

HOUSE OF LORDS  
MINUTES OF EVIDENCE  
TAKEN BEFORE  
THE SELECT COMMITTEE ON THE EUROPEAN UNION  
(SUB-COMMITTEE A)

**THE FUTURE OF EUROPEAN STRUCTURAL FUNDS**

THURSDAY 6 MARCH 2008

UKRep, 10 Avenue d'Auderghem, 1040 Brussels

MR D AHNER, MR N DE MICHELIS, MR E DUFEIL and MR P BOIJMANS

Evidence heard in Public

Questions 247 - 291

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THURSDAY 6 MARCH 2008

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Present

Cohen of Pimlico, B. (Chairman)  
Trimble, L.  
Woolmer of Leeds, L.

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Witnesses: **Mr Dirk Ahner**, Director General DG Regional Policy, **Mr Nicola De Michelis**, Head of Unit – Additionality, Economic and Quantitative Analysis, **Mr Eric Dufeil**, DG Regional Policy and **Mr Pascal Boijmans**, Deputy Head of Unit, Poland, DG Regio, examined.

**Q247 Chairman:** Good morning. We are reasonably short-handed this morning because some of our colleagues are attending the tripartite meeting between the European Parliament, Lords and Commons, so the train was packed with assort Brits.

**Mr Ahner:** A real stressful day for you.

**Q248 Chairman:** It is very good of you to receive us. We have taken quite a lot of evidence on this inquiry and we are boiling up to arrive at a provisional set of conclusions. You have had a copy of our questions.

**Mr Ahner:** Yes.

**Q249 Chairman:** If I introduce my colleagues: I have here Lord Woolmer, a member of my Committee, and Lord Trimble, who has enormous regional experience from Northern Ireland. If you would like to introduce your colleagues because I gather somebody who is labelled “Mr Beschel” actually is not.

**Mr Ahner:** It is not Mr Beschel; it is my colleague, Pascal Boijmans, who is Mr Beschel’s Deputy who is working in the unit which is responsible for regional development in Poland.

Nicola De Michelis is the Head of our Economic Analysis Unit. We have reorganised our Directorate-General and we have one directorate which is policy planning, policy evaluation and economic analysis. Nicola heads the Economic Analysis Unit team.

**Q250 Chairman:** I am not quite sure how to start with this. You have had the various questions we want to ask. We can either chunk our way down them with refinements or is there an opening statement you would like to make?

**Mr Ahner:** If I may suggest, I will go very rapidly through the questions and leave the details for my colleagues. In the meantime, Mr Dufeil has joined us, who is responsible for Spain. In addition, Eric has worked on Germany for many years so he can compare two quite different countries as far as their development patterns are concerned. Let me start with two or three sentences about where we are to get into the subject. Last year we had a very, very intense year of programme approval for the new programming period, 2007-13. Practically all programmes were approved last year; there are very, very few still missing. This year the implementation has started. Some countries started the implementation last year, but this year the bulk of the countries and regions will start the implementation process. To say something about the new period, I think it will make sense in terms of evaluation in two or three years' time. At the end of this year and early next year we expect a whole set of evaluation reports and evaluation studies of the 2000-06 period and it is our intention in the first half of next year to come with an overview and synthesis report of the outcomes of these evaluation studies. This year, and this is why I am so grateful that we have the possibility of this exchange today, we are starting our work on the future Cohesion Policy. This is work where we look a year ahead, so it is a window of opportunity to discuss, exchange and analyse the situation. This work is ongoing, it started just a few weeks ago. Looking at the past and coming back to your questions, let me first of all underline that I am a complete - I do not know how you say it in English - greenhorn. This has been a good year to work in regional

policy. I worked in rural development policy before, which is familiar but is a different field, much more agricultural and sectorially oriented. I will give you my first reactions to your questions and then we will attend to the detail. The first question was has the policy been successful so far. It is extremely difficult to have a benchmark for success: when do you speak about success and when do you not speak about success. If we look at the period for which we have comparable statistics available we can see that convergence has taken place but Regional Development Policy, Cohesion Policy, in our view at least, is not only about the question of convergence. First of all, yes it is about convergence because it is a question of solidarity and this is why a lot of the money is concentrated on the poorer regions, or on regions which have particular problems of structural adjustment, but at the same time it is a policy which helps us to sustain a model of development which we think is the model we have in Europe, which is one of a relatively spatially balanced economic development with a polycentric orientation. In our view, this makes sense in economic terms for the very simple reason we believe if we accept there is a strong concentration of economic activity on very few areas we would very rapidly have a double problem, first of all negative externalities in the big agglomerations, and this is something with which we are already living today in some cases, and the other point is we would probably lose a lot of potential which exists and which would remain unused if we did not have this approach to more balanced development in spatial terms. If you look at the EU-15, where we can observe ten years from 1995-2005 where we have comparable statistics, convergence took place. It is extremely difficult to say that was exclusively because of Cohesion Policy. I would say it was also because of Cohesion Policy and the evaluation studies which exist for this period, if I understand them correctly, confirm this. When we say we have cohesion, we have development in those regions which were lagging behind, but very often what one should not forget is this has feedback effects on the economies of the other countries. We have made a static calculation

for the year 2004 where we saw about a quarter of the money which was spent in the poorer regions of the Community went back in the form of demand for equipment and other things to the richer regions of the EU. There is an ongoing effect which takes place. That is my answer to the first question. If you want figures and details, let me say you have a lot of figures in the Cohesion Report of last year but my colleagues can go into more detail if you want. What lessons can be learned from Spain? Is Spain a model? I must say, we have such a diversity of situations in Europe, even within Spain, that I would be extremely cautious speaking about models. It is true we are testing policy and approaches. One of the specificities of the Cohesion Policy which I think makes sense, and as compared to Rural Development Policy I am delighted to see how it works in the field of Regional Policy, is what is done at the regional and local level is worked out and decided by the regional and local level. It then comes up in the form of programmes to the Commission but the Commission is not really the body which decides on programmes; the Commission has the role of a sparring partner and adviser. We get a programme from the region or from a Member State, we discuss this programme with them and look at whether this programme, since it is EU money being spent, is in line with the priorities which we have commonly set at the EU level and does this programme really address the problems of the regions. Each programme has to carry out an analysis where they show what are the weaknesses and strengths of their regions and what are the opportunities. In our teams we have people who have worked for a number of years with these regions concerned and we discuss it with them. Normally in these discussions, and some call it a negotiation but it is not really a negotiation, what we see is generally we have what I call an improvement of these programmes and at the end we have an outcome where both sides say, "We have brought together something on which we agree which makes sense". I lived through it for the first time last year during the programme approval phase we had, and this is why I am particularly impressed, and we had

very hot and heavy meetings. I remember, Eric, you had one prime minister from a German l ander one evening in a restaurant in Brussels and you were discussing the questions of this programme up to midnight. Something comes out of this dialogue which in my view generates a real value-added, but we can discuss this further if you want.

**Q251 Chairman:** Mr Ahner, I would like to pause at this point but, on the other hand, are you able to be with us all morning?

**Mr Ahner:** I can stay with you for as long as you want.

**Q252 Chairman:** That is very helpful. If we were going to lose you after an hour ---

**Mr Ahner:** You will lose me when you throw me out!

**Q253 Chairman:** That is terrific. I wonder, therefore, if I could stop on this question. We shall see Valencia this afternoon and I would very much welcome a comment on the Spanish experience.

**Mr Dufeil:** Thank you very much, Chairman. If you will allow me, I would like to outline four conclusions I feel I am able to draw from the Spanish experiment. As an introduction, Spain is a very interesting example. It can be looked at as one of the success stories we have recorded in the last 20 years or so. Even if the case study on Ireland might look more impressive, please remember that on the European scale Ireland remains a relatively small country whereas Spain now tends to belong to the biggest countries and to that extent the weight of the Spanish experiment is higher. The first conclusion is convergence in nominal and real terms has taken place over the 20 years at a rate which is quite constant and regular, a little less than one per cent convergence per year on the long-term average, which is very significant. This means that Spain has been able to develop from a level of roughly 90 per cent of the GDP per head indicator at the beginning of the 1990s up to 102 this year. Spain is

very proud of the fact that recently they have overtaken Italy. When you travel to Spain you come across that information all the time because for them it is a signal that they have achieved an important step. The second conclusion is if it is true in general terms, in macroeconomic terms at national level, comparing member countries to other countries, within Spain at regional level you see that there is a more differentiated picture. This is not really a surprise when you have growth phenomenon. If you refer to the growth theory of somebody like WW Rostow that explains that as well. It increases the original disparities. It means that in Spain there are winning regions everywhere and every region has developed but to different extents and there are some that have been winners more than others. What is obvious is that the strongest regions, like Catalonia, Madrid, the Basque countries, which are the strong pillars of Spanish growth, have grown more than others, and you still have regions, like Extremadura, which is a remote part in the south, which have development difficulties. However, there are also intermediate stories like the Canary Islands, which was always recorded as part of the Objective 1 region and ultra-peripheral region, that has now become a phasing-in region so they are in the process of joining the competitiveness. That in itself is a very good signal. I have other examples I could quote. This is something we need to observe and differentiate the processes of intervention. The third conclusion is that the growth which took place in Spain over 20 years was primarily based on the construction sector and the development of infrastructure and the result is very visible. If you travel to Spain you can see big panels everywhere with the blue flag and the 12 stars “Co-financed with ERDF”. It is possible to say for the road system, the rail system, some of the port system and other basic infrastructure the network is now up and running and this is one of the requirements of a modern economy. You can record that and check that is physically present and useful, not only to the country itself but to all of Europe, whether for the purpose of tourism or investment. To that extent it is a good move. Of course, this is not sufficient and in Spain

they talk about deceleration of the growth, which means they have moved from a rate of four per cent a year to maybe 2.5. That is still more than countries like Germany and France but it is less. They are confronted with a necessity to find a second path of growth which inevitably, if they want to join the club of more developed countries, has to be reoriented towards research and development, technology and innovation. This is where we are now and what we are trying to achieve with the assistance of Structural Fund programmes 2007-13 in Spain. The European Council has decided to attribute a special allocation to Spain as political agreement to compensate for the loss of the Cohesion Fund, but the negotiators have tried to make the most of it and are saying, “Okay, you are attributing money and this is to create a so-called technological fund and with that money in the range of €500 million, please see what you can do with your undertakers, with your universities and laboratories, your public administration”, the so-called triple helix model, “and build clusters, foster innovation, especially in the field of small and medium-sized undertakings because this is where it is critical”. Just to mention one figure: when the Lisbon Strategy speaks of a target for 2010 which is three per cent of GDP in terms of expenditure in the field of research and development, at the current moment Spain records a level of 1.2 per cent, which is extremely low even compared to other countries like Germany and France, so clearly there is a need. If you do not look only at the publicly financed research but, more important perhaps, the research which is privately financed, which is to say the research which takes place within the companies, then the figures are even smaller. I do not have the details here but we could find that out. That figure is not satisfactory now. We have a success story that we can show and demonstrate more in physical terms. We, together with Spain, are confronted with other challenges of a new type if they want to grow as a modern economy. Those are my four conclusions. There is convergence, there is terrific improvement in the environment, like the sewerage system or cleaning the water, things like that, and also a huge reduction in the

indicator of unemployment which culminated at the levels of 18 or 20 per cent and now is in the range of eight or nine per cent, like France or Germany and other Member countries, and like the United Kingdom, but you make us jealous. However, there are still huge environmental problems in Spain relating to water management, among others. Drought is an issue and how not to ensure the transfer of water from one river basin to another and how to mitigate using agriculture, tourism and so on is still an issue that we want to look at because we are going not only for the Lisbon but the Gothenburg Strategy which is environmental sustainability.

**Q254 Chairman:** I have two questions before I pass on to my colleagues. Could you remind me what the Spanish allocation under the Regional Development Fund is for 2007-13?

**Mr Dufeil:** Yes. Altogether, which means ERDF and Cohesion Fund, we are talking of figures in the range of €35 billion, an annual average of €5 billion.

**Q255 Chairman:** Obviously, with all respect to the European Commission and the efforts on regional development, this growth was not achieved solely by our efforts. Have you done any work on separating out the effect of growth by becoming a member of the EU and by the trading opportunities from this? It is a question, I do not know that you should have, I am just asking.

**Mr Dufeil:** We do bear that in question in mind, of course. I am not sure we are able to do that because it is very difficult. I would like to quote another fact which in my opinion is very relevant in the case of Spain, which is a demographic fact. If you look at the population of Spain at the beginning of that period it was very comparable to Poland, in the range of 40 million people, and whereas Poland's population has diminished to 38 million, Spain has grown to 44 million inhabitants, which is a growth of ten per cent, and that is a lot. You

could partly explain Spanish growth by the demographic factor, which is due to immigration from Africa, Sub-Saharan countries and Latin America.

**Q256 Chairman:** That I did not know.

*Mr Dufeil:* Very important.

*Mr Ahner:* In answer to your question, we have done some model analysis where, with the help of economic models, we tried to identify which part of the growth in Spain could be attributable to the Cohesion Fund money. This analysis was carried out in Nicola's unit. Nicola, perhaps you could say a word on this. I think it was around one percentage point a year in growth terms which was directly attributable to the European funds.

**Q257 Chairman:** I see the difficulties, that was why I was wondering whether you had done that.

*Mr Ahner:* This is a model analysis so it must be taken with caution.

**Chairman:** I think that leads us on very nicely to the second question which, Lord Woolmer, perhaps you would address.

**Q258 Lord Woolmer of Leeds:** Mr Ahner, you are going to respond to the question here but can I frame it in a slightly different way. Remind me, how many regions are there in the EU?

*Mr Ahner:* 268.

**Q259 Lord Woolmer of Leeds:** That is the Eurostudy, is it?

*Mr Ahner:* Yes.

**Q260 Lord Woolmer of Leeds:** Can I make a general proposition to you and then ask question two. If there was a single country with a population of 470 million and there were

268 sub-units of government, and you were considering how best to use less than half a per cent of overall income to help development and do other things, I suggest to you that you would be very, very selective across that kind of population and that number of regions, yet the programmes and so on are not very, very selective, every region gets something. I am looking at this strategically. If I was running a business and I had got, heaven forbid, 268 operating units across 470 million people I would think very hard about which business unit needed my intervention from the centre. I put that as a proposition to you. That is looking at a clean sheet as opposed to where we are. With that in mind, if you were designing the system from scratch now, would you really do it the way we are doing it? Is that really the best way to deliver targeted strategic intervention at a pan-European level?

**Mr Ahner:** Let me answer your thoughts.

**Q261 Lord Woolmer of Leeds:** It is quite an important issue.

**Mr Ahner:** I follow your proposition totally. I would say I have to target my money, I have scarce resources and I want to use them in the best way. The next point is I would ask what do I want to achieve, what are my objectives. In this case I would be confronted with three objectives. The first objective is to try to improve and strengthen the competitiveness of Europe, generate growth and jobs across Europe and take the formulations of the Lisbon Strategy. Then there would be a second objective which would be to say, "Do this, but please do it in a sustainable way". Then there would be a third objective which would tell you, "Whatever you do, you should make sure that there is an overall balanced development in your territory". When I have these three objectives in front of me I would ask myself how can I best put my money in a way to achieve these three objectives. Then I would look at the leverage effects of the money. When I put money there I have a number of objectives. I want to use the little amount of money which I have for this territory as a lever. I want to make sure that it brings development across the whole territory. I would come to a model where

you can discuss should it be 80 per cent, 60 per cent or 50 per cent. I would come to a model which I must say is not that far away from the model which we have. Honestly, in economic terms I think this makes a lot of sense. What would be the alternatives? The alternative would be a model where I would say I would let it go, the market would decide totally and fully on this. That is a possible model. In this model I would come to a situation where ---

**Q262 Lord Woolmer of Leeds:** Mr Ahner, nobody is suggesting that. I was saying if you have got those resources and you have got some objectives, would you be more selective? If you were really prioritising a strategy is not everything. Do not put up an Aunt Sally that no-one is suggesting.

**Mr Ahner:** With these three objectives in mind I would honestly go for a similar model. If one of these objectives did not exist, if there was not an objective of balanced spatial economic development, I would look for a different model, absolutely. If there was not an objective of long-term environmental sustainability you might look for a different way of spending your money. I must say I would follow this model which has a very strong concentration of the money on a few regions, which we should not forget, 80 per cent in the current period goes to the poorest regions of the Union.

**Q263 Lord Woolmer of Leeds:** How many regions would that be? 80 per cent goes to how many of the 268 regions?

**Mr Ahner:** Seventy.

**Lord Woolmer of Leeds:** So 80 per cent goes to 70. Thank you.

**Chairman:** I am sure you see where we are going. We are picking away at the question of whether you would say of these 270 regions, "I have only got a very limited amount of money to sprinkle about, I am just going to forget about 200 of those regions and I will concentrate my money on the remainder".

**Lord Woolmer of Leeds:** You would not say forget, you would say leave it for the Member States.

**Q264 Chairman:** Yes, just say to Member States, “You can do that”.

**Mr Ahner:** What I want to obtain is a number of common objectives and I see in 200 out of these 270 regions with a relatively small amount of money I can have a leverage effect in the direction of these objectives which is extremely positive.

**Mr Dufeil:** Mr Ahner, would you like me to outline the negotiation we had with Baden-Wurttemberg?

**Q265 Chairman:** That would be most helpful.

**Mr Dufeil:** Baden-Wurttemberg is one of the most prosperous regions in all of Europe with very successful stories and they get a very limited amount of money from the Structural Funds, €142 million, €20 million a year. According to your line of thought, you could have said, “Why take the trouble” and just forget it. Under Mr Ahner’s authority we have negotiated very fiercely and strongly with Baden-Wurttemberg and in the end they have thanked us for that difficult negotiation because we have tried to obtain from them something with a leverage effect which is exemplary in the field of research and innovative development, which they have, but which they could transfer with Structural Funds into pilots and demonstrative projects of high value transferable to other cases. To that extent, we have attributed a much higher value to that €142 million and we gained value from that money.

**Q266 Lord Trimble:** Would Baden-Wurttemberg not have done that themselves?

**Mr Dufeil:** No.

**Q267 Lord Trimble:** Why not?

**Mr Dufeil:** Really, they would not.

**Q268 Lord Trimble:** Do you mean to say that they were not into research and development? Of course they were.

**Mr Dufeil:** No, I am not saying that because they do it, but with 142 million they were only thinking of very classical measures in the field of rural development, which is fine in principle but in their case it was a second-best solution. Looking for that leverage effect we think that we have been able to reach an upper level of efficiency on the Structural Funds.

**Mr Ahner:** Let me come back to the model for a second. In fact, the policy is extremely simple in its principles. We have a policy there which to a very large extent is an investment policy. It is investment in physical capital, social and human capital and research and development. These are the pillars of this investment. These investments are directed towards objectives which have been defined beforehand which are commonly agreed. Within this framework it is the regional, and in some cases the local level that is most concerned, but in a few cases the national level. After an analysis they elaborate the programmes they see as being the best for themselves. As an additional step they have a discussion on this programme which adds to what is being done at the national level. They have to justify, they ask a number of questions, and at the end comes a programme on which they then have a stability guarantee for over seven years as far as the money that is available is concerned with the possibility that if within the seven years there are changes in the overall objectives and adaptations of the programmes which are needed, for whatever reason, that is possible and can be discussed. In reality, it is an approach, a method where different levels of governance, European, national, regional and sometimes local, are involved in a discussion in order to find solutions to specific problems to achieve a number of objectives which have been commonly defined. This has a leverage effect because what we see is that each euro which is spent through this investment policy brings other euros from the private side into the game. These are the principles of the policy. I call it almost a common policy in the modern sense

of the word. It is not a common policy in the sense of the Common Agricultural Policy, it is really a shared policy where all the different levels participate in a process to achieve common objectives. I must say, after one year of discussion and having lived through the very intense period of last year I have been personally astonished at how well this works, I did not expect that it would work this well.

**Chairman:** Can we push a little, Mr Ahner. Lord Trimble.

**Q269 Lord Trimble:** Just to make sure I have got it right, I gathered from what you said that 80 per cent of the money goes into the poorest regions, the one that used to be Objective 1 but are now called convergence regions.

**Mr Ahner:** Yes.

**Q270 Lord Trimble:** Why 80 per cent? Why not more?

**Mr Ahner:** It is a little bit more than 80 per cent, but the 80 per cent is the outcome of a political negotiation. The basis of this negotiation is a methodology which we have applied which looks at the gap which exists between the poorest regions in terms of gross domestic product per head and the average. This methodology was the basis for the calculations which was accepted by all Member States. On the last night of the negotiations under the UK Presidency, you will remember there were some final gifts made here and there in order to come to a compromise and the basis was a methodology that had already been agreed in the 1990s.

**Q271 Lord Trimble:** If you could, would you want to spend more on the poorer regions?

**Mr Ahner:** I must say "if you could" has two conditions. The first is if I had more money available and I set this aside. I would say a very cautious no. In particular I see in the poorer regions of today there must be a capacity to use the money which is available for good

programmes, and this must not be overlooked. This is one of the big discussions we have with the new Member States, for example. Yes, we have agreed on good programmes and they are programmes which look good to us, but the programme in itself is a framework and within this framework they have to put the money to concrete projects. To come forward and find good projects which fit with these programmes is not easy. That is the first point. The second point is the money which is spent is European taxpayers' money so we ask them to have in place a control capacity, a management capacity, which in some cases they are still building up, if you look at Romania and Bulgaria in particular. Finally, when they want to spend the money they are under rules and supervision which sometimes, let us be honest, are hampering the process. When we insist from Brussels that public procurement rules are respected and if they are not respected they cannot use the money on the projects ---

**Q272 Lord Trimble:** I understand entirely and we take entirely the points about capacity.

**Mr Ahner:** I would not see much more capacity in these countries to absorb more money today and in the foreseeable future.

**Q273 Lord Trimble:** With regard to the poorest regions, you think they are getting as much as they can cope with?

**Mr Ahner:** I believe that they cannot cope with what they are getting and I would be reluctant to give more. They may not be at 100 per cent of their capacity, I do not know, but I would be reluctant to give more. First of all, I would like to see the money they have got now they are able to spend on good projects and in three years' time I would like to see the first interim evaluation of what has been done. As far as the more administrative aspects are concerned, we have a yearly monitoring of what is going on in these countries. I would like to see this before I make any decision whatsoever. When the Marshall Plan was decided for Europe after the war I think it was about two per cent of all gross domestic products and we

are going up to three or four per cent of GDP sometimes and this is a lot in terms of money which has to be absorbed. At this stage, if I have more money I would not put it in this game, I would let the system grow.

**Q274 Lord Trimble:** Just to be slightly provocative, the 17-20 per cent that goes to countries that are not the poorest, is that simply done for political reasons to buy their consent to the existence of this or is there any real objective for it?

**Mr Ahner:** For me there are certainly political reasons but there is a real objective behind it. In these regions we are very often confronted with quite serious problems of adjustment and restructuring and the fact that statistically the income per head in these regions is higher does not necessarily mean that there is immediately a public capacity available to launch such a process. We have a number of Member States and regions which even today have big problems matching the money which comes from the Community with national money. The little help they get from the EU with its leverage effect can accelerate the adjustment process in these regions considerably sometimes.

**Q275 Chairman:** Thank you very much, Mr Ahner. We are juggling to arrive at a recommendation for the future of the Structural Funds and one of the things that bears on the question is, of course, the costs, which Lord Woolmer is going to ask you about shortly. From the point of view of many other European principles, like subsidiarity, it still strikes the ear of a rich country oddly, a rich country with plenty of administrative capacity. In a way, one would see a more rational structure whereby EU assistance was confined to the poorer countries and to fewer of them, to fewer regions, because then you would think you could get more concentration. I think you have probably made the case for intervention in the richer countries which may still have pockets, but is this being done at a very high administrative

cost? If you could turn all the administrative talent in the Commission and in other places into the poorer regions, one sort of feels as a businessman you would get a terrific result.

**Mr Ahner:** I am not 100 per cent sure. If you put all the money into the poorer countries, at this stage of development I think you would get a real problem with digestion. That is the first point. The second point is using the money in the richer regions brings a certain number of advantages which are important. I mentioned some of them and the other advance, which is also important, is this makes the richer regions participate in the overall process. I will come to the cost of the process in a minute. What was quite interesting to see was in the negotiations in general we had to be much more convincing with the richer regions than with the poorer regions in terms of convincing them to do things which were in line with the common objectives. This is strange because very often it was the richer regions who in the past have said absolutely to go for innovation and money has to be put into research. When we saw the programmes and ideas that were developed, we had to have a real discussion about what innovation means, what could and could not be done. This dialogue brings added value to the whole process. That is on the economic side. On the political side, personally I am not 100 per cent convinced that within Europe it would be a good thing to have a situation where you could say, "There are the poor countries, they get the money from the rich countries and that's it". That is not how I would see a European-wide policy of development and improvement of competitiveness. If I may say, everybody is under a "common discipline" and you are not only under a discipline because you are a poorer country, others also have to follow a similar approach under discipline. I agree totally you can discuss all this but last year I was extremely surprised, to be honest, because with my prejudice as an economist I had not expected the costs would go so far.

**Q276 Lord Woolmer of Leeds:** Just remind me, of the 70 regions, what proportion of the 470 million Europeans live in those regions? What is the population of those 70 regions?

**Mr De Michelis:** About a quarter, about 100 million people.

**Q277 Lord Woolmer of Leeds:** So it is about the same proportion. It is about a quarter.

**Mr De Michelis:** Yes.

**Q278 Lord Woolmer of Leeds:** There are two issues of cost that I would like to explore with you. One is at Commission level itself, which is relatively easy I suspect, how much it costs the Commission in terms of funds and if that varies between countries. Secondly, the cost of the programmes is felt from particular applicants, particular projects through to administering regional authority or whatever it is, through to Member States and yourselves. There is a series of layers of cost of management, administration, financial systems, controls and so on. That is going to vary between the regions you are dealing with and the Member States you are dealing with. Have you done any serious examination or study of those costs and how they relate to the spend and how that varies?

**Mr Ahner:** On what happens in the Member States, we are currently carrying out a study and we will have the results next year. We are carrying out a study on what the costs are of control in particular Member States.

**Q279 Lord Woolmer of Leeds:** Just the control. If it is not impolite to ask, would it be possible for you to send us a copy of the terms of reference of that study, that would be very helpful, rather than go over it now.

**Mr Ahner:** Yes. The next point is as far as the Commission is concerned we have made a standardised calculation on the basis of standards which we normally use. If I take the overall concrete management of the funds in DG Regio, so financial management but also the overall management of the programmes, and I take the managers, I set aside the economic analysts and these people, I come to an amount of about €50 million per year for €35 billion which we

spent. This is about half a per cent. If I take the whole of the Directorate-General and I say everything has to do with Cohesion Policy I come roughly to a good one per cent because there are all the other services, legal advice, the economic analysis and so on. In total we have 600 officials in DG Regio. We spend 35 billion a year, 350 billion over the seven year period. When you compare it to other Directorate-Generals, the biggest Directorate-General in the Commission is the Research Directorate-General which has about 3,000 people working for €70 billion. In fact, at the Commission level the cost is not exorbitant. Part of the problem is you have to be fair and our colleagues in DG Research are in direct management of research programmes whereas we are in shared management with the Member States and there is a lot of management which takes place at the regional level. Let us be honest, even if no money is spent from the EU, the management at the regional and national level would have to take place. If I take the last enlargement which we had with richer countries - Austria, Finland and Sweden - when you looked at these countries there were quite sophisticated management systems already in place and also for development purposes.

**Q280 Lord Woolmer of Leeds:** One last question on this. In relation to the study that you are doing, that you will send us the terms of reference of, it will not look at the overall proportion of cost right through from the project level to the regional authority level to the Member State level. There are certainly one or two regional authorities in the United Kingdom which have commented to us that when you take all of that it is really pretty substantial. That raises this question: in some countries, and this is just a fact of life, it is not an adverse comment on countries that do not meet this criteria, the experience and processes of management, systems and so on are well-established, financial management systems, and in principle, again I think in business terms, one would not run a parallel process of systems, one would say, "If your systems meet our satisfaction we are not going to duplicate those". Is

there not room for this in some countries? I am obviously thinking of the UK where our Regional Development Authorities, for example, have to go through all kinds of hoops in relation to grants of finance from the UK Government. Is there not room for this to have a simple way of dealing with things? That is not to say it is not proper and appropriate, and what have you, but are you not able to sign off in some countries saying, "If you do it the way you do it, we agree with your systems", that will simplify things?

*Mr Ahner:* My colleagues may correct me, but my impression is that is the way it is done. I will repeat what you said. You said, if in a Member State or a region there is a system which corresponds to the requirements of the European system ---

**Q281 Lord Woolmer of Leeds:** I did not say that. I said which you would accept is as robust and as good as you would want. It is not the same.

*Mr Ahner:* As long as it fulfils the requirements which we make there is no problem. If you go across Europe, in Germany they have 60 different systems which are working because they were in the regions' existing systems which they have partly adapted and could use as they were. As far as a number of rules that we have with respect to how Community money has to be managed and controlled, which by the way are rules that have been decided unanimously by all Member States, we do not see any problem. I remember in Spain we had a very, very long discussion with the Spanish authorities because of the separation of the management and the control functions. We finally accepted their system after they could show us that their system, although optically it did not correspond to what we expected, fulfilled the same functions that we expected them to do. As far as I see it, where the problem often comes is the requirements at EU level, rightly or wrongly, are so rigorous that what is done at the Member State level does not correspond.

**Q282 Lord Woolmer of Leeds:** We took evidence from Graham Meadows, the former Director General, and in his written evidence he said the following: that a black spot of present European regional inclusion policy is the growing administrative and financial burden being passed on to project sponsors. These burdens earn the policy a bad reputation, even amongst direct beneficiaries.

**Mr Ahner:** Absolutely.

**Q283 Lord Woolmer of Leeds:** You would not have thought that from what you have said to us so far.

**Mr Ahner:** I would agree with Graham, but the question ---

**Q284 Lord Woolmer of Leeds:** “There is nothing that needs to be done is my impression”, you said.

**Mr Ahner:** I did not say nothing needs to be done. The point is we formulate and define requirements which have to be respected at the EU level. These requirements are decided by our Member States and we have to make sure, that is our work at the Commission, that these requirements are respected. For the final beneficiary that can sometimes create a lot of problems. I would completely agree with Graham that this damages the image of the policy. Part of the problem is if we were allowed to have a looser system we could be much more flexible. The point is when it comes to the point of putting our regulations on the table, what we often see is that in our countries, for whatever reasons, the Court of Auditors want there to be a certain safeguards and control levels within the system. What is true, as far as I understand it, is a number of national systems are less rigorous in their requirements than the EU systems and we have to ask ourselves seriously are the EU systems too rigorous in their requirements. Once we have the rigorous requirements, and there is a national system already in place, although it is not exactly the construction we would have liked to have seen but it

responds to our requirements, then we say, "Please go ahead". I do not see a conflict between the two. The real question remains --- I am sorry, I am a little bit exercised on this because I have just come out of a discharge procedure in the budget where we had a lot of discussion with the Court of Auditors and the European Parliament where we were told, "With what is on the paper and the regulation, you, Commission, are not rigorous enough. You must do much more and put much more pressure on Member States". When we see these different echoes, we have to strike a balance. I personally would agree with Graham and say the balance is perhaps too much on the rigorous side. When we prepare the next legal framework I think we will have to have a serious look at what can be simplified. That is a problem for me. Whenever I go to the Member States and the regions and I meet entrepreneurs, the first thing I hear is it is an awful lot of red tape and bureaucratic. I ask them regularly, "Please come with concrete suggestions. Tell us exactly what did not work well and how you think it could work better". I have done it four times and until now I have got no response back, it stays at this level, you go there and speak with them and they say it is awful. I am prepared to go, with the agreement of my Commissioner and the Commission, of course, to the Council and say, "Here in our regulation we have something which is stupidly complicated, let's change the regulation". My real problem at the moment is I need to know exactly where it is too bureaucratic or if it is just a general impression. I am still waiting. Each time I meet these people and I say, "Please come" and they all promise, so perhaps I will get something this year, "Please come and tell me exactly where". I am prepared to change this. This is not the problem.

**Q285 Chairman:** The difficulty is the response, the intuitive business response, does tend to favour repatriation of funds, "Don't let's have the EU in this at all, we will do it. We will contribute our bit to the poorer nations". There is very considerable acceptance, there is no problem at all in the United Kingdom about accepting that funds should be going to the new

countries in the EU and very considerable difficulty with facing what they see as an extra layer of bureaucratic requirement on top of national bureaucratic requirements. We are kind of used to dealing with national bureaucratic requirements. This fuels the whole idea of a policy of repatriation. I do not think you are ever going to get a terrific amount of sense from asking businessmen what could be simpler, you just have to simplify. The simplification has to be done centrally. No businessman can ever define what is wrong with the system.

**Mr Ahner:** Yet you must be told. You can discover things where we have said, “This is relatively complicated, why have we done this? What was the reason? Is it really needed?”, but you need feedback which goes beyond the simple feeling of “This is all too bureaucratic”. Let me make one more point. Sometimes I have the impression, and also in my former work in the field of Agricultural Policy, that only partially you add the Community layer to the national layer and it goes the other way round, there is a Community layer and at the national level layers are added to this because the Community layer is a perfect opportunity to put national layers on it.

**Q286 Lord Trimble:** I think we suspect that happens too. I wonder if I could move to something slightly different. We had an interesting discussion earlier about the impact of the funds on Spain and we are also very much interested in the experience in Poland and I wonder if you could take us through that.

**Mr Boijmans:** In general Poland is in the situation where Spain was 20 or 30 years ago and mirrors the developments that Spain went through. If I could start with factual information. For the new programme period Poland is the largest recipient of Structural Funds and Regional Funds, almost 20 per cent of the budget which is slightly more than €67 billion. It is a lot more than even Spain is receiving during this new programme period. To take you through the negotiations and what we have been negotiating for this new programme period, one of the first things is that Poland is a Member State still with a very high unemployment

rate which is decreasing rapidly, partly due to immigration to some of the other Member States. It still has a very large agricultural sector which is under restructuring. The GDP per capita, the income per capita, is still one of the lowest in the European Union. Taking that as a starting point, it means that quite a lot of investments have to take place in basic infrastructure in Poland. Nevertheless, Poland committed itself to the objectives of the Lisbon Strategy to create wealth and jobs and to have a more forward looking strategy than purely building only roads and sewerage plants. It has allocated almost 64 per cent of its budget to Lisbon-relevant areas of expenditure, which is quite high taking into account the size of Poland, the size of the budget and the situation Poland is in. As you know, Poland was not obliged as a new Member State to do this but they did this on a voluntary basis. If we look at the three main areas of investment for the new programme period, transport is one. Almost one-third of the budget goes to transport infrastructure but in a wider sense, not only roads but also railways, airports and public transport. We believe that is justified because there is a big backlog in Poland in transport investment even if you take Poland within the context of the new Member States. For example, Warsaw is one of the very few capitals which cannot be reached by motorway. If you travel by Berlin to Warsaw it is not possible to do that by motorway, only parts are motorway. A large part of the investment goes into trans-European networks and, as I said before, not only motorways but also railways. The second largest area of investment is research and development and innovation and entrepreneurship and that is contributing to the Lisbon Strategy. Poland has the objective that 1.5 per cent of its GDP by the end of the next programme period should go to research and development. At the moment they are still at 0.5 per cent, so there is still a lot of work to be done. There are certainly some areas of excellence within Poland, not only in Warsaw but in other regional capitals, for example Wroclaw and Breslaw, which is one of the candidates for the European Institute for Technology. They are trying to promote this image of research and development.

This is wider than only research and development, this budget also goes into business support where the strong focus is on small and medium-sized enterprises. Of direct support, 70 per cent should go to SMEs. The budget is also available for foreign direct investment but we have put a clause into the programme that where it is relevant the money will not be used for delocalisation, it will only be used for foreign direct investment for new investments in new plants. The third largest area of investment is the environment where the major part of the budget goes to those investments which help Poland to meet its obligations in the acquis communautaire for the environment. A large part goes to water treatment, not only sewage treatment plants but water supply. More and more areas are being supported by other areas in the environment in the area of solid waste treatment and nature preservation. Those are the three most important areas of investment under this new framework for this new programme period. Looking at the strategy within Poland, the territorial cohesion, you can make a very big divide between east and west Poland. It is a bit crude to divide but that explains the situation best. Next to Warsaw, which is the largest city and where a lot of investments are concentrated, you can see regions in the western part of Poland around Wroclaw, around Poznań, and I understand you will meet a delegation from Wielkopolska this afternoon, which is one of those regions which is catching up very quickly and attracting a lot of foreign direct investment where unemployment is decreasing very rapidly. The other part of Poland, the eastern part, bordering Belorussia and the Ukraine is in a totally different situation where there is still a very strong share of employment in the agricultural sector where people are losing their jobs and it is very difficult to create alternative employment because there is some growth but not as strong as in the western part of the country. That is the reason why there is one special programme for eastern Poland. We have four national programmes in Poland, 16 regional programmes, one for each region, and for the five poorest regions in eastern Poland we have a separate programme on top of that. The idea of this programme is to develop

flagship projects, projects which really distinguish themselves whilst supported under the national and regional programmes. To give you one example: there is a project of €300 million which is being prepared to introduce a broadband network in those five eastern regions which would reduce their natural handicap of being on the outside of the European Union. One of those five regions is Lubelskie, the other delegation you will meet this afternoon, so you will have a comparison of two different regions. Next to all these financial investments and concrete investments in infrastructure, one effect of the Structural Funds which should not be forgotten is the indirect effect which it has on the administration. A large part of the money now goes to strengthening the administrative capacity, so Structural Funds can be used for this, but also, for example, because of the Structural Funds Poland has decided to create a new Ministry for Regional Development which will be the central co-ordinator for all investments related to Structural Funds, ERDF, European Social Fund and also the Cohesion Fund. It has helped to strengthen the co-ordination within Poland between these different sector policies where, for example, the people in the transport sector do not communicate with the people in the environment sector. This is not a directly measurable effect but it is certainly an important effect which is a result of the large amounts of money available for Poland. We are trying to do a lot with the Cohesion Fund project but also the major projects in the new programme period to give more support to project planning, that is the final beneficiaries, municipalities or other public bodies, and train them to better plan their projects and develop them quicker so that they can be implemented faster and absorb the money faster, because that is the ultimate target, to absorb the money which is allocated to Poland. I would like to mention these two side-effects of the Structural Funds which have an important impact on the administration of Poland.

**Q287 Chairman:** Thank you very much, Mr Boijmans. I am always relieved to see that so many of the capable Poles working in England at the moment have started to go home

because the prospects have got better. Mr De Michelis, I appreciate we have not heard much from you. Would you like to add anything on any of this?

**Mr De Michelis:** Maybe just a word on what Pascal said on the impact of the policy. Since Poland has just received funds for a couple of years it is very difficult to assess what the impact has been. We are running a number of impact assessment models that estimate what the likely impact of this policy will be over the next 15 years. We use different models to avoid being too constrained by one single format. All of these models suggest that particularly for Poland the impact will be between three and five per cent of additional GDP over the period and the creation of about half a million jobs in Poland because of Structural Funds. That is compared to a normal Cohesion Policy scenario. Obviously all these estimates have to be taken with caution, like all models, but they at least give an order of magnitude.

**Q288 Chairman:** I should have asked before, and I meant to, do you use inward investment as a measure? When I was in regional policy we used to add it up by thinking how much private sector investment we had generated.

**Mr De Michelis:** Yes. If you are interested, over the next few weeks we will be producing very detailed sheets explaining all the different effects on the basis of these models. This suggests that the private investment mobilised because of Cohesion funding inflows is on average about five per cent, so there is five per cent additional private investment over the 15 year horizon.

**Q289 Chairman:** I think we may have exhausted you all, but we are most grateful for your time and the information.

**Mr Ahner:** It was a pleasure, thank you very much.

**Q290 Chairman:** We shall see the Commissioner at the end of the day.

*Mr Ahner:* She will be delighted.

**Q291 Chairman:** So we can ask her a few things. I have met her before and she is a very capable person. Thank you very much, this has been most interesting and we feel much better briefed for our meeting with the Polish and Spanish representatives.

*Mr Ahner:* Enjoy them. Have a very successful day in Brussels.

**Chairman:** Thank you so much, Mr Ahner. Thank you all.