Autonomous Region of the Azores

Assumptions and context for the

Action Plan

2014 – 2020

IN THE CONTEXT OF THE COMMUNICATION FROM THE EUROPEAN COMMISSION

'The outermost regions of the European Union: towards a partnership for smart, sustainable and inclusive growth'

(COM(2012)287 of 20/06/2012)

June 2013

PART I – GENERAL CONTEXT

1. INTRODUCTION

The Outermost Regions (OR) - Guadeloupe, French Guiana, Martinique, Réunion, Saint-Martin, the Azores, Madeira and the Canary Islands - share specific characteristics defined in Art. 349 of the Treaty on the Functioning of the European Union (TFEU). Mayotte will become an Outermost Region of the European Union (EU) on 1 January 2014.

These regions constitute a unique situation and form a group at the heart of the EU, distinct from other European regions. They are essentially characterised by:

- Being geographically located far from the European continent, aggravated by the fact that they are islands, sometimes even being doubly insular or in a situation of being an enclave. Isolated in their respective geographical areas and far removed from the main commercial trade lines, the ORs find it impossible to take full advantage of the European Union market;
- A limited local market and therefore economic dependence on a limited number of products;
- Difficult topographical and climate conditions, limited size, vulnerability to climate change and extreme weather phenomena;
- Close neighbours consisting exclusively of third countries which are not members of the EU or a totally isolated space, two strategic challenges in terms of insertion and cooperation.

The combination and persistence of these characteristics together result in structural constraints which seriously prejudice the economic, social and territorial development of these Regions. These facts justify special and differentiated treatment.

While Europe recognises the singular situation of ORs in its legislation, based on their status as outermost regions, in reality the implementation of this legislation still needs to be improved. Therefore, the Conference of the Presidents of the Outermost Regions has striven to ensure renewed political commitment by European Institutions with regard to ORs.

* *

*

The Communication from the Commission of 20 June 2012 entitled "The outermost regions of the European Union: towards a partnership for smart, sustainable and inclusive growth" updates the development strategy for ORs along five axes (accessibility, competitiveness, regional integration, the social dimension and climate change action) in order to achieve the priorities of the Europe 2020 Strategy and promote smart, sustainable and inclusive growth.[1] It would also be indispensable for the Communication to ‘assess the effects of European

[1] COM(2012)287

policies on ORs, particularly while conducting impact assessments'[2] and, as such, the specific characteristics of ORs need to be integrated into the Commission's legislative proposals.

In this regard, the Conference of the Presidents of the ORs reiterated its position, expressed during the XVIII Conference, held in Horta (Azores) on 14 September 2012, underscoring the need to take further steps to implement the strategy as proposed by the European Commission in June 2012, with suitable European sectoral instruments and the respective resources. This approach requires pertinent, balanced, joint and coherent solutions.

The communication from the Commission proposed preparing an action plan[3] based on development priorities, contemplating all public policies. Each action plan will therefore favour a concise, progressive and evolutionary approach, indicating territorial needs and the respective solutions.

The current absence of a clearly established legislative and financial framework results in numerous uncertainties. In addition to these difficulties, and at a time when a future course is being charted to develop these territories in the period 2014-2020, the ORs reaffirm their desire to promote their economies, preserve their traditional sectors, act in innovative spheres which provide high added value, create employment and to thus gear themselves towards growth.

By presenting their Action Plans, the ORs are demonstrating their desire and their commitment to achieve the EU's strategic axes to promote the outermost regions. This exercise will only make sense if the instruments which are made available correspond to the ambitions which have been outlined. In order to achieve the expected results, the ORs must also be able to count on the support of all interested parties.

However, there is no single model for development. While the potential of ORs must be taken into consideration, this in itself is not enough to respond to all the challenges which exist and to correct persistent imbalances. Permanent structural constraints require differentiated treatment in order to correspond to the reality of ORs.

This is why ORs have a territorial logic which is unique to them and which constitutes an opportunity to implement European policies in an innovative manner.

In this context, within the schedule of policy reforms for the period 2014-2020, the Action Plan's approach contemplates coordination with:

- The strategies of the European Funds (ERDF; ESF; EAFRD; EMFF) and the Partnership Agreements 2014-2020;

---

[2] Council's conclusions of 14 June 2010.

[3] 'Every OR, together with the respective Member State, shall draw up an action plan which outlines, through specific targets and goals, stating how the Europe 2020 agenda will be executed, taking into consideration their individual situation and the different instruments available as set out in this communication.'

- The strategies to be developed within the framework of other programmes with a strong territorial impact, such as POSEI (agriculture and fisheries) in which resources must be preserved for the future;

- All the other strategies developed in a transversal manner, on a European scale (particularly programmes promoting research, the environment, education), on a national scale (National Programme for Reforms, for example) as well as at the level of the respective territories (schemes for economic development and transport, among others).

The complementarity and coherence of the objectives and the priorities of the Action Plan can also be assessed with regard to horizontal legislative frameworks, namely in terms of common commercial policies, competition, public markets and the environment.

An Action Plan based on ambitions and requirements

In a scenario characterised by legal and financial uncertainties, the Outermost Regions envisage a future in which they can ensure growth and develop stable jobs in today's highly challenged socio-economic environment.

This exercise provides continuity to their respective reflections which resulted in the adoption of Memorandums in 2009 and 2010, as well as in different contributions to the European Commission's public consultations (territorial cohesion, Europe 2020 Strategy, transport, State assistance, research and innovation, internal market, maritime policy, etc.)

The joint Memorandum of May 2010 adopted an innovative approach and invited the European Commission to find a triple balance with regard to outermost regions, based on the strategy that the Commission developed in 2004 in order to reduce deficits in terms of accessibility, improved competitiveness and regional integration:

- A balance between potential and structural constraints;
- A balance between the internal and external aspects of European policies so as to avoid inconsistencies when they are implemented;
- A balance between adapting European common law policies and their translation into specific sectoral instruments.

The Memorandum urges that all EU policies applicable to ORs include a logic of territorial coherence going beyond the new objective of ‘territorial cohesion’ as established by the Lisbon Treaty. In this manner, the ORs can constitute truly pertinent spaces for experimentation to ensure coherent and integrated implementation of EU policies at a territorial level, based on multiple levels of governance (European, national and regional).

The principles of equal opportunities, coherence, attributing value to potential and partnerships enshrined in the ‘Cayenne Principles’ have, since 1999, served as the foundation for the development strategy for ORs. These principles were further augmented in 2010 by two new guidelines, viz. the principles of proportionality and the reality of the Outermost Regions.

While the European Commission has, over the course of time, demonstrated its commitment to the principles of valuing the potential of ORs and partnerships by means of communications adopted in 2004 and in 2008, it is today necessary to take further steps to implement the other principles: equal opportunities, coherence, proportionality and reality.

Various aspects are relevant to guide the European framework to be established for 2014-2020, encompassing all European policies in a transversal manner, it being necessary to:

- Consider the status of an Outermost Region as specified in Article 349 of the TFEU, which per se justifies an adapted implementation, including special rules, of the European Union's policies and actions with regard to the ORs;
- Respect that the principles of specific realities and equal opportunities for citizens is of primordial importance regardless of their place of residence, especially with regard to access to network infrastructure and services (services of general economic interest). It is impossible, for example, to explain different treatment for residents of ORs in terms of territorial or digital continuity. Services of general economic interest are an example of persistent discrimination, even in the most strategic sectors such as digital technologies, transport, water and energy;
- Apply the principles of coherence and proportionality: successive reviews of State assistance have never incorporated the requirement for coherence between the different purposes of the assistance necessary for the potential beneficiaries. Similarly, regulations on environmental matters, such as greenhouse gas emissions in the air transport sector require special attention in the context of the situation of the Outermost Regions so as to avoid a respective disproportionate impact.

In this context, contrary to the guideline emphasised in the Communication from the European Commission of 20 June 2012, structural funds per se are unable to reduce all the territorial disparities, let alone respond to the funding requirements involved in the common goal of a new strategy for Outermost Regions.

The cohesion policy requires extremely close coordination with other policies which have a significant territorial impact, so as to promote the efficiency and rationalisation of the programmes to be established.

This Action Plan goes far beyond this requirement, delineating a planning strategy which can serve to ensure an inherent territorial vitality. However, to achieve the best results, this planning strategy is inextricably associated with a strategy of experimentation: experimentation means adapting the framework to the reality of Outermost Regions, it means inventing new formulae which enable ORs to create their respective economic model for the future in a pragmatic manner. This strong ambition expressed at a regional level must now correspond to a true European ambition for Outermost Regions.

This is the spirit in which this Action Plan has been conceived: a spirit of activity and responsibility, the only path capable of guaranteeing smart, sustainable and inclusive economic development.

2. The convergence process in the Autonomous Region of the Azores

Along with other outermost regions, the Autonomous Region of the Azores has a particular situation which has been recognised in the founding documents of the European Union.

In effect, from the Declaration on the Community's outermost regions, annexed to the 1992 Maastricht Treaty, until, most recently, Article 349 of the Treaty on the Functioning of the European Union, European documents have clearly noted that the 'social and economic situation' of these regions, 'is compounded by their remoteness, insularity, small size, difficult topography and climate, economic dependence on a few products, the permanence and combination of which severely restrain their development'.

The Autonomous Region of the Azores is thus fully entitled to the status of being an outermost region, effectively sharing the permanent and structural conditions mentioned in Article 349. It is thus subject to the 'specific measures' which must be taken by institutions 'aimed, in particular, at laying down the conditions of application of the Treaties to those regions, including common policies'.

In this context, the Autonomous Region of the Azores is situated in the North Atlantic Ocean, approximately 1 500 km from the coast of mainland Portugal and 3 900 km from the American coast. The archipelago consists of nine islands, separated by 600 km of ocean, which display diverse realities, notwithstanding evident common characteristics.

For example, the physical area of islands in the Azores ranges from the 17 km^2 of the island of Corvo to the 744 km^2 of the island of São Miguel. Similarly, the population varies from around 430 inhabitants in Corvo to almost 138 000 inhabitants in São Miguel.

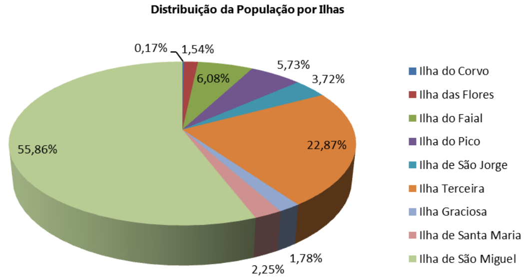


Image key	
PT	**EN**
Distribuição da População por Ilhas	Distribution of the population by island
Ilha do Corvo	Corvo Island
Ilha das Flores	Flores Island
Ilha do Faial	Faial Island
Ilha do Pico	Pico Island
Ilha de São Jorge	São Jorge Island
Ilha Terceira	Terceira Island
Ilha Graciosa	Graciosa Island
Ilha de Santa Maria	Santa Maria Island
Ilha de São Miguel	São Miguel Island

The different territorial dimensions and the irregular distribution of the population among the islands and, on each island, among different districts, in addition to other particularities such as difficult climatic conditions and topography, justify the constant concern of the public authorities to promote cohesion and balanced and harmonious development in a Region formed by small islands, isolated from the mainland and from each other.

Autonomous Region of the Azores	**Population[4]**		**Areas**	
	Inhabitants	**%**	**km^2**	**%**
Total Azores	**246 746**	**100.00**	**2 322. 0**	**100.00**
Corvo Island	**430**	**0.17**	**17.1**	**0.74**
Flores Island	**3 793**	**1.54**	**141.0**	**6.07**
District of Santa Cruz	2 289	0.93		
District of Lajes	1 504	0.61		
Faial Island	**14 994**	**6.08**	**173.1**	**7.45**
Pico Island	**14 148**	**5.73**	**444.8**	**19.16**
District of Madalena	6 049	2.45		
District of São Roque	3 388	1.37		
District of Lajes	4 711	1.91		
São Jorge Island	**9 171**	**3.72**	**243.6**	**10.49**
District of Velas	5 398	2.19		
District of Calheta	3 773	1.53		
Terceira Island	**56 437**	**22.87**	**400.3**	**17.24**
District of Angra do Heroísmo	35 402	14.35		
District of Praia da Vitória	21 035	8.52		
Graciosa Island	**4 391**	**1.78**	**60.7**	**2.61**
Santa Maria Island	**5 552**	**2.25**	**96.9**	**4.17**
São Miguel Island	**137 830**	**55.86**	**744.6**	**32.07**
District of Ponta Delgada	68 809	27.89		
District of Ribeira Grande	32 112	13.01		
District of Nordeste	4 937	2.00		
District of Lagoa	14 416	5.84		

[4]Census 2011, National Statistics Institute.

District of Povoação	6 327	2.56		
District of Vila Franca	11 229	4.55		

During the early 1980s, before the process by which Portugal joined the European Union, natural constraints in the Azores coupled with historical and structural underdevelopment, as well as the lack of a national convergence policy, meant that the Region had very low levels of wealth production.

According to the first report on economic and social cohesion in Europe, prepared in 1996 by the European Commission[4], in 1983 the Azores archipelago was ranked in last place with regard to the regions of the 15 Member States, with only 39% of the average per capita GDP.

Based on the same source, comparing per capita GDP data from 1983 and 1993 and establishing a ranking with regions classified as 'richer' and 'poorer', the situation was practically identical during the early 1990s, the only change being that the Region went from the last to second last (changing places with another outermost region), with a per capita GDP of just 42% of the European average.

This situation changed considerably after the end of the 1990s, boosted by a revised vision of economic growth and the decisive contribution of resources provided by Community funds.

The Azores thus began a path of development, converging with mainland Portugal as well as with the Community. In both contexts it ceased to be an underdeveloped region and is currently close to the group of European regions known as transition regions. It is also ranked in an intermediate position with regard to the 7 Portuguese regions.

Per capita GDP, PPC, EU27=100

[4] http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/repco_en.htm

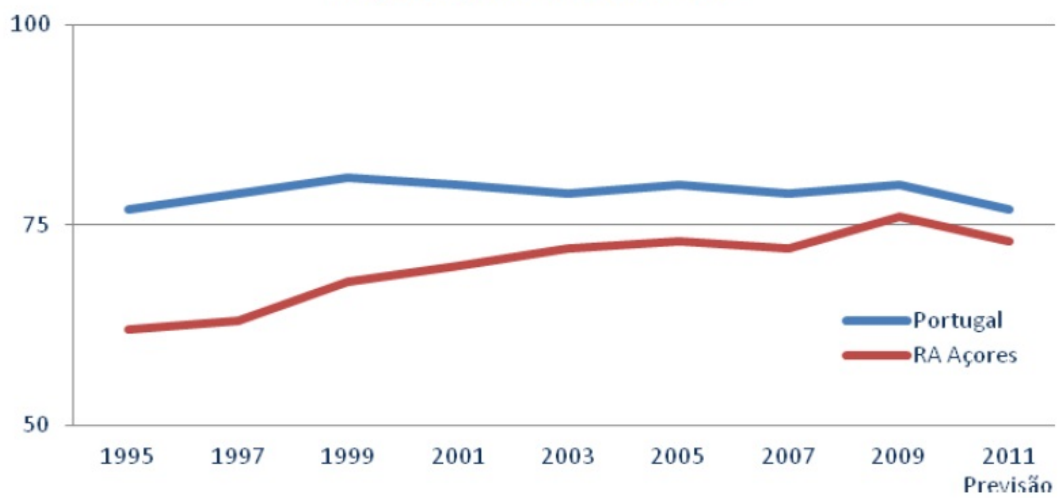


Image key	
PT	**EN**
RA Açores	AR Azores
Previsão	Forecast

In this scenario it is important to consider that during this period, the statistical information available reflects the effects of the financial adjustment measures which Portugal is currently implementing based on the memorandum of understanding with international credit institutions.

Therefore, the recessionary effect of the measures implemented by Portugal have hindered the country as a whole from achieving the process of convergence with the European Union, affecting all Portuguese regions without exception. Nevertheless, the Autonomous Region of the Azores has maintained the same position in terms of contribution to the Portuguese domestic product, in a proportional manner.

Gross Domestic Product

	GDP (10^6 euros)		Azores/Portugal (%)	per capita GDP		
	Azores	Portugal		(thousand euros)	(Portugal=100)	(EU27=100)
1999	2 321	118 661	1.96	9.8	84	68
2001	2 694	134 471	2.00	11.4	87	70
2003	2 990	143 472	2.08	12.5	91	72
2005	3 241	154 269	2.10	13.4	92	73

2007	3 549	169 319	2.10	14.6	91	72
2009	3 650	168 504	2.17	14.9	94	76
2011 P	3 701	171 040	2.16	15.1	94	73

P = Preliminary results
Source: National Statistics Institute, Regional Accounts (Base 2006 at market prices)

Thus, despite Portugal's setback with regard to Europe, the Autonomous Region of the Azores maintained the same proportion of per capita GDP in national terms between 2009 and 2011. In effect, the 3 701 million euros of gross domestic product that the official statistics system measured for the Azores in 2011 (as preliminary results), represent 15 100 euros per resident. When compared to the 16 100 euros measured for Portugal, this places the Azores at 94% of the national average, while this relative figure was only 81% in the middle of the last decade.

3. The crisis and growth in productivity and employment

At the start of the millennium, the Region was marked by robust growth in domestic product, combining a rise in employment with increased productivity, with significant and above average values.

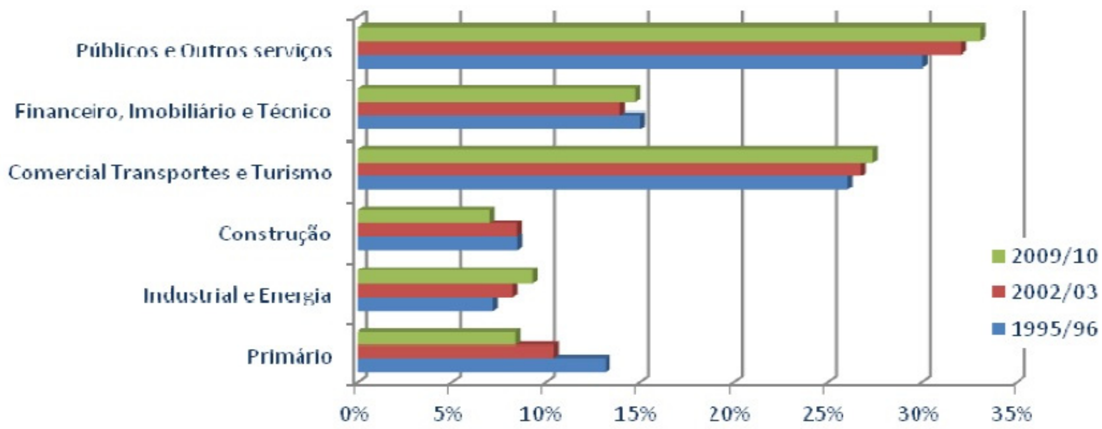
However, an adjustment has clearly occurred in the regional economy due to the crisis affecting Europe. Initially, in 2009, companies managed to sustain the level of employment, although at the cost of a reduction in productivity. In 2010 and 2011, during a second phase, this adjustment was reflected in layoffs and the difficult social costs associated with unemployment.

On the other hand, the trends towards a recovery of added value in the Region in recent years indicate a level of stability, when considering large sectors of activity.

However, a more detailed analysis reveals a progressive reduction in the relative weighting of the primary sector as well as, more recently, in the construction sector. In contrast, the sector which accounted for the largest share of the regional economy and which has even increased its wealth generating capacity is that of public activities and public assets.

In terms of forecasts and guidelines for public policies to be adopted in the future, duly considering the surrounding factors which influence the process of regional development, the structure and the evolution of wealth formation in the economy will thus be oriented more towards the public sector in terms of generating added value.

Structure of Gross Added Value in the Azores



Source: National Statistics Institute, Regional Accounts (Base 2006)

Image key	
PT	**EN**
Públicos e outros serviços	Public and Other services
Financeiro, Imobiliário e Técnico	Financial, Real Estate and Technical
Comercial Transportes e Turismo	Commercial Transport and Tourism
Construção	Construction
Industrial e Energia	Industrial and Energy
Primário	Primary

In other words, this aspect also reveals the need to formulate active policies to promote private and competitive economic activity, which can generate value and employment.

In short, the starting point of this vision for the period 2014-2020 is contextualised by outside threats derived from the crisis in Portugal and the European Union, which condition the mobilisation of resources for the growth of economic production and job creation.

The slowdown in the European economy and in Portugal in general, the limitations of intervention in the financial sector to ensure liquidity, the reduction in production and employment as well as a reduction in the confidence of economic agents, also with direct repercussions in the Azores, such as shrinking domestic demand, among other transversal factors, had a negative impact on growth and development which was being consolidated.

The great challenge for regional public policies for the 2014-2020 period, albeit clearly influenced by outside factors, will thus consist of mitigating the negative effects of the downturn, with a view to resuming previous trends of growth, development, job creation and convergence with the EU's average level of wealth generation.

4. The main strategic guidelines 2014-2020

Over the course of the years, European Union funds and support have generally been an essential element in the convergence process and in the economic and social development of the Autonomous Region of the Azores.

Public investment subsidised by the European Union has been structured along two main strategic guidelines:

- Providing the necessary investment for basic infrastructure in diverse areas and in the nine islands of the archipelago, keeping in mind the lack of such infrastructure, primarily due to the territory being an archipelago covering a vast expanse and the resulting needs to provide a minimum level of public infrastructure;
- Economic and social structures which includes promoting private investment and enhancing human capital.

In the current environment, the process of financial and economic adjustment currently underway in Portugal has naturally had a negative impact on economic and social conditions in the Azores, especially in terms of economic growth and unemployment of the active population, particularly evident among young people.

On the other hand, obligations in terms of adjusting public expenditure have required the public sector to accommodate the impact of the external crisis even though, over the course of the years, regional finances have been strictly managed. This is reflected in a current deficit of just 0.4% of GDP and public debt of 19% - figures which are very different from the national situation.

The new period of 2014-2020 will start in the Azores against this backdrop of difficulties and uncertain prospects in the short and long-term, along with changes in the economic cycle and the behaviour and confidence of economic agents, both nationally as well as at a European level. This is a turning point for progress considering the transition between the infrastructure component – which is in a very advanced phase but has not yet been completed or closed – and the progressive and necessary development of public policies aimed directly at production activities and seeking to ensure a balance and economic and social cohesion.

This Action Plan clearly defines guidelines to increase the regional economy's level of competitiveness, both in core and specialised areas as well as in terms of promoting the diversification and robustness of new sectors and areas of economic production. It also aims to free the potential of these sectors for new private investors.

At the same time, policies to actively promote private sector employment are a priority, linking the qualifications of human resources to the needs of companies, while protecting underprivileged sectors of society and thus minimising social exclusion and poverty.

The means and tools to be mobilised also have clear objectives and suitable conditioning factors to achieve equitable and proportional distribution in the territory, with equal opportunities, environmental sustainability and efficiency and the preservation of resources.

PART II – STRATEGIC PLANS AND PRIORITIES

1. Europe 2020, axes of the revised strategy and strategic priorities

The Communication from the European Commission of 20 June 2012 stated that the framework of the three axes of the partnership with the Outermost Regions must be 'updated and adapted in the light of Europe 2020' and that 'this means greater emphasis on creating jobs and growth, and a comprehensive approach to climate action'.

Therefore, this Action Plan combines the five axes of the 2012 Communication, duly framed by the Europe 2020 Strategy and developed in conjunction with the strategic priorities of the Autonomous Region of the Azores.

2. Smart growth: A dynamic and diversified export-oriented economic base

2.1. Reinforcing competitiveness

Reinforcing competitiveness, namely by modernising and diversifying the economy, investment and innovation in sectors with high potential for growth and/or high added value (traditional and emerging) and supporting the development of the private sector (especially SMEs and micro companies) as well as innovation for new products and services.

2.1.1. Agricultural chains, a fundamental pillar of the regional economy

2.1.1.1. Milk and meat, high added value

Agricultural activity in the Autonomous Region of the Azores is a key sector of the economy and is a decisive factor for generating income for the local population.

Over the course of recent years this sector has shown relative stability in terms of production, due to investment in modernisation and the restructuring of the production chain.

In effect, the natural characteristics of the archipelago of the Azores ensure a great diversity of agro-ecological conditions, with an emphasis on the excellent conditions available for large scale cattle farming, due to soil and climate conditions and the archipelago's terrain.

The agro-forestry sector, including the associated processing industry, is also a traditional specialised sector and is one of the most important dynamos in the regional economy. This competitive specialisation, centred around milk and meat production chains, has been maintained, with a continuous rise in production levels and an increase in market shares.

In the Azores, pastures, forests and agricultural areas account for almost 80% of the terrain. The total surface area of agricultural operations represents 56% of the territory while the utilised agricultural area (UAA), mainly comprising grazing lands, occupies approximately 92% of this surface area (a figure far higher than Portugal's national average, where the UAA corresponds to 78% of the total surface area of agricultural operations).

However, the low population density and specific conditions affecting regional agro-forestry activities, due to being an outermost region, mean that the Region is classified as being predominantly rural and underdeveloped. This reality thus evidences the complementarity and interaction of the economic, environmental and social dimensions of agricultural and forestry activities.

In effect, this activity plays a decisive role in the Azores landscape, territorial planning and the protection, conservation and use of natural resources. It also results in a markedly rural trend in the territory, where primary and agro-processing activities play a relevant role in the Region's socio-economic structure.

As a whole, the recent evolution of the agro-forestry production sector in the Azores has the following general characteristics:

- Progressive reduction in the importance of agriculture in terms of regional Gross Added Value (GAV). Nevertheless, in 2009 primary activities represented 8.5% of the Region's GAV, a figure far higher than that recorded for Portugal's total (2.3%).
- A reduction in the number of agricultural estates, with an increase in their average size, even though the rise in the number of operational blocks indicates the continued existence of a high territorial fragmentation.
- A shrinking pool of agricultural labour, with a high dependence on family labour (about 80%), with inhabitants engaged in family agriculture representing 17.3% of the Region's resident population (a figure far higher than the Portuguese average, which is around 7.5%).

- Agricultural producers with a low level of training, though relatively young (the respective average age rose from 53 years, in 1999, to 54 years, in 2009, still lower than the 63 years recorded nationally).
- An increase in productivity and level of remuneration in the primary sector.
- Forestry properties operated for economic purposes continue to be small, due to a shortage of land and the clear priority attributed to conservation, protection, planning and leisure.

The production, processing and marketing of agricultural products thus centres around the milk chain (the Azores are responsible for more than 30% of Portugal's production of cow's milk). In recent decades, this chain has undergone a positive evolution in quantitative and qualitative terms due to modernisation and restructuring. This has been reflected in:

- Production, with an approximately 40% increase in milk production between 1995 and 2012 (13% between 2005 and 2012), despite a 28% reduction in the number of estates and dairy cows;
- Agro-industry, a sub-sector which has witnessed reinforced ties with producers, along with important investment aimed at modernisation, with a view to increasing production capacity (as a response to the increase in raw materials).

In the 2014-2020 period, the end of the milk quota system will undoubtedly be one of the main challenges facing the regional milk chain, with a consequent impact on the economy of the Azores.

Agro-Farming Production

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Milk received in factories (1 000 lt.)	499 801	505 872	506 216	515 728	540 199	535 417	547 576
Milk for consumption (1 000 lt.)	74 670	78 137	89 862	84 069	99 410	99 105	114 240
Milk products (tonnes)	48 887	49 948	50 500	53 416	53 991	53 827	53 816
Cattle slaughtered	8 147	8 124	8 262	10 448	11 565	11 645	12 530

Cattle exported live	12 222	11 740	9 631	8 436	5 511	5 200	5 077

Therefore, the process for (re)structuring the current production model, which is already underway, will contemplate the use of a chain logic and market niches, as well as greater investment in research and innovation. It will also develop and promote the 'Azores' brand, in close liaison with the University and R&D units located in the Region.

In turn, the meat chain has also undergone a positive evolution, with a substantial increase in the relative role of farms specialising in cattle for meat (in 2009, such farms represented 31% of the UAA occupied by farms specialising in animal production, as compared to just 18% in 1999).

There has also been a discernible evolution in cattle being slaughtered in regional abattoirs (the total net cleaned weight of such cattle grew more than 50% between 2005 and 2012), which have benefited from substantial investment in modernisation over the past decade. During this same period, the volume of cattle slaughtered for export (i.e. sold outside the Azores) increased by 384%.

Labour Indicators

Classes	Azores	Portugal	Azores/Portugal (%)
Size (Hectares/Farm)	8.9	12.0	74.2
Volume of work (AWU/farm)	0.9	1.2	75.0
Efficiency (AWU/100 hectares)	9.6	10.0	96.0
Productivity (€1 000/AWU)	30.4	12.6	241.3

Source: National Statistics Institute, Agricultural Survey 2009

It is also important to note that agriculture in the Azores is highly exposed to damage caused by natural catastrophes and bad weather.

As such, the rural development strategy for the 2014-2020 period contemplates a structure centred around the three pillars of ‘territorial and production competitiveness’, ‘sustainability of resources’ and an ‘integrated development approach’.

The following priorities have been identified, based on the new EAFRD combination of priorities, so as to cover a diverse and complementary set of support, contributing towards an integrated approach towards rural development:

- Smart growth, by increasing the competitiveness of the agricultural, agro-food and forestry sectors, promoting innovation, quality, external visibility and attraction, restructuring and developing the chains of the agro-food sector, improving supporting infrastructure and reinforcing knowledge and human potential;
- Sustainable growth, encouraging the sustainability of rural spaces and natural resources, by promoting the continued use and sustainable management of agricultural and forestry lands;
- Inclusive growth, supporting the economic and social revitalisation of rural areas, by promoting the diversification of the economy and employment, improving living standards and developing competences at a local level as key factors to increase this sector’s attractiveness for younger sections of the population as well as to generate employment.

Keeping in mind the future support framework, as well as the results of the intervention under existing programmes, the following have been identified as priority areas in this context:

- Transfer of knowledge and information actions;
- Consultancy services, agricultural management services and substitution services for farms;
- Installation of young farmers;
- Investment and development for agricultural farms, forestry estates and the processing sector;
- Investments in infrastructure to support agricultural and forestry activities;
- Sustainable management of agricultural and forestry spaces and measures to support living standards in rural areas;
- Investment measures to diversify the rural economy.

2.1.1.2. Agricultural diversification and the forestry sector in particular

Despite the limitations at the level of production and marketing, the activities of diverse production chains in the Azores (cereals, horticulture, fruticulture, floriculture and ornamental plants, vineyards and industrial crops) have gained importance in the Region’s production structure.

This diversification is the result of a recognition of the need for greater food sufficiency and the existence of potential and competitive conditions to develop alternative production options to cattle raising.

However, these positive signs do not attenuate the continued existence of important weaknesses in the productive structure (with numerous farms operating in conditions which are not particularly dynamic in technical and economic terms) as well as in areas of productive, technological and market innovation for agricultural and cattle raising farms and processing units.

It is therefore necessary to continue to reinforce the emphasis on diversification, so as to inhibit imports, by revitalising not just traditional production but also by developing sectors in which the Region is lagging.

In this context the following traditional production areas have been identified as opportunities within the scope of the internal (inter-island) market:

- Corn and cereals – from the viewpoint of the food sufficiency of diverse islands and based on the transformation of pasture areas used for cattle farming;
- Horticulture – using the conditions and periods of a temperate climate or for artificial crops, including hydroponics;
- Fruticulture – reviving traditions of crops/orchards of peach, fig, apple, pear and citrus trees.

At the same time it is necessary to create mechanisms which attenuate the constraints of production which have different capacities in some islands (melons, blackberries, bananas, garlic, etc.), compared to the limitations of the scale of demand (due to an internal market divided into nine sub-markets) and an insufficient scale of supply to overcome the economic distance to markets in mainland Portugal.

On the other hand, wine is a product which has made its mark on account of its quality, with longstanding traditions on some islands. Of note is the Landscape of the Pico Island Vineyard Culture, classified as world heritage by UNESCO, which is ‘sold’ as a tourism product.

Vitiviniculture is an area on which the Region will continue to focus due to the fact that its wines are already being exported to very particular niche markets which have great potential for growth and added value.

On the other hand, also in this sub-sector, the scale of production in the Azores does not enable recognition in terms of quantity but rather in terms of quality.

Thus, there will be an emphasis on restructuring vineyards, not just on the islands of Graciosa, Pico and Terceira, but also on the islands of São Miguel and Santa Maria, where there are equally good conditions for production, creating mechanisms to dynamise the sector.

Associated with this area, the role of wine tourism cannot be overlooked, which could benefit small vineyards by combining production with landscape, gastronomy and rural tourism.

Being able to design and leverage viable projects with entrepreneurial support is a key factor for increasing the margins for maximising economic opportunities, currently and in the medium/long-term.

These initiatives thus seek to increase the positive trend towards diversifying agricultural production, contributing to reducing the commercial deficit of some regional agricultural products.

The ‘Terra Açores’ project was created as another facet of this sector. It consists of uncultivated public land which will be made available to young agricultural entrepreneurs, promoting diversification and contributing towards reducing imports.

In turn, forests occupy more than 30% of the territory of the Azores, two-thirds of which consists of production forests, planted in public and private areas, consisting primarily of cryptomeria. About one third of these forests are natural or semi-natural.

Despite the still residual role of forests with economic functions, the cryptomeria forests are an asset for the regional rural economy, especially on the island of São Miguel, where there are productive resources typical of a forestry chain. These include a group of micro, small and medium enterprises providing silviculture services and forestry operations and processing wood (sawing, carpentry and joinery).

The ‘Cryptomeria Azores’ brand has recently been created to promote the use of this timber and it represents an important incentive.

It is thus necessary to promote the profitability of the wood sector, especially so that it can help mitigate the impact of unemployment in the construction sector and provide jobs for those with lower levels of professional qualifications.

Therefore, a strategy will be developed to ensure the profitability of public cryptomeria forests, encompassing cutting, processing and reforestation. Markets and circuits suitable for marketing the timber produced will also be developed alongside this process, as will the processing industry.

It is estimated that this measure has the potential to create approximately one thousand direct jobs and more than one hundred indirect jobs.

At the same time, funding solutions will be promoted in all areas of diversification, so as to encourage R&D in the Region's farming, forestry and food processing sectors, involving companies, R&TD units, sectoral, professional and technical associations, in an effort to qualify production in areas of specialisation and in areas of diversification.

Finally, along with the efforts to develop production structures, measures will be implemented to promote and publicise products from the Azores, with a view to encouraging the consumption of local products linked to the agricultural sector.

2.1.2. Fisheries and aquaculture: an important traditional specialised sector

2.1.2.1. The fisheries sector

Although the Azores archipelago accounts for the largest sub-area of Portugal's Exclusive Economic Zone, encompassing an expanse of almost 1 million Km^2, it has a relative lack of biomass and is biologically fragile, especially in terms of demersal and deep water species, since it does not have a continental shelf and has high average depths. Only 2.2% of this total area can potentially be used up to a depth of 1 000 metres.

Fishing in the Region, with average values of fish auctions being about 13 000 to 15 000 tonnes/year (a volume which relies heavily on tuna), provides employment for around 500 fishermen, haulers and support staff on land.

The remaining chain generates close to 1 000 jobs, mainly in the processing industry, especially preserves, as well as the fish marketing circuit and maritime and air transport.

Although the level of training of professional fishermen is not yet sufficient, public policies have promoted conditions to improve qualifications. It is essential to continue these measures, namely by making changes in the conditions required to access the profession (and the respective career progress in diverse areas) as well as in available training, with a view to streamlining the entire process and reinforcing interest in the profession.

The regional fishing fleet consists of:

- The artisanal fleet segment, consisting of small vessels measuring less than 9 metres, which generally operate up to 30 miles;

- The small scale coastal fishing segment, or artisanal fishing, which includes vessels measuring between 9 and 12 metres, capable of fishing up to 50 miles;
- The coastal fishing segment, consisting of vessels measuring more than 12 metres which can operate in areas beyond 50 miles.

Vessels, 2011

Classes	Azores	Portugal	Azores/Portugal (%)
Number	704	4 866	14.5
Gross tonnage	7 239	83 233	8.7
Power (Kw)	45 647	308 928	14.6

Source: Regional Statistics Service of the Azores

The regional fleet operates with different fishing techniques, characterised by their selective nature and, consequently, their contribution towards the sustainability of marine resources and habitats.

Owing to their characteristics, the vast majority of fish caught in the Region are sold fresh, hindered by difficulties arising from the geographical distance from markets.

Processing of fish products is concentrated in units producing preserved tuna, almost exclusively aimed at exports. This industry is the main channel for marketing the production of the regional tuna fleet, especially the bonito species, with limited demand for fresh fish.

Some private investment projects have recently been proposed to process other kinds of fish, which are worthy of consideration due to their potential.

Fish unloaded at fishing ports

	2005	2006	2007	2008	2009	2010	2011
Volume of fish (tonnes)	9 254	11 860	15 883	11 528	9 441	18 944	16 092
Tuna	3 113	5 817	9 392	5 109	3 547	13 675	10 224

Other fish	6 141	6 043	6 491	6 499	5 894	5 269	5 867

Source: Regional Statistics Service of the Azores

The scientific research being conducted in the Region, namely by the Department of Oceanography and Fishing of the University of the Azores, has proved to be an essential tool to improve knowledge about the fisheries sector, contributing towards encouraging technological innovation, promoting a suitable management of resources, respect for the environment and inter-sectoral and multidisciplinary articulation in the sector.

With regard to infrastructure and material conditions to support the development of fishing activity, public investments have been made in recent years. However, there is still a pressing need to modernise and upgrade some network segments.

Nevertheless, despite the progress which has been achieved in recent years, constraints still exist which need to be resolved in the near future. In general, these include:

- Skewed marketing circuits, from the first sale in auction halls to the final consumer, which has resulted in sharp imbalances in the distribution of the profits generated, with disadvantages tending to accrue to primary products;
- Poor profitability of fishing companies, due, above all, to their size and organisational structure, management shortcomings and high operating costs, aggravated by an increase in the price of fuels;
- A low level of professional training in the sector, especially at the level of knowledge and professional competences adapted to management requirements;

In this context, during the 2014-2020 period, the promotion of the regional fisheries sector will be based on a combination of competitiveness and sustainability, with an effective valuation of the respective productive activities:

- Support for SMEs in the production, processing and marketing sectors, trying to identify new business areas, always with a view to preserving fish stocks;
- Support for the small scale coastal fishing fleet, namely in terms of improving safety and work conditions;
- Development of new professional competences and knowledge for agents in this sector;
- Promoting interaction between professionals in this sector and existing scientific structures, particularly the Department of Oceanography and

Fishing of the University of the Azores, not just for fishing activities but also as partners for innovation and diversification, namely in the context of a new sea production chain;

- Support for actions to adapt and modernise supporting infrastructure, with a view to improving the conditions offered to the fishing community, by introducing new conservation techniques.

2.1.2.2. Diversification: Aquaculture, a sector with potential

Marine aquaculture is a sector which is expanding rapidly in Europe and has high potential for growth in the context of food production.

However, the islands of the Azores find it difficult to attract private investors to invest in this area because the commercially successful species produced in the European Union do not exist in the Azores (such as sea bass, sea bream and turbot). This is further compounded by the fact that weather conditions in the Azores hinder the installation of offshore establishments.

Despite these constraints, it is hoped that technological progress in the sector will make it possible, in the near future, to introduce this business area, more specifically in the segment of algae and crustaceans.

In this regard, the Department of Oceanography and Fishing of the University of the Azores has developed pilot research projects aimed at perfecting reproduction techniques, genetic improvement, nutrition and the growth of species such as barnacles and abalones.

In the 2014-2020 time frame, aquaculture will thus be an important area for the diversification of activities linked to the sea, in a quest for new business areas which do not conflict with efforts to preserve fish stocks. It is essential to ensure a high level of environmental protection, health and wellbeing of the stock as well as public safety and health.

Moreover, likewise from the perspective of diversifying the sub-sectors linked to fishing, it will be necessary to promote support for marketing and processing companies, with a view to encouraging added value for products and reinforcing the structure of the production chain.

It is important to note that the industries manufacturing fishing products generate sub-products which represent between 30% and 50% of the total fish processed, and it is essential to study and develop techniques to make use of these sub-products.

The development of new biotechnology processes to process caught but unused biomass and marine sub-products could make it possible to produce new products with high added value, such as protein hydrolysates and concentrated ‘Omega 3’ fatty acids, with potential in the area of human and animal health and nutrition.

2.1.3. Tourism, an emerging sector affected by the external crisis

Tourism is one of the sectors of the regional economy which has the greatest potential for growth, with an impact on income generation and employment, in the tourism sector itself as well as in a broad range of associated activities and services. Tourism has a positive effect on the trade balance since it is an ‘export’ activity.

The development of tourism in the Autonomous Region of the Azores is especially worthy of note due to its connection and harmony with diverse other sectors and aspects, ranging from maritime activities and agriculture to environmental and demographic issues.

Being a sector which has become an important priority only relatively recently in the archipelago’s economy, tourism plays a growing role in the Region’s strategy for economic development.

This growth has been based on the sustainability of the Azores as a destination and the guarantee of a suitable balance between tourism activities, associated infrastructure and the protection of the landscape, eco-systems and biodiversity, as unique hallmarks of the Region in Europe and in the world.

This strategy has been recognised not just by those who visit the Region, but also at an international and European level. For example, National Geographic Traveller ranked the Azores in second place among the leading destinations worldwide for sustainable tourism and, in 2013, the archipelago was once again ranked as the best ‘Green’ destination in Europe (Quality Coast GOLD), an accolade awarded by the 'European Coastal & Marine Union' (EUCC).

Furthermore, tourism can also be an additional factor serving to enhance agriculture, which contributes decisively towards maintaining the Azores landscape, promoting diversification and being a market for channelling traditional products, encouraging their quality and added value.

The connection between tourism and activities associated with the sea is even more evident: whale watching, sports and underwater fishing, sailing, yachting and cruise tourism, among others, are quality products of the 'Azores' brand as well as being a factor which helps diversify and convert assets and traditional techniques (for example the use of observation towers formerly used to sight whales for hunting them are now used for whale watching).

With regard to demographic questions, the development of tourism can clearly contribute towards attracting and retaining a young and innovative population, particularly in smaller islands, thanks to new opportunities to provide services linked to recreational and tourist activities.

The tourism sector undoubtedly represents an opportunity for diversification and the transfer of assets and serves to anchor younger segments of the population.

In this context, tourist demand for the Azores has shown considerable and sustained growth, practically doubling between 2002 and 2007. Similarly, during the same period, significant investments were made which allowed existing accommodation facilities to be upgraded and doubled in terms of capacity.

Evolution of Accommodation Capacity in the Azores

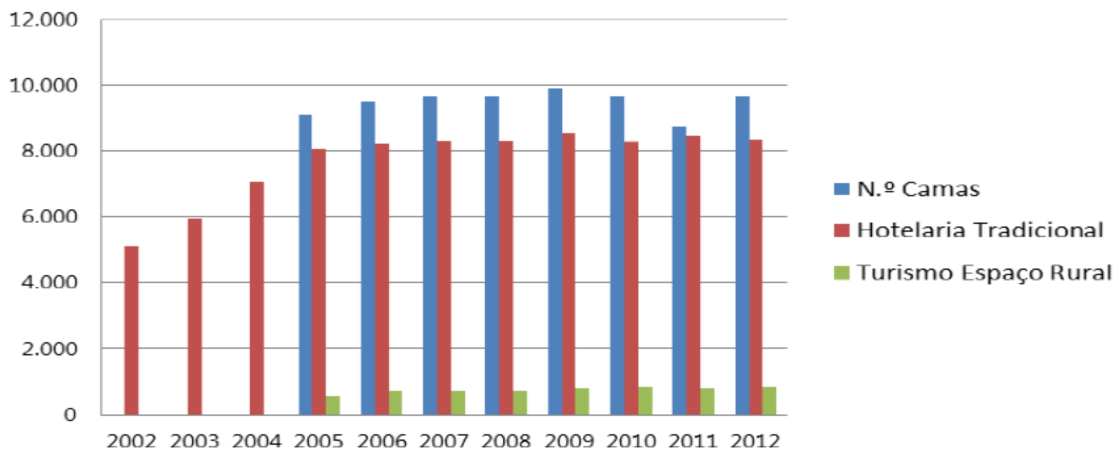


Image key	
PT	**EN**
Nº Camas	Number of beds
Hotelaria Tradicional	Traditional hotels
Turismo Espaço Rural	Rural tourism

Thus, in 2007 statistical data indicated an increase of about 200% for the regional economy's total revenues, as compared to 1996. However, the current situation in the issuing markets for tourism in the Azores is one of the reasons for the uneven evolution of demand since 2007.

Evolution of the total number of room nights

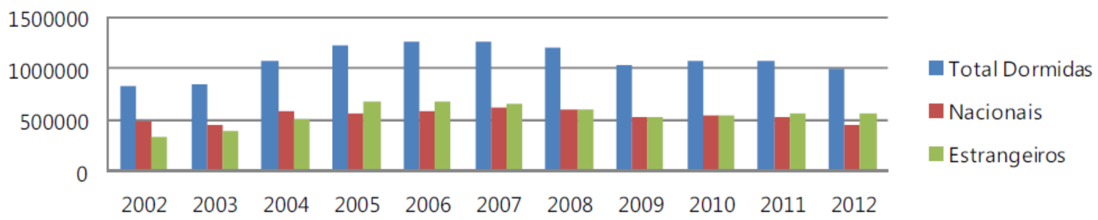


Image key	
PT	**EN**
Total Dormidas	Total room nights
Nacionais	Portuguese
Estrangeiros	Foreign

In effect, the evolution of the economic scenario since 2007 is particularly clear in this aspect: the growth of tourist arrivals was interrupted, especially in terms of the number of visitors originating in Portugal (the main reference market). Apart from a spike in 2010, a year when conditions improved temporarily in Portugal, this downward trend has continued.

Demand – Main Markets

Tourists (in thousands) and stays (room nights/tourist), according to residence/nationality

	Tourists resident in Portugal	Tourists resident abroad	Stays by tourists resident in Portugal	Stays by tourists resident abroad
2007	237.0	146.6	2.6	4.6
2008	234.0	148.1	2.6	4.2
2009	221.8	135.6	2.5	4.0
2010	236.6	144.7	2.5	3.9
2011	224.5	158.0	2.5	3.8

Source: Regional Statistics Services of the Azores (SREA), Tourism Statistics and DREPA Statistics

With regard to tourists from abroad, 2009 was a year which witnessed a drop in demand for the Azores, while the general trend has been one of moderate growth.

Evolution of room nights for Portuguese and foreign visitors

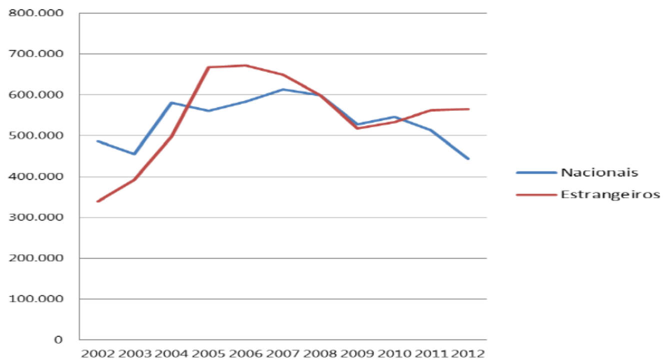


Image key	
PT	**EN**
Nacionais	Portuguese
Estrangeiros	Foreign

On the other hand, supply has been growing in terms of the physical capacity available, although in a relatively moderate manner, with adjustments of the type and operations of hotel units. A growth in rural tourism is worthy of note and this sector is expanding in terms of the availability of beds.

The use of hotels is still relatively low, namely to ensure the viability of companies. Due to the seasonal nature of tourism in the Azores, the average occupation is about 32%.

Tourism supply and demand in the Hotel sector

	Capacity(1)				Room nights			
	Traditional hotels	**Tourism in rural areas**	**Others (2)**	**Total**	**Traditional Hotels**	**Rural Tourism**	**Other (2)**	**Total**
2007	8 153	609	735	9 497	1 184 375	19 679	87 018	1 291 072
2008	8 339	721	615	9 676	1 127 513	18 541	81 423	1 227 477
2009	8 566	820	543	9 927	1 004 804	20 603	82 723	1 108 130
2010	8 305	844	546	9 695	1 035 031	24 831	91 671	1 151 533
2011	8 465	822	524	9 812	1 033 525	23 049	93 875	1 150 449

(1) Annual average of the monthly supply of beds
(2) Guesthouses, holiday camps /youth hostels, camping sites and private lodgings

Source: National Statistics Institute, Regional Accounts (Base 2006)

There is currently relatively robust and diversified supply in the Azores, distributed over the nine islands. In this context it is important to note the importance and indispensability of public support to build hotel infrastructure in smaller islands.

Similarly, awareness and promotion strategically aimed at specific segments and markets, along with improvements in the tourism products on offer, are factors which serve to strategically guide public investment in this sector.

In this context, the tourism sector will preferably be promoted and developed by emphasising the areas of nature tourism, nautical tourism, cultural tourism, thermal springs, health and general well-being. The products on offer will be diversified further so as to make the best use of the potential of local natural resources.

2.1.4. The entrepreneurial sector in general: an entrepreneurial dynamic

From a general perspective, the entrepreneurial fabric of the Azores consists predominantly of small, very small and micro enterprises. Therefore, and also due to the well-known conditions which are characteristic of Outermost Regions, economies of scale are naturally relatively limited.

Company indicators	Azores	Portugal
Rate of company formation (%)	19.04	15.09
Rate of company closure (%)	22.56	19.74
Average number of employees in company start-ups (%)	1.23	1.28
Survival rate at 2 years (%)	46.06	49.36
Proportion of companies with 250 or more employees (%)	0.09	0.55
Total companies with less than 10 employees: (%);	95.4	95.6
Average number of employees per company:	3.3	3.5
Average volume of business (thousands of euros)	257	316.6
Average GFCF value per company: (thousands of euros)	23	21
Value of the GAV market prices per company (thousands of euros)	57.8	78

Percentage of staff costs in the GAV (2009): (thousands of euros)	70.66	61.89
Capital/employment coefficient (thousands of euros)	50.07	48.48

Sources: Annual Statistics of the Autonomous Region of the Azores, Regional Statistics Service of the Azores; Economic Accounts 1999-2009; Companies in Portugal, 2010 (National Statistics Institute); Evolution of the Corporate Sector in Portugal 2004-2010 (National Statistics Institute)

The production specialisation of the Autonomous Region of the Azores is clearly based on the primary sector and on services. GAV at market prices generated in these sectors in 2010 thus represents more than 90% of regional GAV.

However, efforts have been made to promote economic diversification, which should be reinforced during the 2014-2020 period, especially in the agro-food, tourism and science and cutting edge technology sectors.

Cluster logics for some production will be identified and developed, namely those linked to the main components of the economic base, with a view to extending this logic to other economic activities.

Early-Stage Entrepreneurial activities in the Azores, ascertained by means of the proportion of active adults (aged between 18 and 64 years) who are involved in a start-up process or in managing new and growing businesses was 3.5% in 2010. This figure indicates that in the Azores, for every 100 active adults, 3 to 4 are involved in start-ups or in managing new businesses.

Unlike the case in most 2010 GEM[5] nations (although not in a particularly pronounced manner), the number of entrepreneurs managing new businesses in the Azores (2.1% of the adult population) is higher than the number of entrepreneurs involved in start-ups (1.5% of the adult population). In mainland Portugal, these figures are 1.9% and 2.6%, respectively.

There are a set of sectors and products in the Autonomous Region of the Azores which have particularly favourable conditions for entrepreneurial initiatives and a broad range of public programmes and projects have been started to support this potential, ranging from Education to Entrepreneurship, financial support for entrepreneurial projects, micro credit and risk capital. Among these areas the agro-food sector, fisheries and derivatives are especially worthy of note, as are new emerging sectors, such as tourism (particularly nature tourism), other activities related to the sea (for example, marine biotechnology) or renewable energy (especially geothermal, wind or wave energy).

[5]The Global Entrepreneurship Monitor (GEM) is the largest study on entrepreneurship at a global level. It was carried out for the first time in 1999, the result of a joint initiative of Babson College (USA) and the London Business School (UK).

In this context, an essential priority for the 2014-2020 period is precisely to increase the competitiveness of the regional economy. The use of a strategy associated more with non-material factors and the competitiveness of regional economic production by local entrepreneurs will be an indispensible factor for reinforcing value creation.

This objective must be achieved not just by means of the use of available technology but also by the introduction of new management methods in companies, their organisation and functioning and the manufacture and marketing of products, aspects which must be duly contemplated in the new cycle of public support to promote private investment.

In this regard, operating objectives include developing links and synergies between regional companies, centres for R&D and Innovation as well as for higher education, economically utilising and reinforcing the existing capacity for research and innovation (R&I). Other aspects entail promoting training and a corporate mentality aimed at encouraging companies to invest in innovation, especially in the area of developing products and services, transfer of technology, technological support and applied research, social innovation and public interest applications and networks.

These are transversal operating objectives for the entire regional economy, with the public and administrative sector facilitating and dynamising results, while being directly responsible for active policies to provide support for companies.

Adopting a strategy of 'smart specialisation', which is currently being prepared and discussed with all partners, will serve as a lever to chart a new course for the regional economy.

The complete framework of measures to support economic activity in the Autonomous Region of the Azores was recently condensed into a proposal which, after a period of public presentation and discussion, formed the Azores Agenda for Employment and Corporate Competitiveness. The envisaged measures include:

- Promoting entrepreneurship;
- Promoting an entrepreneurial spirit, facilitating support for making economic use of new ideas and encouraging the creation of new start-ups (including by means of incubators and nurseries, supported by reinforcing financial engineering tools);
- Developing services to support companies;
- Support for internationalising SMEs and the 'export' of goods and services outside the island/archipelago, providing some scale for regional production.

Support for developing new IT & Communications (IT&C) products and services will be further promoted in the Region, along with reinforcing and expanding the use and development of IT&C applications, with a view to stimulating new business areas and reducing time and context costs for companies.

In terms of production in areas in which the Region has natural and competitive advantages, the objective is to increase production revenue, reducing outside dependence and promoting exports by the agro-food and agro-forestry chains, with competitive and eco-friendly production and processing methods.

To this end, sectoral strategic guidelines will be defined in specific areas, essentially based on indigenous resources and comparative advantages, in a logic associated with the concepts of a green economy, a maritime economy and a creative economy.

2.2. Improving access to the single market

Based on the 2012 Communication, in terms of 'access' this section will contemplate not only the transport component, but also the transfer of knowledge and implementing and improving access to new information and communications technologies.

2.2.1. Air, sea and road transport

The situation of the archipelago and a complex system of access

In the Azores, access and transport systems are vitally important, owing to the limited mobility options in a scattered archipelago and the inherent specificities in the area of road transport on each island, as well as of sea and air transport, necessary for people and goods to arrive and leave. This is the case for transport in each of the nine islands as well as to and from the Region as a whole.

In effect, unlike mainland regions, where the alternative of rail transport exists, along with hubs combining diverse modes of transport in some urban systems, in the Autonomous Region of the Azores the movement of goods and people on each island is exclusively by road, which connects interior and rural areas to the coast, with a higher concentration of urban areas and the main public and commercial services.

Moreover, in a Region located more than 1 500 km from the European mainland, comprising nine islands scattered over 600 km and where navigation conditions are quite difficult for much of the year, there is great dependence on passenger air transport, both for travel within the archipelago as well as, almost exclusively, with areas outside the archipelago.

In effect, the scattered and remote nature of the islands, combined with the characteristically adverse conditions of the surrounding ocean for much of the year has resulted in a specialisation of transport systems, ensuring that passenger transport occurs primarily by air. There are nine airports or aerodromes serving the population of the nine islands which comprise the archipelago and five gateways into the Azores.

At the level of infrastructure, construction projects have been implemented to improve some airports and runways, apart from renovating and expanding facilities to support airport operations.

The volume of passenger transport in the archipelago's airports is thus structured into two broad traffic segments, based on the respective origins and destinations: inter-island and outside the archipelago. In the case of the latter, flights to other Portuguese airports comprise the bulk of traffic, i.e. domestic flights within Portuguese territory. In 2011, this segment witnessed a decline in demand for journeys to and from the Azores.

Passenger air transport

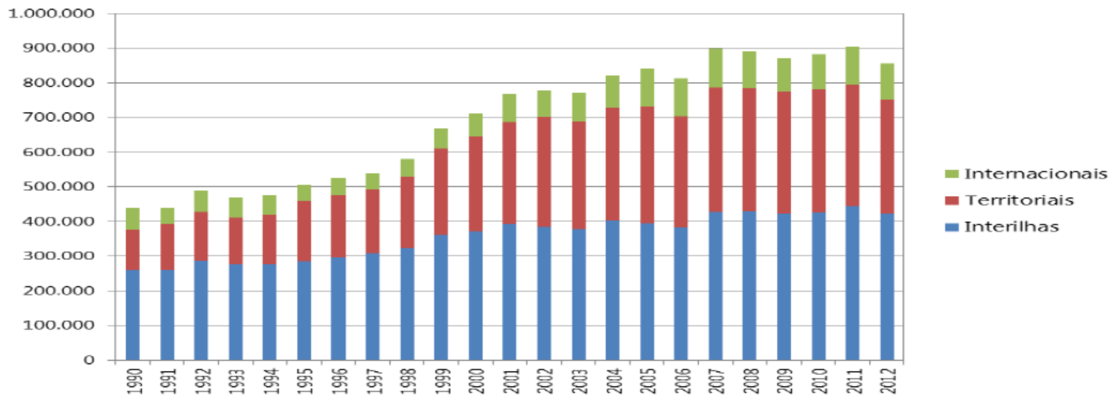


Image key	
PT	**EN**
Internacionais	International
Territoriais	Domestic

Interilhas	Inter-Island

In the current context, there is some uncertainty regarding the evolution of operations and services at the four airports/aerodromes under public management (Ponta Delgada, Santa Maria, Horta and Flores) and the services of the national airline, due to the impact that the respective privatisation processes could have on the Region.

In turn, inter-island maritime passenger transport is increasingly dynamic as a result of measures implemented over the last 15 years. In truth, after a hiatus of 20 years, this seasonal mode of passenger transport (which allows links between all the archipelago's islands for only a few months in the year) was revived in 1998 and has seen a gradual increase in the number of passengers transported.

Nowadays, despite the seasonal nature of the sector, maritime passenger transport enables tens of thousands of people to travel by sea throughout the archipelago in summer. This increases internal tourism and promotes commerce, restaurant, hotel and other services, especially on the smaller islands.

Passenger sea transport

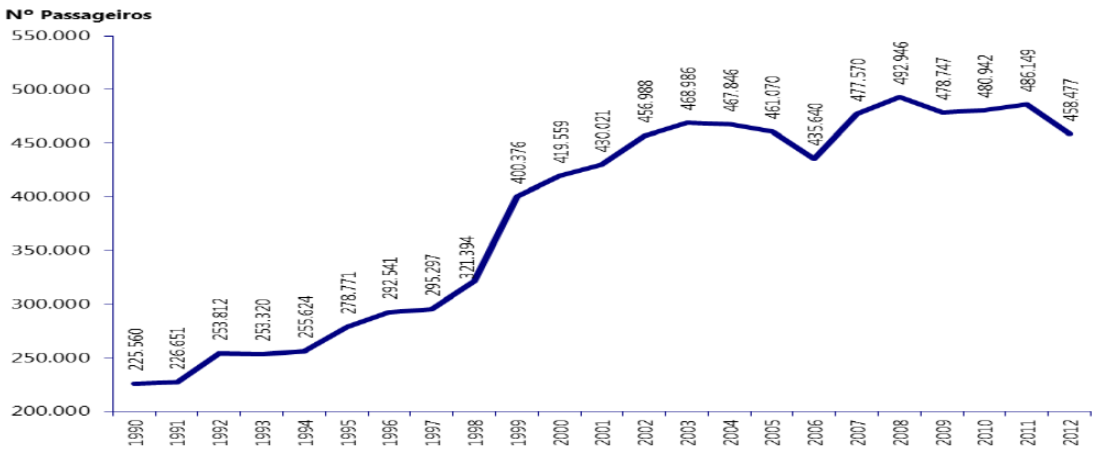


Image key

PT	EN
Nº Passageiros	Nº of passengers

In turn, maritime cargo transport is also vitally important for economic development, especially since almost all goods imported into and exported from the Region are shipped by sea, with little scope for using alternative and inter-modal solutions.

It is essential to note that inter-island air transport of cargo is relatively limited in terms of the total volume of cargo transported. However, there are some types of goods, which have a high added and potential value, such as fresh fish and flowers for export, which need to be transported as fast as possible owing to their nature. Investments in port infrastructure (ro-ro ramps, cranes etc.) implemented during recent years have now created the basic conditions to improve this internal transport market and inter-island trade, thus helping boost the economy.

Cargo air transport

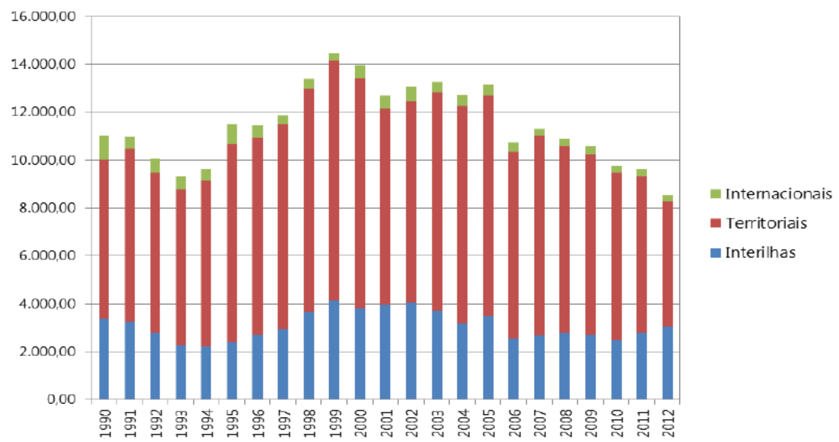


Image key	
PT	**EN**
Internacionais	International
Territoriais	Domestic
Interilhas	Inter-Island

In keeping with the process of the Region's economic development, transporting cargo by sea grew exponentially until 2007, increasing to 3 050 tonnes (in 1997 the volume was 1 850 tonnes). After achieving this maximum value it began to decline, although it showed signs of recovery between 2009 and 2011.

Cargo sea transport

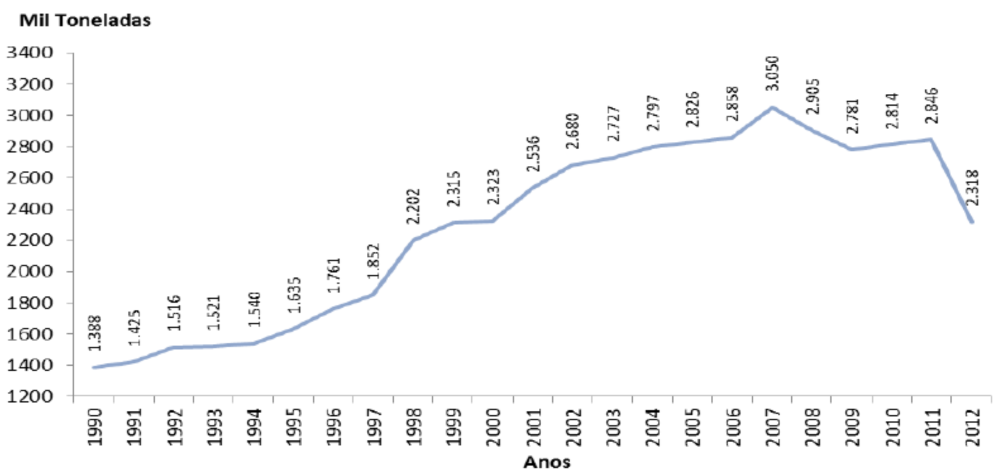


Image key	
PT	**EN**
Mil toneladas	Thousand tonnes
Anos	years

Despite a decline in domestic product, the volume of cargo transported through commercial port infrastructure and aerodromes/airports has shown some resilience in the current economic slowdown, at least during the complete annual period for which information and data are available.

However, even though the overall assessment of the evolution of the regional port system is positive, there are still space and operating constraints in some ports. Operations are also difficult in some passenger terminals, particularly with higher volumes of passengers during the summer season.

It is also necessary to ensure the movement of cargo and passengers with access to all islands, by means of ships which are duly adapted to the conditions prevailing in the maritime space surrounding the archipelago.

Owing to the broader context of the archipelago's Atlantic location, it is necessary to focus on logistics based on managing the supply chain, flows and the efficient and economical storage of goods and products. This is a future challenge for the economic activities and exchanges which will develop in the North Atlantic space.

With regard to maritime transport, a greater fluidity of traffic, better prices and speed and the use and development of new business segments, such as the cruise market, have been identified as opportunities to generate revenues in addition to existing economic activities and improve facilities for society.

Thus, owing to the fact that the territory is an isolated archipelago in the North Atlantic Ocean, it is essential to effectively promote and coordinate land, air and sea transport to ensure the circulation of passengers and cargo.

With regard to land transport, the main priority is to provide and maintain a minimum level of road transport which will serve the main basic infrastructure for each island, airport/aerodrome, port zone, industrial zones and other strategic segments such as tourist circuits. There must be an emphasis on road traffic safety as well as on the quality of the public road transport service.

In the area of maritime transport, investment will be aimed at improving the efficiency of the service, reducing its cost to ensure greater competitiveness, implementing a regular circuit for passengers and goods and promoting the Region's integration into international maritime transport networks. There is also a need for strategic investments at the level of acquiring ships such as ferries which can serve all islands.

In relation to air transport the objective is to maintain regular and reliable services and to revise the Public Service Obligations for links to the mainland, as well as to ensure that the infrastructure has the necessary safety and efficiency for inter-island operations, thus maintaining compliance with public service obligations.

In short, the transport sector is vitally important in the geographical context of the Azores. The modernisation of this sector, a reduction in costs in real terms over the course of time and an increase in transport infrastructure and frequency together translate into advantages which can help expand the horizon of the Region's economic production.

2.2.2. Communications, science, technology and innovation

Science, technology and innovation are viewed as decisive leverages for the economy of the Azores for the 2020 horizon.

With regard to telecommunications, the regional situation is not greatly different from the national scenario, both in terms of infrastructure as well as the scope of the services offered. However, there continues to be a gap in the penetration of new generation networks in the western group islands, a situation which is being overcome with the use of regional structural funds for this purpose.

The objective of the investment underway, which will conclude this year, is to install, manage and maintain a network of high-speed electronic communications in Flores and Corvo, the two islands excluded from the fibre-optic cable network.

In this context, the construction of a network within the scope of this project has been expanded to include a substantial number of other districts in the Region, which will make it possible to mitigate existing conditions. This will provide residential and corporate users access to new generation broad band systems, developing wholesale services which will enable all retail operators to provide the most advanced telecommunications services.

The investments made in the Azores in R&D are beginning to approach national and European levels. However, there is a need to further promote scientific research by means of public and private investment in this sector.

Expenditure on R&D as % of GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU-27	1.86	1.87	1.88	1.87	1.83	1.83	1.85	1.85	1.92	2.01	2.00
Portugal	0.73	0.77	0.73	0.71	0.75	0.78	0.99	1.17	1.50	1.64	1.59
Azores	0.34	0.32	0.36	0.41	0.38	0.35	0.38	0.41	0.42	0.79	n.a.

Source: Eurostat

In this regard, the purpose of the Scientific and Technological System of the Azores is precisely to integrate scientific research bodies, technological infrastructure, higher education institutions based in the Region and facilities to disseminate science and technology, along with public and private bodies to coordinate, manage, host and enhance science and technology activities as well as R&D partnerships.

In recent years, research activities have been encouraged and promoted in various scientific areas, such as ocean sciences, biotechnology, life sciences, the environment, space sciences, economics, social sciences and climate sciences, among others.

For the 2020 horizon, the Region aims to develop a strategy for research and innovation aimed at intelligent specialisation, so as to meet the objectives of the

Europe 2020 Strategy, encouraging research and innovation in an entrepreneurial context.

Within the scope of integrated economic changes, priority will be given to areas in which the Autonomous Region of the Azores has the capacity to produce value and develop intellectual property, such as the areas of renewable energy, biotechnology and ocean sciences, nanotechnology and the exploration and modelling of deep mineral deposits.

2.3. Promoting regional integration

One of the core objectives of the European Union strategy for Outermost Regions is to promote their regional integration within their respective geographical zones. This is aimed at expanding the EU's sphere of influence in socioeconomic and cultural terms, as well as to promote more intense commercial activities and a greater sharing of knowledge.

The Outermost Regions are effectively EU forward outposts in the areas where they are located and the EU will clearly benefit from their ties with overseas countries and territories, third countries, emerging nations, developing nations and developed countries which share historical and cultural ties with the ORs. This is thus an axis which needs to be implemented on a priority basis.

2.3.1. Macaronesia and the Atlantic Space

Regional insertion in the context of the Azores has different contours as compared to other Outermost Regions, not just due to their de facto situation but also, at least until now, with regard to the application of EU legal instruments.

The Azores are the most isolated of the Outermost Regions. The archipelago is situated in the North Atlantic, halfway between Europe and America and its closest neighbour is another Outermost Region, *viz*. Madeira. However, this geographical isolation does not mean that the location of the Azores impedes promoting and improving its regional insertion.

On the contrary, the integration and opening up of a region to geographical spaces outside the EU is not – and cannot be – based on criteria of a greater or lesser geographical proximity. A wealth of historic, linguistic and cultural ties between diverse territories around the world, notwithstanding geographical distances, is a significant dimension in the process of integrating and inserting an outermost region such as the Azores.

In this specific case, the rich history of the Azores and the archipelago's population has resulted in the existence of communities of Azorean emigrants and their descendants in South America (Brazil and Uruguay) and the Pacific region, notably in Hawaii, and these communities have sought to maintain ties with their roots and cultural and historic origins.

In North America, it is possible to find large emigrant communities from the Azores in areas ranging from New England to California and as far afield as Canada and Bermuda. These communities include first, second and third generation descendants who have maintained the Portuguese language as well as the culture, traditions and festivities of the Azores.

Owing to a shared history, culture and geographical setting, the archipelago of the Azores also has a privileged relationship with another Atlantic archipelago, the Republic of Cape Verde.

Located 1 500 kilometres from the cost of mainland Europe and 3 900 from the coast of North America, the space for integrating the Azores thus encompasses the Atlantic zone, including Macaronesia and other outermost regions of Europe, North and South America and even the Pacific Ocean.

The objective of promoting a policy to integrate Outermost Regions into their geographic space thus acquires a singular dimension in the context of the Portuguese island regions and especially the Azores. However, this in no way diminishes this objective and the resulting benefits for the EU.

The relations – not just cultural but also political, institutional and scientific – of the Portuguese regions must be viewed as an asset for the entire European Union at the outset. This will promote a transatlantic dialogue and a global projection of European culture and influence and will reconfirm the significant contribution that these regions make towards Europe's relations with the world.

The proximity of the Azores, in diverse aspects, to other territories around the globe also represents an important market for traditional products, which must not be overlooked.

Furthermore, it is especially important to keep North America in mind, as a highly developed economic area with nations that are at the vanguard of scientific knowledge and technology.

When coupled with the territorial value of the islands as natural laboratories par excellence and a point of confluence for scientific knowledge and innovation, the geostrategic location of the Azores and the close ties between institutions in the archipelago and North America can promote competitiveness and benefit the EU as a whole.

In this context, it is essential that the structure of the European policy for territorial cooperation for the 2014-2020 period effectively enables the Autonomous Region of the Azores to develop its relations. It is particularly important to promote participation in cross-border and transnational cooperation, which will enable the archipelago to develop common projects in its areas of regional integration, i.e. Macaronesia and a broad Atlantic space, up to the Americas.

Keeping in mind its central Atlantic location, the Region's resources and its proven role in the context of oceanography and international cooperation, the archipelago of the Azores is undoubtedly an asset while implementing a alliance for research regarding the Atlantic Ocean, in the context of the recent Galway agreement signed between the European Union, the United States of America and Canada.

Similarly, achieving the objectives of the European Strategy for Marine Research and the Atlantic Action Plan also includes a strong transatlantic element, involving EU cooperation with the Unites States and Canada.

The Autonomous Region of the Azores and, particularly, its vast maritime territory is a fundamental and indispensable part of this combination of efforts and reinforced cooperation for research in the Atlantic Ocean, which will also serve to promote regional integration.

2.4. An efficient and effective governance

Smart growth: Promoting an efficient and effective governance

The regional public administration in the Azores has taken significant steps to promote closer ties with residents and to reduce context costs.

With regard to managing structural funds, the Region's were among the first programmes to be approved and to achieve this status in Portugal and its management systems have always obtained the necessary declaration of compliance for the operational management of programmes.

In this context, for the 2014-2020 time frame, measures will be implemented to improve institutional capacities and the efficiency of the public administration in general. More particularly, key areas will include public education systems, social policies with Community funding and structures which promote proximity, speed and efficiency in interaction between individuals and companies and the public administration.

Moreover, efforts will be made to streamline articulation between public, regional and local levels of the administration, consolidating and increasing the reliability of technological infrastructure and improving the efficiency of procedures and processes.

3. Sustainable growth: A distinctive environment, landscape and lifestyle

This section will examine sustainable growth in the Autonomous Region of the Azores in articulation with the environmental dimension identified in the 2012 Communication, which must include actions to combat climate change in all relevant policies.

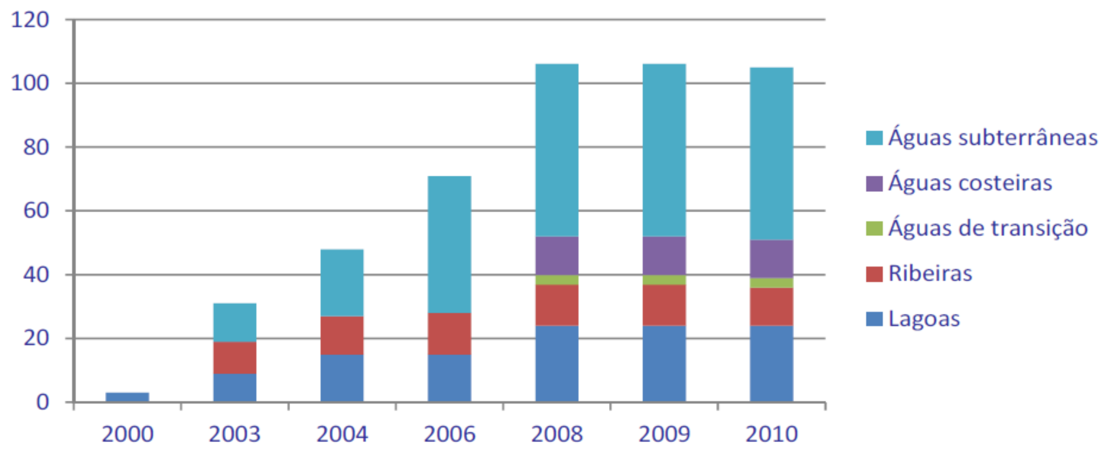
3.1. Natural resources and environmental sustainability

The islands of the Azores are widely recognised for their high level of environmental quality and the potential of their natural resources. A rational and sustainable use of the territory – both maritime and terrestrial – is transversally recognised as a collective objective, reflected in balanced development and sustainable growth.

Legislative instruments and structures have been created to improve regulation pertaining to the environment, water resources and territorial planning, contributing towards a qualitative leap in the Region in environmental terms. There are currently a vast set of territorial planning instruments, with municipal master plans (MMP) encompassing all the Region's districts. There are also various special spatial organisation plans (PEOT) for coastal areas, lake basins and protected areas.

With regard to water resources, it is important to note the Region's compliance with Community obligations derived from the EU Water Framework Directive, namely the preparation of the Hydrographic Region Management Plan, as well as the development of actions to profile and monitor the quality of water resources, encompassing water bodies in the Region.

Water bodies subject to profiling and monitoring (DQA)



Source: Regional Directorate for the Environment, Regional Government of the Azores

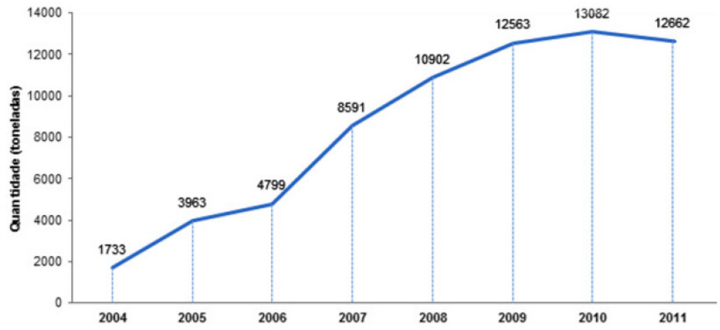
Image key	
PT	**EN**
Águas subterrâneas	Underground water
Águas costeiras	Coastal water
Águas de transição	Transition water
Ribeiras	Streams
Lagoas	Lakes

On the other hand, the characteristics of island bio-physical systems, coupled with human intervention and the effects of climate change, promote an imbalance between hydrological systems and vulnerability to water and coastal erosion.

Thus, the Region has gradually been developing networks to monitor the hydrological cycle and hydro-geological risks, especially movements of water bodies, linking these networks to warning systems, in a process which needs to be expanded and completed.

While preventing environmental degradation it is essential for the Region to have the necessary waste management infrastructure, so as to implement appropriate technological systems to suitably recover waste and thus reduce dumps and landfills.

Evolution of waste despatched for recovery by national managing entities



Source: Regional Directorate for the Environment, Regional Government of the Azores

Image key	
PT	**EN**
Quantidade (toneladas)	Quantity (tonnes)

In this context five waste processing centres have already been built (São Jorge, Pico, Graciosa, Flores and Corvo) and two others are in an advanced phase of construction (Santa Maria and Faial). Complementing these measures, investments have begun to build waste processing and recovery plants on the islands of Terceira and São Miguel.

Equally worthy of note is the creation of nine National Parks and a Marine Park, harmonising the management of all areas considered to be vital to preserve nature. A regional network of environmental centres has also simultaneously been developed.

The patrimonial value of some of the protected areas and the sensitivity of their ecosystems require constant monitoring and safeguarding against the main threat, especially invasive flora. Thus, projects to eradicate and control invasive species of flora have already been developed, some of which are accompanied by programmes to plant endemic flora.

The progressive increase in protected areas and achieving a set of international certifications demonstrates the environmental quality of the Azores.

The Natura 2000 Network, Biosphere Reserves, European Destinations of Excellence Network (EDEN), QualityCost, EcoEscolas and Blue Flag, among many others, have recognised the merit of the actions which have been implemented. It is important to reinforce the articulation of policies aimed at maintaining the image of the archipelago's environmental quality at a national and international level during the 2014-2020 period.

Another distinction worthy of note is the classification of the Landscape of the Pico Island Vineyard Culture as a UNESCO World Heritage Site. The primary objective of the creation of this protected landscape was to prevent the progressive disappearance of traditional land use systems, which threatened the landscape's identity, as well as to safeguard the associated natural, landscape and cultural values.

To date, more than 50 hectares of vineyards which had been overgrown by invasive flora have been rehabilitated, maintaining traditional planting systems. This process must be continued and reinforced.

The Region has a network to monitor air quality. The network initially consisted of one station on the island of Faial but was expanded in 2012 to include two more stations on São Miguel.

According to the 2012 air quality report, the Azores continue to enjoy good air quality, confirmed by the classification of 'Good' on the overall air quality index, influenced by ozone as a pollutant.

However, there are still some environmental constraints which require special attention in the 2014-2020 framework, namely at the level of waste management, the existence of invasive species, a dependence on external energy sources, the use of the terrestrial landscape and undersea resources as well as a suitable use of natural resources.

On the other hand, global climate changes have increased pressure on the archipelago's islands, which are fragile and limited territories.

In general terms, with regard to environmental equipment and infrastructure, it is necessary to consolidate the operations of all functioning infrastructure, to implement those which are not yet working at a desirable operational level and to stabilise the functioning of instruments to regulate and monitor the quality of the environment - terrestrial and maritime - and air quality.

In this context, with regard to nature conservation and environmental awareness, during the 2020 time frame the Region will emphasise preserving the natural heritage of the Azores and managing biodiversity. Particular attention will be paid to reinforcing regional networks of parks, eco-centres, gardens and environmental centres, as well as to increasing programmes to eradicate and control invasive species. Forestation projects to plant endemic species will also continue to be promoted simultaneously.

Tasks to plan, monitor and manage the territory will also be reinforced, continuing processes to assess planning instruments currently in effect and paying particular attention to investments associated with implementing plans for lake water catchment areas.

Considering the importance of the water cycle, steps will be taken to maintain the ecological role of bogs, lakes and streams in the archipelago, from the perspective of rehabilitating, protecting and monitoring water resources.

An integrated intervention programme for waterways and the qualification of water resources is likewise scheduled to be implemented, as a way of guarding against the effects of climate change and preventing the occurrence of catastrophes associated with hydrology and earth movements.

At the same time, the process of expanding the hydrological cycle monitoring and warning networks will be continued, which, along with warning systems and charting of developing risks, are essential to manage resources and ensure a suitable land use and territorial planning. These networks are also a tool to assist civil planning for emergencies.

Similarly, it is necessary to intervene in water supply and sanitation networks in some districts in the Azores, where such networks still have shortcomings in terms of coverage and reliability.

In the area of waste management, the network of waste processing centres in the Azores will be concluded and made operational, within the scope of the Strategic Waste Management Plan. Equally worthy of note is the construction of plants to transform waste into energy located on the two largest islands (São Miguel and Terceira).

Specific solutions will also be developed on a suitable scale for special flows of wastes.

In relation to environmental quality, actions will be promoted to monitor and oversee the state of the environment and climate change, without overlooking urban issues.

3.2. Energy production and efficiency

A low carbon economy is a European strategic objective and, naturally, is an objective of the Azores regional authorities as well. The climate and volcanic nature of the Azores offer specific advantages for producing renewable energy, namely from geothermal sources and wind energy, among other options.

The use of renewable energy helps reduce polluting emissions and promotes a more competitive and low carbon economy, which uses resources efficiently and in a sustainable manner.

In terms of energy, the Autonomous Region of the Azores has a set of nine independent electricity producing systems (one per island). These systems are not capable of being interconnected with other production and consumption centres and are also quite diverse in nature.

Overview of the installed generating capacity per source in the electricity producing system – 2010

2010 (KW)	Thermal	Geothermal	Hydro	Wind	Total	% Total
Santa Maria	7 403	0	0	900	8 303	3%
São Miguel	98 064	29 600	5 030	0	132 694	50%
Terceira	61 116	0	1 432	4 500	67 048	25%
Faial	19 107	0	320	1 800	21 227	8%
São Jorge	8 228	0	0	1 150	9 378	4%
Pico	16 763	0	0	1 800	18 563	7%
Graciosa	4 230	0	0	800	5 030	2%
Flores	2 327	0	1 484	600	4 411	2%
Corvo	536	0	0	0	536	0%
Azores	**217 774**	**29 600**	**8 266**	**11 550**	**267 190**	100%
% do Total	**82%**	**11%**	**3%**	**4%**	**100%**	

It must be noted, in particular, that although geothermal energy represents the renewable energy source with the largest installed capacity in the entire region it currently only exists in São Miguel, the archipelago’s biggest island, where as much as 50% of energy is produced from renewable sources.

In overall terms, substantial quantities of electricity are generated from renewable energy (geothermal, wind, hydro) in the Azores. In 2010, renewable energy sources represented 28% of the total production of electricity.

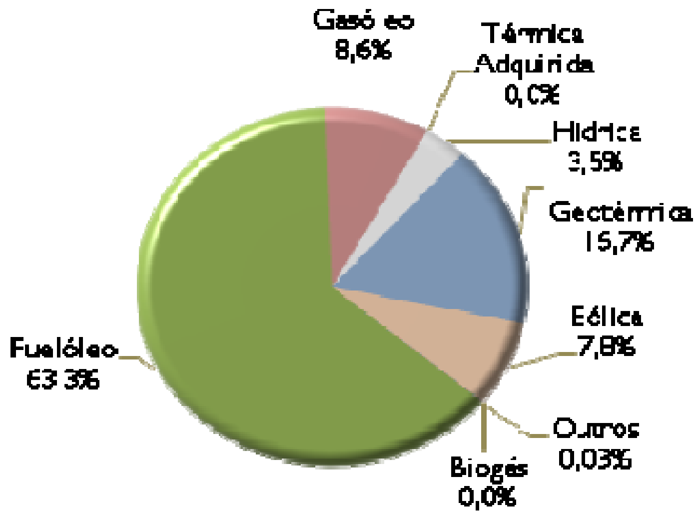
Overview of energy produced - 2010

2010	Energy produced (GW)	% of electricity consumption	% penetration of renewable sources

Santa Maria	21.75	2.55%	11%
São Miguel	453.42	53.37%	44%
Terceira	214.74	25.27%	9%
Faial	53.26	6.30%	6%
São Jorge	30.94	3.65%	6%
Pico	47.86	5.61%	12%
Graciosa	14.30	1.67%	9%
Flores	12.04	1.42%	49%
Corvo	1.39	0.16%	0%
Azores	849.70	100%	28%

Despite the relevance of the current production of energy from renewable sources, there is still a great deal of potential to be harnessed in this area and hence there is still some way to go in terms of the penetration of renewable energy for the production of electricity. As has been mentioned, the role of renewable sources has increased considerably in terms of production, ranging from the older hydroelectric systems to the industrial use of geothermal resources and the more recent expansion of wind energy.

Accumulated Production (January to December 2012)



Source: EDA, Azores Electricity Company

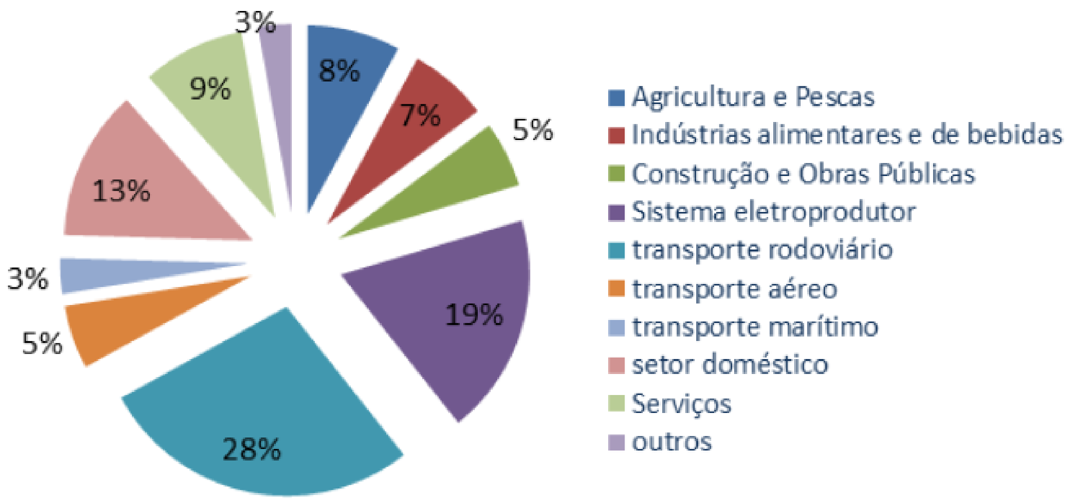
Image key	
PT	**EN**
Fuelóleo	Fuel oil
Gasóleo	Diesel
Térmica Adquirida	Acquired Thermal
Hídrica	Hydro
Geotérmica	Geothermal
Eólica	Wind
Outros	Others
Biogás	Biogas

In fact, the increased penetration of renewable sources (since 1994, when the first geothermal plant was installed in São Miguel) has come about above all on the basis of a growth in the installed geothermal capacity and, more recently and on a lesser scale, wind energy. The hydro component, used since the early 20th century, has remained constant, as the main resources have been in use for several decades.

In terms of the final use of energy resources, transport is a major energy consumer, especially road transport, representing 28% of total energy consumption. The other segments of the transport system, namely sea and air transport, together account for about 8% of energy consumption. The electricity producing sector also consumes about 19% of the total, families about 13% and other consumers have relatively similar figures. The regional economic base – agriculture, fisheries and associated agro-industries – together represents a total of around 15% of final consumption.

Thus, the areas of transport, the production of electric energy and some segments of economic production are sectors where savings can effectively be achieved in terms of the use of fuels and other oil derivatives, as long as this is done in a viable manner and there are reasonable price and quality conditions.

Final Energy Consumption – 2010



Unit: toe

Image key	
PT	**EN**
Agricultura e Pescas	Agriculture and fisheries
Indústrias alimentares e de bebidas	Food and beverage industries
Construção e Obras Públicas	Construction and public works
Sistema electroprodutor	Electricity producing system
Transporte rodoviário	Road transport
Transporte aéreo	Air transport
Transporte marítimo	Sea transport
Setor doméstico	Domestic sector
Serviços	Services
Outros	Others

In terms of the future, the region has an ambitious energy strategy up to 2020, by expanding the installed capacity of renewable energy on all islands. This entails increasing the installed capacity of renewable energy plants, especially wind and geothermal energy, by 2016, and efforts to diversify renewable sources of energy, such as hydro, solar and biomass energy, by 2020.

In a parallel process, waste will be used to produce energy in the future on the islands of São Miguel and Terceira and other experimental processes will be tested on the smaller islands. This raises questions about the best way to manage the energy producing system, considering the factors conditioning the production of electricity from such resources.

These management options could thus include the construction of small reversible hydro plants or batteries as a way of storing excess production generated during periods of lower consumption (the 'off-peak' hours which occur especially at night).

On the other hand, also within the scope of energy, the Azores are well positioned as a platform for the development of cooperation and research projects. For example, in April 2011 the Azores joined the 'Islands Pact', a European project aimed at locally developing action plans to promote renewable energy and to establish a directory of projects which can be funded.

Some noteworthy projects are currently underway in the field of energy, which illustrate the Region's efforts to develop and diversify energy alternatives. Some of these projects have a clear impact on the living standards of the local population and others can be reproduced on a larger scale.

For example, solar panels and heat pumps are being installed on the smallest island in the archipelago (Corvo) - 40 in 2012 and 110 in 2013, so as to totally substitute the domestic consumption of butane gas on that island.

On Graciosa Island, the German company Younicos is developing a project to produce and store energy generated from renewable sources, which could ensure up to 70% of the island's electricity consumption in 2014, by means of solar and wind energy and using a new technology based on storing energy in batteries.

This project has the advantage of taking place in an entrepreneurial context and these solutions can later be replicated in other European regions as well as other islands in the Azores where there are no hydro resources.

Equally worthy of note is a project to develop new and broad-based technologies and resources, known as 'Green Islands'. The project is promoted by the Massachusetts Institute of Technology (MIT) and involves the University of the Azores, the Azores Electricity Company, the Portuguese Foundation for Science and Technology and diverse other universities and partners.

In this context, during the 2014-2020 time frame, a new impetus will be given to granting concessions to explore indigenous resources aimed at producing electricity. At the same time programmes aimed at raising awareness about a rational use of energy and upgrading buildings in the Azores to meet higher energy efficiency standards will also be implemented and consolidated.

These lines of action will also include diversifying the energy base, promoting support for private initiatives using invasive species as a source of biomass and improving the energy efficiency of public lighting.

Efforts will also be made to promote the combined effect of some investments and to safeguard natural resources, such as, for example, the installation of a reversible hydro plant in the Lagoa das Furnas water catchment area on the island of São Miguel.

This will make it possible to combine an external precipitation system for nutrients, *viz*. phosphorous and nitrogen, contributing towards overcoming the problems of eutrophication in said lake.

3.2.1. Electric mobility

As has been mentioned, the transport sector is a large end user of energy resources, especially road transport, accounting for 28% of total energy consumption. Hence, considering the intense use of energy resources by the transport sector, developing the electric mobility sector is an important priority, based on the use of indigenous renewable energy sources.

In truth, the mix of energy resources and the dispersion of these products across the islands mean that the archipelago is uniquely placed to develop its role as a laboratory for innovative solutions for electric mobility. This area is thus based on the need for behavioural changes in the field of mobility and the archipelago’s energy dependence.

The respective strategic vision for the 2020 horizon thus includes promoting the role of the Azores as a laboratory for solutions in the electric mobility sector. This will ensure greater energy security and independence, more sustainable forms of mobility and more competitive economic activities.

The benefits of electric mobility include improved energy and financial independence and security of supplies, a reduction in greenhouse gas emissions, better air quality in urban areas, noise reduction, a more efficient use of the electricity system, protecting consumers against volatile oil prices and more accessible mobility.

Alongside this priority, as in the case of other actions implemented by the regional authorities, two general interest principles will be upheld. On the one hand, the actions will keep in mind geographic equitability, with the measures ensuring a geographic balance and territorial cohesion (considering the specific features and potential of each island) and, on the other hand, the rationality of public investments will be respected.

Both these dimensions will be duly articulated with principles of visibility, the involvement of public and private entities, energy security and independence, environmental aspects and technical feasibility.

In this sense, as per simulations currently underway, it is expected that the number of electric vehicles and PHEVs (plug-in hybrid electric vehicle) would be about 2 000 vehicles by 2020.

This emphasis on electric mobility also includes an articulation and assessment of its impact on sectors which are strategically important for the region, such as tourism and agriculture. It also contemplates developing a plan to encourage this type of mobility which will enable the transition from an initial phase spearheaded by public entities to a subsequent phase of providing support for private initiatives, so as to thus overcome barriers for the technology being adopted on a larger scale.

3.3. Urban renewal

In the area of urban renewal, integrated intervention in urban areas will be promoted in the Azores, if possible using the JESSICA financial tool, or other instruments which might be defined as being applicable in the next programming period, as one of the levers for this process.

Mechanisms must also be conceived in this field which will make it possible to substitute materials containing asbestos, in public and private infrastructure and buildings, based on the inventories which have already been prepared.

The substitution of structures infested with termites will also be considered.

4. Inclusive growth: Reinforcing the social dimension of development in the Outermost Regions

This section, concerning inclusive growth, will examine the 2012 Communication's strategic axis regarding reinforcing the social dimension of development in the ORs, especially by means of measures to combat poverty, improve access to health care and social inclusion.

4.1. An expanding and relatively young population

According to the definitive results of the 2011 Census, the population resident in the Azores comprised 246 772 inhabitants, evidencing growth as compared to the previous Census, conducted in 2001.

There was a 2% increase, which was largely due to a positive figure for inward migration, since the natural increase only added 373 people.

In terms of the distribution by gender, the population showed a similar behaviour in these two Census years, with the proportion of women being slightly higher than that of men: 50.8% and 49.2%, respectively.

Resident Population – Census Data

2001			2011		
	Nº	**%**		**Nº**	**%**
Total	241 763	100.0	**Total**	246772	100.0
M	119 486	49.4	**M**	121 534	49.2
F	122 277	50.6	**F**	125 238	50.8

Source: National Statistics Institute, Regional Statistics Service of the Azores

A comparative analysis of some demographic indicators shows that the Autonomous Region of the Azores has accompanied the general evolution witnessed in Portugal, although with more favourable figures in terms of the national average and as compared to previous years.

Demographic Indicators (per thousand)

	2000		2005		2011	
	Azores	**Portugal**	**Azores**	**Portugal**	**Azores**	**Portugal**
Birth rate	14.5	11.7	12.5	10.4	11.1	9.2
Mortality rate	10.9	10.3	10.1	10.2	9.6	9.7
Marriages rate	7.6	6.2	6.2	4.6	4.1	3.4

Unit: per thousand

Source: National Statistics Institute, Regional Statistics Service of the Azores

The population age structure shows a tendency towards a reduction in the younger age groups while the age groups of the economically active segments of the population are increasing, with an impact on the labour market.

An analysis of the age pyramid reveals a reduction in the base, referring to younger segments of the population, as compared to an expansion of the central and top sections of the pyramid.

Although an aging population is one of the most worrying phenomena in modern societies and the age of the population has increased, the archipelago represents the Portuguese region where this rate is the lowest.

Age Structure in the Autonomous Region of the Azores

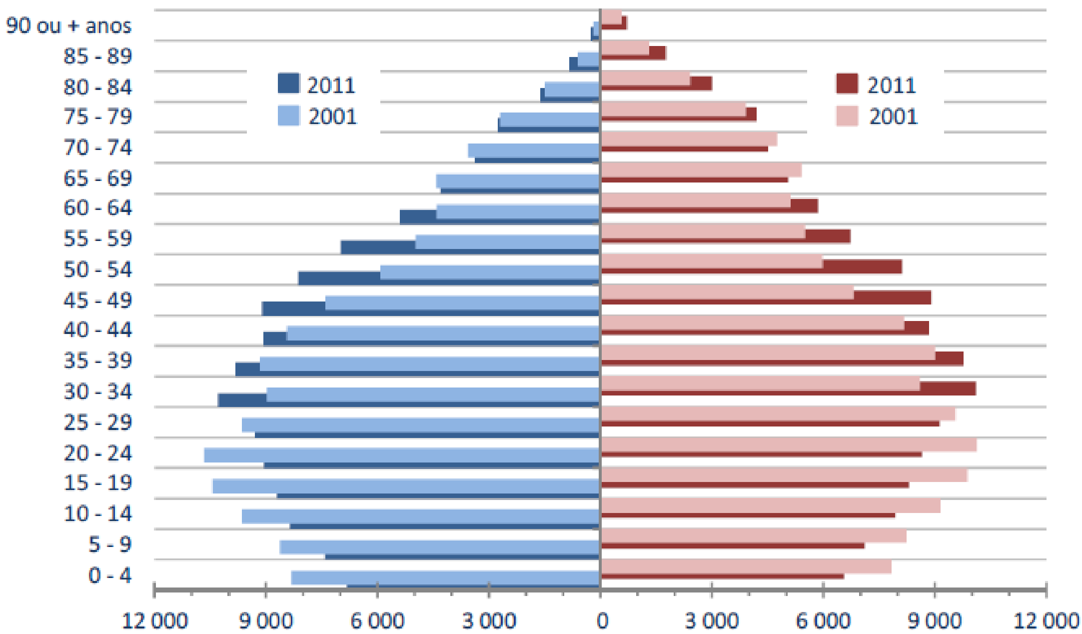


Image key	
PT	**EN**
90 ou + anos	90 or + years

4.2. Social inclusion

4.2.1. Inequalities and the risk of poverty, aggravated by a difficult scenario

Despite substantial investments in social policies in the past two decades, the Azores still evidence a level of inequality, calculated on the basis of total income, which is identical to the national average in 2005/2006 (34)[6] and slightly lower in 2010/2011: 33.1 in the Azores and 33.2 in Portugal.

With regard to the structure of the annual average net income value per family unit, in the Azores, 80.7% is derived from monetary income and 19.3% from non-monetary income[7].

In terms of the distribution of family units according to main source of income, the Azores record a greater percentage of families associated with salaried jobs: 58.9% as compared to the national average of 52.1%. The Azores are also the region which accounts for the lowest percentage of pensioners: 26.3%, although this figure has risen 4.7% as compared to 2005/2006[8].

On the other hand, the Azores had a poverty rate of 21% in 2005/2006, which fell to 17.9% in 2010/2011. Despite this 3% reduction, these figures are still are matter of great concern owing to their social and economic effects.

A relevant indicator of the recent evolution of the socioeconomic situation is the growth in the number of families and beneficiaries of the Social Insertion Income (RSI) between 2010 and 2012, which rose, respectively, from 5 315 to 5 980 (+12.5%) and from 18 283 to 20 173 (+10.3%)[9].

In comparative terms, when juxtaposed with the average figures at a national level, the risk of poverty is more accentuated in family units with ‘two or more adults with two or more children/ dependent youths’, while at a national level this risk is more evident in the segment of ‘one elderly adult without children/dependent youths’.

In the Azores, poverty appears to be more common in family units with children and youths, while at a national level senior citizens seem to be more affected. This is probably due to the fact that the Azores has a younger population than the national average.

In terms of the relationship between schooling and the risk of poverty, the poverty risk rate varies between 49.6%, for those without any schooling at all, and a minimum of zero, for those with higher education. It must be noted that this drop is most accentuated at the level of the transition from the second to

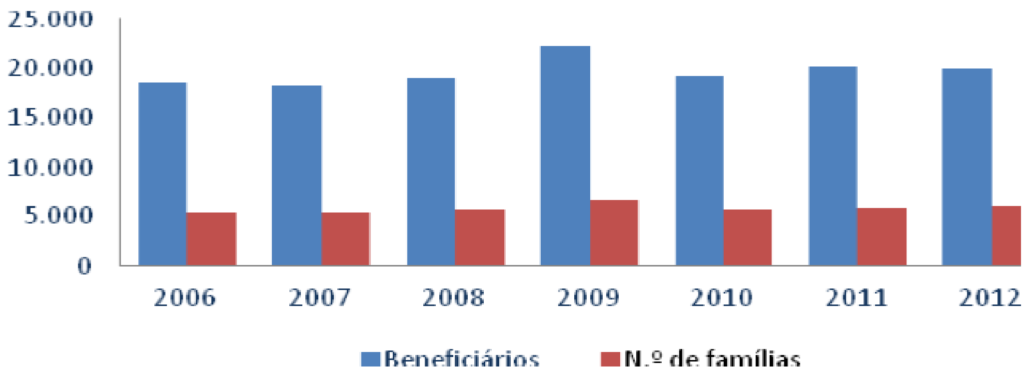
[6] Gini index
[7] National Statistics Institute, IDEF 2010/2011
[8] National Statistics Institute, IDEF 2005/2006 and 2010/2011
[9] Institute for the Social Development of the Azores

the third cycle (19.8% to 7.9%) and from the third cycle to secondary education (7.9% to 0.3%).

These figures are thus especially important keeping in mind the direct relationship between qualifications, employable skills, incomes and a reduction of inequality. There is a high salary premium in the region for every additional year of education.

At the level of social support, The Social Insertion Income, one of the main instruments to prevent social exclusion and poverty, has maintained a balance in terms of the number of families encompassed, despite the general situation. The figures in recent years have varied between 5 500 and 6 500 families. This translates into a number of beneficiaries of between 19 000 and 20 000 individuals, i.e. about 8% of the archipelago's resident population.

Social Insertion Income (No.)



Source: Regional Directorate for Social Solidarity, Government of the Azores

Image key	
PT	**EN**
Beneficiários	Beneficiaries
N.º de famílias	No of families

In comparative terms, the value of the Social Insertion Income per family unit is not very different in the Azores and the rest of Portugal. However, there is a notable difference in terms of the figure per person, considering that families in the Azores are larger, with more children.

In this context, particularly with regard to reducing the risk of exclusion and poverty, social policies will be developed in an environment of cooperation, by networking among public and private entities to conceive, implement and assess these policies and strategies for specific intervention, focusing on children/youths, senior citizens, women and the disabled.

Another line of intervention will entail reinforcing the development of personal, social, educational and professional skills of persons living in situations of social exclusion. This includes promoting the local development of outlying areas, reinforcing the development of competences for companies operating in the social economy, strategic partners in the fight against poverty and exclusion, and encouraging the creation and restructuring of companies for insertion.

4.2.2. Public social support networks and systems

Public networks for social protection and support are pillars of social equilibrium. Their importance is reinforced by the current context of the crisis and intense financial restrictions, which limits the reach and scope of support that can be provided to the most underprivileged sections of society and those who are in need.

Therefore, with the worsening economic and social scenario, there has been a reallocation of resources and the volume of assistance provided by the various systems. Thus, some components, such as the Social Insertion Income and family protection, represent a significant percentage of expenditure.

Considering the situation in the current labour market, there has been a significant increase in diverse forms of unemployment support.

With regard to infrastructure, European Union funds have played a vital role in providing facilities specifically aimed at children and young people, the disabled, senior citizens and families and the community in general.

Evolution of the Number, Capacity and Frequency of Social Services/Infrastructure
Azores 1996/2012

Area	No. of Replies		Capacity		Frequency	
	1996	2012	1996	2012	1996	2012
Children and Young People	122	313	4 476	12 501	4 071	11 575
Family and Community	6	125	538	6714	329	6 470
Disabled and Rehabilitation	6	34	126	1 073	95	1 003

Senior Citizens	105	224	5 373	9 386	3 901	8 251
Total	239	696	10 513	29 674	8 396	27 299

Source: Regional Directorate for Social Solidarity, Government of the Azores

It can be seen that in the case of 'classic' social facilities, the Azores have achieved reasonable rates of coverage but some imbalances still remain in their territorial distribution. Efforts will be made to overcome this during the 2014-2020 time frame.

It is still necessary to invest in crèches for children, particularly in the islands of Santa Maria and São Miguel.

With regard to support for senior citizens, there is a need to expand the network, considering the demographic aging in some areas.

For the 2014-2020 period it is also necessary to consider the need to remodel and rehabilitate a significant number of facilities which, having reached the end of their useful life, need in-depth intervention due to the constant process of deterioration, caused by physical degradation, a loss of functionality and feasibility.

Since proximity to facilities and solutions is an essential factor in these areas, in order to enable rapid and effective actions to prevent and combat situations of poverty, investments will be made to develop a decentralised network of social services.

Public investment will thus focus on children and youths to expand the network of crèches and youth activity centres. Support for senior citizens is also a priority, which involves improving the network of services providing home support, day centres and night centres. There will be an emphasis on proximity, so as to promote autonomy for senior citizens and to provide support for the disabled and their families.

4.3. Health care

A regional health care system which is suitable for the archipelago

In the Azores, essential health care is guaranteed firstly by health centres, distributed across the nine islands.

The hospital network has 3 hospitals, which provide diverse kinds of health care to users who directly resort to their services or who are referred by other entities providing health care at a district level. The regional health care system is further augmented by the Azores Oncology Centre, which strives to ensure primary prevention, tests and early diagnoses of oncological diseases, epidemiological vigilance activities and oncological records.

The health services are distributed over the diverse islands and have different characteristics in terms of size and facilities offered. Preventive medicine and/or primary health care, such as prophylaxis and consultations, are more generalised and territorially dispersed. Facilities for curative medicine and procedures requiring more intense care, such as when patients need to be admitted to hospital, occur more frequently on islands which have more specialised health care units.

In terms of factors affecting the sector, the progressive aging of the population will have a significant impact, considering the corresponding pressure on health care facilities. The technical and technological evolution of increasingly sophisticated and more effective tools and means of support will also play an important role. Both these factors will necessitate additional funds to ensure that these resources and facilities are operational.

In this context, in the 2014-2020 period, European Union funds will be used not just at the level of training and professional qualifications but also to provide equipment and resources at a local level, so that patients do not need to travel between islands and between the Azores and mainland Portugal.

There will also be an emphasis on a greater penetration of new technologies and a greater development of existing technologies, such as at the level of telemedicine. Another key priority is to eliminate gaps and shortcomings in the coverage of the infrastructure network.

In reality, as has been mentioned in the 2012 Commission Communication, the “Cohesion policy offers opportunities to invest in health infrastructure – including telemedicine and in the training of health professionals in their OR”, an aspect that is of fundamental importance for an archipelago such as the Azores.

In the area of health care, there will thus be an emphasis on ensuring a high quality service, rationalising services and creating conditions for new access, in a context of the general economic sustainability of the Regional Health Service.

Similarly, it will be necessary to adapt health care infrastructure and facilities to the needs of the population, according to the profile of each health care unit and considering the health care they provide, as well as to ensure that infrastructure and facilities are suitably maintained.

5. Inclusive Growth: Employment, training and professional mobility

As with the previous section, this section on inclusive growth will accompany the strategic axis of the 2012 Communication with regard to reinforcing the social dimension of development in Outermost Regions, this time by means of measures to encourage the creation of jobs, promote competences, improve educational results, reduce school dropout rates and increase the number of graduates.

5.1. Additional pressure on the labour market

From the perspective of medium/long term evolution, provided by the data compiled during the two most recent census surveys of the population, it can be seen that there has been a considerable increase in the economically active population.

In effect, the percentage of the economically active population has risen from 42.0% in 2001 to 46.6% in 2011, which represents a significant increase and, consequently, substantial additional pressure on the labour market.

Of this growth of 13 400 individuals in the economically active resident population, it must be noted that 11 000 correspond to women. In other words, this progress has occurred primarily in the female segment, where the activity rate grew considerably, rising from 32% in 2001 to more than 40% in 2011.

When compared to the situation in the rest of Portugal, the level of activity among men is slightly higher in the Azores, while, despite the noteworthy rise in recent years, it is still less with regard to women, albeit improving.

Even considering that jobs were destroyed in 2011, due to the scenario of the financial and economic crisis, it can be seen that in the Azores, during a period of 10 years, there has been a net increase of 7 400 jobs. This means an economically active population which has evolved from 101 000 to 115 000 individuals, a significant figure considering the characteristics and the scale of the regional economy.

There has also been an evolution in terms of working professionals, with an increase that is proportionally higher to the average variation with regard to individuals who affirmed they were employers during the census. This fact provides some sustainability for the Region’s entrepreneurial capacity. On the other hand, there has been less expressive growth in the number of salaried workers, although the rise in unemployment, in the segment of individuals looking for new jobs, could distort this conclusion.

Economically Active Residents of the Azores, according to professional situation

	2001	**2011**
Employer	7 220	9 362
Self-employed	7 806	7 730
Unpaid family worker	695	1 118
Salaried employee	78 286	82 743
Other situation	721	1 174
Employed Population	**94 728**	**102 127**
Unemployed	6 760	12 793
First job	3 133	3 435
New job	3 627	9 358
Total of economically active residents	**101 488**	**114 920**

Source: Survey of the population

In terms of the future, there is a discernible need to stabilise the labour market in order to mitigate the effects of the current crisis. It is also necessary to resume a pace of a net creation of jobs which is sufficient to maintain a tolerable level of involuntary unemployment of economically active individuals, by means of a combination of policies aimed at encouraging entrepreneurial investment and adapting, training and adjusting available skills.

5.2. A high level of unemployment, a new reality in the Azores

The external economic scenario, which has had an impact on the normal evolution of the economy and society, aggravated by restrictive policies and a reduction in disposable income, has dramatically altered the balance in the labour market, resulting in unprecedented rates of unemployment at a national and regional level.

The latest data available, relating to the first quarter of 2013, reveals an unemployment rate of approximately 17%, as compared to 4.3% in 2007 and even lower rates in previous years.

Two groups are especially vulnerable in the context of involuntary unemployment, *viz.* young people, especially considering that the rate of unemployment among young people is higher than 38%, and those who have lost their job and, although not considered as young people (25 to 44), face difficulties in finding similar work in other companies or in adapting their skills to find alternative employment, the unemployment rate for this latter group is currently around 30%.

Prolonged unemployment is a factor which can result in exclusion, poverty and disarticulated families.

Active policies to promote employment and professional adaptation and, above all, a resumption of economic growth are thus solutions to stabilise the labour market.

However, given the prevailing scenario and forecasts regarding the reversal of the current economic cycle, it is necessary to closely monitor the phenomenon of unemployment and to implement measures to mitigate the harmful effects that such a situation could have on families and society in general.

5.3. Active policies to promote employment

In the present scenario as well as in coming years, the greatest threat to the social balance, which could accentuate exclusion and poverty, will be involuntary unemployment among the economically active population, with high rates of unemployment due to a slowdown in economic activities. This will be further compounded by changes in the type of competences sought in the labour market.

In terms of active policies to promote employment, it is important to note measures aimed at unemployed young people and those recently trained seeking to enter the labour market, with an emphasis on professional traineeships. In fact traineeships have been the main tool by which employers have been recruiting new professionals.

Successive and coordinated measures will also be implemented within the scope of this latter aspect of promoting employment, such as support for hiring and incentives aimed at encouraging entrepreneurship.

The measures to promote employment will not overlook those facing difficulties in the labour market, either because they are unemployed individuals from sectors which have been affected by the crisis or because they are experiencing adverse socioeconomic or personal conditions.

Diverse measures, included in the Azores Agenda for Employment and Corporate Competitiveness, will place unemployed individuals in traineeships which will help them reconvert their skills and promote professional mobility. The necessary support for contracting will subsequently be provided.

Four programmes have been envisaged for the social employment market. One is aimed at unemployed individuals experiencing situations of exclusion while the other three programmes are aimed at disabled individuals, with support being provided to establish self-employed activities, hiring incentives and assistance for the technical-functional adaptation of workplaces.

Occupational activities also play an important role in instilling work habits in individuals who, for various reasons, are not familiar with such habits. These coincide with areas of public interest, such as support for social activities, education and protecting and promoting the Region’s environmental and cultural heritage.

Another no less relevant aspect is to keep individuals receiving unemployment benefits occupied, both in order to ensure additional income for them and their families as well as to maintain an active quest for employment as a tool to combat situations of unemployment.

Another noteworthy initiative is the implementation of the “Cradle of Employment” programme as a tool to help women enter the labour market. This programme places other women (who receive a subsidy) in jobs which are vacant due to maternity leave, without additional costs for employers. This tool helps consolidate the notion that hiring women will not entail a loss in productivity.

5.4. Training and qualifications as reinforced priorities

Training and employment have been clear priorities in the Azores. This has resulted in the doubling of the funds that the regional authorities allocated between 2007 and 2013 for this purpose, as compared to the previous programming period.

This volume of resources also resulted in more intense actions encompassing greater numbers of participants. It is important to note that in the Azores, since 2003, the employable skills promoted by these courses have been taken into consideration for successfully concluding courses. Efforts have been made, based on various studies, to ensure that the courses are suited to the needs of companies.

However, apart from training actions, other initiatives were also developed, such as traineeships, awareness and information campaigns for including women, advanced training to support entrepreneurial technology-based projects and research in corporate contexts, with more than 8 000 participants in these specific projects.

An additional challenge in the future is to have a duly calibrated vision of the needs of the economy and of society in general in terms of training and the regional system and structure. It is necessary to provide suitable and proportionate solutions and to maintain a close and competent dialogue between interlocutors as well as to effectively promote qualifications for the economically active population.

Training in a professional context for fragile sections of society is also a proactive way of maintaining the necessary links between the measure's target audience, beneficiaries of the Social Insertion Income and potential employers.

Promoting professional and vocational education plays an important role in enhancing education, bringing together competences, knowledge and a general culture which enables youths to enter the labour market based on merit.

For the 2020 period, professional education will thus be supported and improved, since it represents an asset which is essentially based on the creative and organisational model of schools. It is a very positive path for youths intending to enter the labour market, with better qualifications and more competences, while it also allows them to pursue studies at a higher level.

On the other hand, the strategy of the Autonomous Region of the Azores for professional qualifications and reconversion must be in keeping with the level of qualifications of the population.

The measures to improve levels of schooling and qualifications include teaching professional courses and the implementation of the DUAL system in the Region. This system is based on dual learning methods, carried out in classrooms as well as in actual work situations, where the programme contents are tested and assimilated. Other dual certification educational systems which provide young people with technical skills in diverse economic areas in addition to school qualifications will continue to be important.

Apart from young people, another strategic objective is to provide qualifications to individuals in economically active segments who are already outside the educational system, irrespective of whether they are employed or unemployed. In the case of the latter, a consistent solution will be dual certification courses or simply technological training.

The validation of skills acquired over a lifetime is also a very important vector for qualifications. By using the Recognition, Validation and Certification of Competences (RVCC) methodology, levels of qualifications equivalent to the 9th and 12th grade of education will be attributed.

Workers wishing to upgrade their skills can avail of the professional training system which has already been established in the Azores. Apart from offering training courses for individuals in the economically active segment, this system also partners with companies while implementing diverse measures.

Training aimed at trainees who are concluding a professional course and unemployed individuals opting for dual certification courses will likewise make it possible to achieve objectives related to the emergence of new companies, new businesses and entrepreneurship.

5.5. Human Capital: A growing but as yet insufficient level of education

Using some indicators regarding levels of schooling and the national average as a benchmark (although the realities and scales are considerably different), with reference to a fairly recent period (2011) and static terms, it is evident that the Azores still have some way to go to make up for a deeply entrenched structural backwardness in diverse aspects of basic education, so as to differentiate and qualify individuals in an economically active age group.

The exceptional improvement in illiteracy rates in the Region, a virtual alignment with the national average in terms of pre-school education and a reduction in the proportion of the population aged 15 years or more without any level of schooling completed are all a result of the education policy.

The percentage of the population in the 18-24 age group who have completed the 3rd cycle at most and who were not studying at the time of the census is considered to be unfavourable.

Indicators for the Level of Schooling (%) - Census 2001/2011

	Azores		**Portugal**	
	2001	**2011**	**2001**	**2011**
Illiteracy rate	9.45	4.68	9.03	5.23
Proportion of children 3-5 years attending pre-school education	51.86	70.93	52.28	73.49
Proportion of the population aged 15 years or more without any level of schooling completed	18.79	10.51	18.03	10.39
Proportion of young people aged 18-24 years who have at most completed the 3rd cycle (9th grade) and who are not studying	49.30	37.02	33.37	22.08
Proportion of young people aged 20-24 years who have completed at least secondary education	27.99	42.93	44.04	60.8
Proportion of the population aged 30-34 years who have completed higher education	9.75	18.91	14.22	28.62
Proportion of the population aged 15 years or over who have completed at least the 3rd cycle of Basic Education (9th grade)	30.38	42.36	37.95	49.6
Proportion of the population aged 18 years or over who have completed at least Secondary Education	16.10	24.42	22.67	31.69
Proportion of the population aged 23 years or over who have completed Higher Education	6.38	11.32	8.81	15.11

In the area of investments in the education sector, structural funds have proved to be a powerful lever, used by the regional authorities to upgrade and revise educational infrastructure and facilities. However, there are still some lacunae in terms of available services in some of the Region’s districts, where European financial support continues to be indispensable.

In this context, in terms of the policy aimed at the educational sector, a key regional concern is to consolidate educational success, establishing more ambitious goals for all the interlocutors in the educational system.

In order to overcome shortcomings which still persist, pedagogical projects will be developed to increase the level of literacy education and to reduce school dropout rates. Integrated solutions will be implemented to lower dropout rates in the education and training system, along with a set of actions to accompany youths.

As has been mentioned, the construction, rehabilitation and modernisation of school infrastructure on the different islands of the archipelago have been implemented with essential support from structural funds. For the 2014-2020 time period it is necessary to overcome existing shortcomings and lacunae, so as to conclude the process of re-qualifying schools and provide new equipment and pedagogical resources, which can support education that is progressively more suited to current requirements.

5.6. Combating youth unemployment

The Autonomous Region of the Azores has a population of 246 772 inhabitants, including 35 000 youths (aged between 15 and 25), the largest national percentage of youths. In effect there are 79 000 young people aged below 15 and just 33 000 inhabitants aged over 65.

In this context, a youth unemployment rate of 39%[10], or more than 6 000 youths aged between 16 and 35 being enrolled in Public Employment Services (50% of enrolled jobseekers), indicates a strong need for action.

It must be emphasised that of these unemployed youths, 42% have not completed the 9th grade and 83% have not concluded the 12th grade, the academic level which will be the minimum compulsory level of education in two years and which is viewed as being the level necessary to engage in most professions.

Since it is evident that employment, especially youth employment, largely depends on economic activity and that this activity, in turn, is affected by the

[10] Data from the first quarter of 2013, National Statistics Institute

nation's serious financial situation, the Autonomous Region of the Azores aims to take concerted action. Steps will be taken to duly structure solutions for unemployed youths, delineating public policies which will constitute veritable pillars for employment.

In this context, with the support of the European Union, it is essential to chalk out a strategy and action plan to promote employment for youths in the Azores, which will emphasise actions and paths to create future prospects for a generation grappling with a difficult situation.

Thus, the core objective of public regional policies to promote youth employment during the 2014-2020 period is to ensure they have employable skills, in keeping with regional employment policies. This is reflected, for example, in the Youth Guarantee, the New Deal for Youths, the Strategic Guidelines of the European Commission and the Europe 2020 Strategy.

Even though their direct objective is not aimed at promoting economic activities, the philosophy of these policies is essentially based on measures aimed at ensuring employable skills, viewed as the capacity of youths to find, keep or change jobs. A consequence of this concept of employable skills naturally involves, first and foremost, youths and the educational system. Measures and mechanisms aimed at initial professional training are considered to fall within the scope of this employment policy, particularly in terms of a policy aimed at achieving employable skills.

In this sense, primary objectives include ensuring that youths do not drop out from the educational system without a qualification. This means preventing dropouts and NEET (Nor Employment Education or Training) situations while also guaranteeing all youths a job or internship as an alternative (in the region or in another region or in another EU Member State) or the opportunity to obtain a higher qualification.

6. The Ocean, a world of potential

Portugal has an exclusive economic zone (EEZ) covering 1 732 000 km^2, of which close to 1 million km^2 are due to the territory of the Azores. In other words, close to 60% of the Portuguese EEZ is due to the archipelago nature of the Azores.

The maritime and oceanic dimension and the Region's location at a crossroads between ocean routes and the European, African and American continents are factors for differentiation and development. This constitutes an opportunity to place the Azores in a position with important comparative advantages, as a platform and hub to mobilise and create value associated with the sea.

The biogeographical and geomorphic characteristics of the seas surrounding the Azores encompass a vast marine biodiversity, which must be preserved and safeguarded, itself constituting a powerful economic resource.

This patrimony is further augmented by archaeological, cultural, aesthetic and historic value, geological and mineral resources, renewable energy resources and biotechnology resources. They together represent one of the main assets which are largely underutilised and have yet to be explored. Therefore, it is important to examine their use carefully and ensure that they are used in a sustainable manner.

For example, underwater explorations and prospecting have recently revealed the presence of metals with great commercial value, such as copper, cobalt and, in smaller quantities, gold, silver and platinum.

The undeniable fascination of the biodiversity and potential of fish resources in the seas surrounding the Azores appears to exist even at great depths, which is quite unusual near the extreme ecosystems around hydrothermal sources.

With unique biodiversity, this maritime territory is a vital source for developing new biotechnology processes and products which could result in innovative and valuable tradable goods in the area of health care or human and animal nutrition.

However, the seas of the Azores cannot just be a setting for these discoveries and it will therefore be necessary to act in a concerted manner at different levels – from regional to international – so that the knowledge and added value also benefit the Region and its population.

The presence of methane hydrate deposits in abyssal zones, considered to be a future source of energy, as well as offshore wind and wave energy, are undoubtedly areas of great interest and potential, which have still to be explored.

Furthermore – with a view to acting to reduce the problem of the concentration of carbon in the atmosphere and consequent global warming – the seas around the Azores could also serve as a carbon sink in the future. There are already studies which propose the simple use of algae and other more sophisticated analyses which propose that carbon be incorporated into the earth's crust, forming stable aggregates. If this is possible, then this could also be another important activity for the seas surrounding the Azores and the archipelago's island-laboratories.

This vast maritime territory thus has diverse dimensions which need to be explored and approached in an integrated manner, namely, on the one hand, its biological, mineral and energy resources and, on the other hand, services in the context of being a scientific as well as logistics hub in the Atlantic.

In other words, this wealth at the level of maritime resources must likewise be associated with important benefits derived from the archipelago's location, such as easy access through existing ports in the Azores, as well as the archipelago's strategic central position, close to or at the crossroads of the main maritime ocean routes.

While contemplating the sea it is necessary to keep innumerable aspects in mind, such as environmental management and protection, the preservation of resources and marine biodiversity, maritime vigilance and security, maritime transport and the prevention of accidents, pollution and natural disasters or the qualification of individuals in an economically active age group, to cite just a few areas.

This emphasis on a maritime economy is thus a clear vision for the future and is a lever for diversifying the regional economy in the 2020 time frame, based on current and modern axes for intervention, without rejecting knowledge and traditions. Diverse activities will be developed, aimed at a rational, balanced and economically beneficial use of the seas surrounding the Azores.

6.1. Promoting a sustainable economy for the seas surrounding the Azores

Traditional activities associated with the sea have already been examined: fishing, aquaculture and nautical tourism, as has the sea transport sector in the Autonomous Region of the Azores.

However, another fundamental dimension for the 2014-2020 perspective is the quest for new business opportunities and promoting research in various areas linked to the sea: ranging from research to incubating companies, including attracting external investments and participating in international projects.

6.1.1. The Atlantic Logistics Platform

In this context, the construction of a maritime hub in the Azores is of particular interest, a logistics platform in the middle of the Atlantic, which specifically makes it possible to offer a ‘premium’ service for cargo ships transporting freight between Europe and the Americas.

The creation of this platform will enable the best use of the Region’s geostrategic location, by taking advantage of the expected increase in commercial traffic between the Americas and Europe as a result of the expansion of the Panama Canal. This will also help reduce the level of saturation of European ports.

In effect, the expansion of the Panama Canal will allow progressively larger ships to cross between the Pacific and Atlantic oceans. In this context, a dominant flow of East-West circumnavigation traffic will tend to emerge, connecting the West with Asia.

In this context, the Azores are a natural candidate for being the nerve centre of this new traffic flow and the site for a major Atlantic hub. Based on existing port and logistics conditions in the Region, as well as their links to airport structures, this hub will provide value added services to support maritime transport, especially international supply chains. This will be a new source of wealth and employment in the Azores.

Available services could include naval repairs, terminals for containers and particularly for perishable items, fuel storage, cold chain facilities, food supplies and changes of crews, within a general range of support for operations and logistics in global supply chains.

At the same time, these direct services will promote the existence of clusters covering the chain of biological products and the environment, for example with regard to packaging and the processing of products for distribution, both for frozen food as well as fresh fish.

Along with these distribution and marketing services and the archipelago’s geostrategic location in the North Atlantic, the ‘Azores Brand’ will also be an asset, associated with an image of outstanding quality and sustainability.

Furthermore, this logistics hub can also be associated with the consolidation and trans-shipment in the Azores of maritime traffic of vehicles, where shipping between Europe and the Region could use smaller vessels and greater frequencies while the route between the Azores and North America could use larger ships with lower costs.

6.1.2. Atlantic Research Platform

It is widely acknowledged that ORs are natural excellent laboratories for scientific research. The seas surrounding the Azores are no exception. Thus, to make the best use of this potential, it will be necessary to effectively promote all aspects of deep sea research, developing the Azores as a space for sharing knowledge, exchanging know-how and research for new technologies and products.

Hence, the Azores must be promoted internationally as a centre for knowledge, making the most of the excellence of the Department of Oceanography and Fishing of the University of the Azores. It will therefore be essential to train specialised human resources as part of the integrated policy for oceans and maritime sciences, as well as to develop knowledge concerning maritime policies and matters.

A new attitude and a new opportunity for the maritime economy will play a pivotal role in reinforcing the Region's image and identity. This likewise entails growth-oriented policies, supported by the most recent technological developments in areas such as aquaculture, biotechnology, renewable energy and underwater robotics, along with promoting conditions for installing industries and activities.

The maritime territory of the seas surrounding the Azores must thus be viewed in a transversal manner, reflected in marine monitoring, promotion, control and environmental action and the management and requalification of the archipelago's vast coastline.

Some of the most complex ecosystems can also be found in the depths of the ocean off the Azores, such as, for example, chemosynthetic ecosystems, which include some of the most noteworthy animal adaptations.

Apart from this, innumerable bacteria can be found at the bottom of the sea, representing new genetic resources. These include new enzymes and proteins and have an enormous potential in the context of blue biotechnology.

This emphasis on infrastructure and instruments for deep seas studies in the Atlantic region, based in the Azores, will make it possible to compile and share information and data in the context of bases for Europe's maritime space. It will also enable an extensive mapping of the marine depths of the Atlantic, visible by means of open use electronic tools.

Due to an extraordinarily rugged and deep topography, the absence of a continental shelf, isolation and the dynamic and active combination of three tectonic plates, the waters around the Azores are rich in complex, rare and sensitive habitats. Especially worthy of note are the habitats associated with deep sea hydrothermal vents, undersea mountains, communities of sponges and gardens of coldwater corals, considered to be endangered within the scope of the Convention for the Protection of the Marine Environment of the North-East Atlantic (OSPAR Convention).

Prospecting and the exploration of resources in the Region's marine depths, particularly non-living resources (inert and mineral resources) and living resources for purposes other than food, represent an undeniable opportunity for the regional economy. The University of the Azores must once again affirm its role as a dynamic hub, by developing international ties with associated laboratories and technological partners.

The potential of some of the organisms present in the extreme environments of the Azores, as well as some common species in coastal zones, which has already been demonstrated in fields such as pharmacology, cosmetics and medicine, further reinforces the importance of promoting scientific research in the area of blue biotechnology, with clear links to industry and entrepreneurship.

7. Thematic Plans

In conclusion, the 2014-2020 Action Plan of the Autonomous Region of the Azores is based on the following plans and principles:

1. **A dynamic and diversified export oriented economic base**, by promoting competitive economic production, preserving and consolidating activities based on available resources and on acquired advantages, along with the progressive development of an economic chain linked to the sea. There will similarly be an emphasis on innovation, diversification and tradable new products and services, aiming to ensure the prosperity and sustainability of companies and businesses which can effectively generate significant employment.

2. **A balanced society with opportunities for realization**, by:

   2.1. Developing strategies to effectively expand levels of education and training for young people, substantially reducing dropout rates, aimed at achieving the goals defined by the Europe 2020 Strategy.

   2.2. Reinforcing measures for social cohesion, combining employable skills with a solid strategy for social inclusion, promoting equal opportunities in general, along with social reinsertion and rehabilitation, professional reconversion, reconciling social and professional lives and emphasising health as a factor for productivity and well-being.

3. **A distinct environment, landscape and experience**, by promoting environmental sustainability, observing EU guidelines and goals, in close articulation with the development of policies aimed at promoting the competitiveness of territories, modernising strategic infrastructure and networks, in a functional articulation between urban and rural spaces in the context of effective territorial cohesion.

4. **Efficient and effective governance**, by developing the efficiency and quality of social and collective systems, fomenting closer ties between inhabitants and the public administration and minimising context costs, along with greater professional and technical training for agents.

AZORES	EUROPE 2020		COMMISSION STRATEGY COM(2012)287	THEMATIC PLANS	STRATEGIC PRIORITIES
	GROWTH	**INTELLIGENT**	Improving **accessibility** to the single market Increasing **competitiveness** Strengthening **regional integration**	A dynamic and diversified export oriented economic base	− Agro-cattle sector − Maritime sector − Tourism
				Efficient and effective governance	− Strategic partnership Public administration /SMEs/centres for knowledge and innovation − Administration reforms − Development of technological platforms
		SUSTAINABLE	Environment and **climate change action**	A distinct environment, landscape and experience	− Classified landscapes and territories − Renewal of historic and urban centres − Penetration of renewable energy
		INCLUSIVE	Reinforcing the **social dimension**	A balanced society with opportunities for realization	− Effective education and learning systems − Promoting employable skills − Integration of underprivileged segments