree of prominence in Spain and indeed within the current generation of EU programmes. The expectation is that there will be few difficulties in meeting the Lisbon targets set under Cohesion policy. If there are challenges then they will tend to be in the Convergence regions where the general view is that there remains a need for broader infrastructure support and that there may be dangers if this is diluted for Lisbon-related reasons.

6. COHESION POLICY 2007-13: IMPLICATIONS FOR SPAIN

In the face of an enlargement of the EU15 to EU25 (and beyond), it was clear from the outset of the Cohesion policy reform discussions that they would have a major impact on Spain, the country in receipt of most Cohesion policy funding over the 2000-06 period. As early as April 2001, the Spanish government wrote to the Commission President to highlight the statistical effects of enlargement and attempt to link the accession negotiations with guarantees over future Structural Fund flows to the existing Member States.

The Commission's initial reform proposals for Cohesion policy, published in outline form in February 2004, implied a reduction in the Cohesion policy budget for Spain of more than one half to less than €30 billion. In part this reflected the impact of enlargement and the associated move from EU15 to EU25 averages when designating areas for Cohesion policy support, but it was also due to strong relative growth performance in a number of Spanish regions.

In entering the budget negotiations, it was obvious that, with the coverage of full Objective 1/Convergence regions falling from just under three-fifths to much less than one-third of the national population, improving the "fate" of those regions losing Objective 1 status would be central to the Spanish negotiating position, as would arguments for transitional support to compensate for the loss of Cohesion Fund eligibility due to the statistical effect of enlargement. Spain was also keen to see continuing meaningful support for the non-Convergence regions (under the Regional Competitiveness and Employment priority), as well as ongoing special treatment for areas facing particular geographical challenges (including the Outermost regions – Canarias in the Spanish context – and Ceuta and Melilla).

Within the negotiations, the particular position of Spain was acknowledged early in the process, with special transitional provisions being introduced in respect of the loss of Cohesion Fund eligibility as early as the second Negotiating Box under the Luxembourg Presidency (in April 2005). Spain also succeeded in its goal of maintaining the Regional Competitiveness and Employment priority as a meaningful funding source, with increases in Phase-in funding at most stages of the negotiations (Phase-in regions account for more than one-fifth of the Spanish population). Finally, Spain benefited to a major degree from the "special additions" made in the final stages of the negotiations. Not only was the value of Cohesion Fund transitional support raised to €3250 million, but an extra €2000 million was made available under the ERDF to enhance Spanish R&D provision while Canarias received over €535 million in extra funding and Ceuta and Melilla €50 million. Overall, Spain managed to push up its commitment appropriations under Cohesion policy during the course of negotiations which saw the Cohesion policy budget as a whole fall by almost 10 percent compared to the February 2004 Commission proposal. This represents a significant negotiating achievement, one where the major cutbacks being borne by Spain as a result of enlargement and related developments were widely recognised.

Considering the outcomes for Spain, the sharp decline in commitment appropriations under each Cohesion policy category is made very clear in Section 3. As already mentioned, the significantly reduced funding is closely related to the changing eligibility of Spanish regions for Cohesion policy support. Thus, only four of the current twelve Objective 1 regions (Galicia, Castilla-La Mancha, Extremadura and Andalucía) will retain full Convergence region status. Of the remainder, four will become Phase-out regions due to the statistical effects of enlargement (Asturias, Murcia, Ceuta and Melilla), two will be Phase-in regions reflecting their relative growth performance compared to other EU15 regions (Castilla-León and Valencia) and Canarias, while also having Phase-in status, will receive significant extra funding due to its Outermost region status. The final Objective 1 region, Cantabria, is being phased out of Objective 1 support in the current period and, together with the other seven Spanish regions, will fall under the Regional Competitiveness and Employment priority in 2007-13.

These changes in status at the regional level, combined with the impact of the special additions negotiated on behalf of Spain, mean that the envisaged Cohesion policy cutbacks have a potentially quite varied differential impact. Considering the actual allocations made to each region in the 2000-06 period, the theoretical declines (based on the so-called Berlin methodology) for continuing convergence regions like Extremadura, Castilla La Mancha and Galicia are of the order of 35-40, whereas the cutback in Andalucia is closer to 15% due to the significantly lower 2000-06 actual allocation relative to the Berlin-based methodology. For those regions losing Objective 1/full Convergence status, two groups can be identified: those where the decline ranges from 50 to around 60 percent - Ceuta and Melilla, Canarias, Valencia and Murcia - with the first three at the lower end of the range due to the special additions agreed in the final stages of the negotiations; and those witnessing a decline of 70 to 75 percent - Asturias, Castilla-León and Cantabria - largely because of the significantly greater actual 2000-06 allocation than under the theoretical Berlin method in the former two regions and the ending of transitional arrangements in the latter.

With respect to the current Objective 2 (future Regional Competitiveness and Employment Objective) regions, the magnitude of decline is greatest in País Vasco, Navarra and Aragón (65, 55 and 50 percent respectively). This is followed by an intermediate group comprising Cataluña and La Rioja where the fall is in the order of 40 and 30 percent respectively. At the other end of the scale, the decline in Madrid (15 percent) and, particularly Baleares (2%), is much lower, reflecting the relatively lower Objective 2 eligible population coverage in the 2000-06 period.

Of course, an important point to make is that the actual regional distributions made under Cohesion policy are a Member State responsibility. In past programming periods, the Spanish government has influenced the regional distribution of support through the operation of multi-regional programmes and the Cohesion Fund. Looking forward to 2007-13, the government has made it clear that it aims to moderate the impact of some of the changes flowing from the Commission's allocation model. This issue is considered further below.

As far as the regulatory aspects of Cohesion policy reform is concerned, many of the Commission's reform proposals fit well with ongoing developments in Spain. This is true, for instance, of the enhanced stress on the Lisbon and Gothenburg agendas and also the increased weight attached to issues relating to territorial cohesion. Spain has also been broadly in favour of the new architecture for Cohesion policy and of the related shift from a geographic to a more thematic focus. Given its strongly devolved approach, it is viewed as important in Spain that regions in all parts of the country should remain eligible for some form of Cohesion policy support. In this context, the award of significant national sources of Cohesion policy funding - in the form of the transitional Cohesion Fund allocation and the creation of a €2000 million Technological Fund under the ERDF - are viewed as especially important.

With respect to implementation issues, Spain is obviously starting from a position of strength given the experience and expertise gained of large-scale funding over three programming cycles. It is content to see the continuation of the key principles underpinning the Structural Funds – multi-annual planning, integrated development strategies, partnership, co-finance and concentration. It also welcomes the more strategic approach being adopted for the 2007-13 period, involving a system of Community Strategic Guidelines, a National Strategic Reference Framework and Operational Programmes. Along with other Member States, it welcomes the intended simplification of implementation procedures, including a more proportionate approach. On the other hand, doubts remain about the degree to which genuine simplification will be achieved in practice.

Moving to the views of the regions, the ten regions consulted as part of the process of developing this paper generally welcomed the Commission's regulatory proposals, seeing them simply as a progression of current arrangements. While echoing the doubts of others about the practical achievement of simplification, the proposed steps to streamline the documentation surrounding programming were considered positively. The National Strategic Reference Framework was similarly broadly welcomed as was the lighter touch relating to the Financial Tables associated with programmes. One area of disagreement related to the proposal for mono-fund programmes, some considering this to be a practical step towards simplification while others regretted the move away from an integrated approach.

From a financial perspective, the regions were not only concerned about the reduced funding flows for the next programming period but also potential "knock-on" effects relating, for instance, to designated aid area status under the regional aid guidelines and to eligibility for infrastructure support under the Inter-Territorial Compensation Fund. On the other hand, it is recognised that there are significant national "buffers" which can operate to moderate the impact of Cohesion policy changes. As discussed earlier, these include the domestic distribution of mainstream Structural Funds, the Cohesion Fund and the Technological Fund as well as various domestic adjustment mechanisms including the upcoming reform of the regional government financing model.

At a more practical level, the process of developing the National Strategic Reference Framework and the related Operational Programmes is going well in most regions, though some expressed a degree of dissatisfaction with transparency levels and feedback loops. However, overall, the view was that it was likely that there would be a more timely start to the next programme phase than in the past. What seems clear too is that the Lisbon agenda will feature far more prominently in future programmes. As was made clear in the previous section, this has been happening at both the national and regional levels for some time now. The strong emphasis on Lisbon in the next programming period (including the specification of Lisbon targets) is not viewed as a constraint in Spain; rather it is felt to fit well with recent Spanish developments and goals.