Ms Danuta Hubner  
European Commissioner for Regional Policy  
European Commission  
Berlaymont Building  
Rue de la Roi 200  
B 1040 Brussels  
Belgium  

Dear Commissioner Hubner;

RE: Future of EU Cohesion Policy

The UK Government welcomes the Commission’s public consultation on the future of Cohesion Policy. It provides an excellent opportunity for stakeholders to contribute directly to the debate. As you are aware my colleague Stephen Timms contributed our preliminary thoughts to the 4th Cohesion Forum in September. In the UK we have encouraged stakeholders to respond to the consultation and we will be considering all the published responses.

Article 2 of the Treaty sets outs the Union’s overall economic and social objectives, including a high level of employment, balanced and sustainable development and the strengthening of economic and social cohesion. Cohesion Policy contributes towards these objectives by aiming “to reduce disparities between the levels of development of the various Regions and the backwardness of the least favoured Regions or islands, including rural areas”. As the 4th Cohesion Report illustrates, Cohesion Policy instruments have contributed towards meeting this aim. There have been successes in the Union, for example the exceptional economic growth in Ireland. In the UK, previous Objective 1 Regions, Merseyside, South Yorkshire and Northern Ireland now come under the Regional Competitiveness and Employment Objective. As the report concedes, however, there is a mixed picture and certain Regions have seen low or even negative growth.

Rightly the focus for achieving the aims of Cohesion Policy in this new financial perspective is through supporting the Lisbon and Gothenburg Agendas; supporting the sustainable development of growth and jobs. We also recognize that the challenges facing Europe which are discussed in the 4th Cohesion Report such as Globalisation and climate change will have different impacts on different places. We believe, however, that the focus of Cohesion Policy should continue to be that of addressing disparities in development, and that to be most effective Cohesion Policy should continue to support the Lisbon and Gothenburg Agendas through further alignment with the Integrated Guidelines for Jobs and Growth and National Reform Programmes.
But of course Cohesion Policy at European level is not the only or main means of addressing these Agendas. They are supported in large measure by funding and actions at National, regional, local and neighbourhood levels. Even at the European level, as stated in our recent publication “Global Europe: Meeting Economic and Security Challenges”¹, other contributing factors in achieving high levels of growth and employment are a new, modern and more flexible approach to Single Market policies that focuses less on legislation and more on promoting competition, reducing the burden of regulation, as well as encouraging innovation. These actions will benefit the EU as a whole and by creating the right environment for the Lisbon Growth and Jobs Agenda play a valuable role in reducing disparities between Regions.

In responding to this cohesion consultation, the UK Government where possible is focussing on the shared aims of Cohesion Policy. However, I should stress that full consideration should be given to possible reform of the Structural and Cohesion Funds in the context of wider reform of the EC Budget, as part of the fundamental review of the EC Budget.

In the 4th Cohesion Report you note that “The outcome of the negotiations on the Financial Perspective for the period 2007-2013 which resulted in a major allocation to Cohesion Policy (35% of the total EU budget) suggests that there is a high degree of political consensus around this system for delivering Community priorities.” Such agreement does not preclude the debate of how the EC Budget should be spent post 2013. We believe that there is scope for a wide debate, which should be informed by the three principles for a modern EC Budget adopted by the UK Government:

- First, the EU should only act where there are clear additional benefits from collective efforts, or ‘EU added value’, compared with action by individual Member States;
- Second, where EU-level action is appropriate, it should be proportionate and flexible. We must recognise the limits to EU budgetary intervention. Expenditure is just one of a number of policy levers, alongside coordination, sharing best practice, and legislation or regulation. In addition, the full range of financing options should be considered, for example, a loan from the European Investment Bank may in some instances be a more appropriate form of financing than a grant from the EU budget; and
- Third, sound financial management, including the highest standards of financial control and independent audit is necessary, alongside continuing budget discipline.

We also observe that a fundamental review of the European Community Budget began recently, and will report in 2008/09.

The UK Government is considering its approach to this Budget Review. We have set out in “Global Europe: Meeting Economic and Security Challenges” that a priority for the UK will be reform of the budget so that the EU is better equipped to meet the challenges of the 21st Century. The priority is to ensure that the review provides the basis for a more effective and efficient Budget, including, a significant increase in the percentage of Structural and Cohesion funds spent on poorer Member States. We acknowledge that consequences of significant changes to funding patterns arising from future reforms will need to be considered, for example, what the shape of appropriate transitional

¹ Global Europe: Meeting the Economic and Security Challenges (October 2007)  
arrangements will be, within the context of the available EU budget resources and the priorities that are agreed.

Finally, we would not want the debate on the future of Cohesion Policy to be restricted to the questions set out in this consultation. Examples of further questions that could be addressed as part of this wider debate are:

- Which interventions are most growth-enhancing? Given that EU financial resources are limited, how should these be targeted to support of Cohesion goals? Can the European Investment Bank or European Bank for Reconstruction and Development play a greater role in this area?

- What would be the implication of future EU enlargements, given resources are limited?

I attach the UK Government's response to the Consultation questions. This letter is also part of that response. We will continue to participate in the wider debate on the future of Cohesion Policy, and look forward to the opportunity of engaging with you personally as the debate proceeds.

Best wishes.

John Hutton

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