COHESION AND THE INFORMATION SOCIETY

COMMUNICATION FROM THE COMMISSION TO
THE EUROPEAN PARLIAMENT, THE COUNCIL, THE COMMITTEE OF REGIONS
AND THE ECONOMIC AND SOCIAL COMMITTEE
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FOREWORD

The Commission has recently adopted its first Report on economic and social cohesion, under Art. 130b of the Treaty. This Communication forms part of the follow-up to the recommendations and analysis of the Report in the area of the information society. It complements the Green Paper “Living and Working in the information society - People first”, (which undertook an analysis of the issues related to social cohesion), notably by highlighting the regional aspects of the problem.

In the context of the globalisation process and of the need to become more competitive at the world level, the opportunities offered by the emerging information society are huge: in terms of competitive gains to be grasped by firms and territories; more efficient organisational forms; new trading opportunities; new educational and new employment possibilities. Making these opportunities available throughout Europe is one of the central objectives of the gradual liberalisation of telecommunication markets. However, not all European regions, citizens or firms are equally well equipped to enjoy these benefits because of geographical, social and economic reasons, yet in a globalising environment, it is clear that they have to compete not just at EU level, but at a global level as well.

Though the opening of telecommunications market and the harmonisation measures should in principle reach out to the whole territory of the Union, the principal risk is that investments in some regions will be delayed.

Thus, the development of the information society needs to be complemented, where necessary, by policy action in order to close the existing gaps and ensure that the information society develops at the desired rate throughout the Union. This calls for the participation and coordination of regions, national governments and the European Institutions so as to avert a polarisation between “information haves” and “information have-nots” as the new technologies spread.

This document, having identified the need for action, indicates the issues, the context and the way forward in the areas of regulatory, investment and demand support policies. Coherent progress in these three areas will be important for harmonious regional development.
THE ISSUE

1) The information society is making possible profound economic, social and institutional transformation across all realms of human activity. As such, it also has considerable potential for strengthening economic and social cohesion within the meaning of Art. 130a by reinforcing regions’ competitiveness. The latter is increasingly determined by the ability of regions to integrate the new technologies made available by the information society.

Information and communication technologies (ICTs) can widen the efficient locational choices for firms so that they can take advantage of differential costs of operations and/or market opportunities. They can help regions, both, retain a larger share of total value added and attract and develop new activities with high value added. The information society could also help breakdown the barriers to location of business outside urban centres, attracting increased investment to rural areas where relative business-location costs are typically lower and which can offer a high quality of life.

2) The information society also offers a great potential for the development of new forms of employment and high skilled jobs, especially by providing SMEs, as the main dynamic source of employment creation, growth and competitiveness, with the instruments to innovate and adapt to a rapidly changing economic environment.

Research undertaken by the Commission suggests that liberalisation of telecommunication markets combined with a rapid adoption for ICTs will yield positive effects in terms of employment, largely compensating for any job losses that could take place in the telecommunication sector. The problem, however, is in managing the time lag between these processes: those who adapt first and manage to anticipate the emerging products and services are likely to gain dynamic “first mover” competitive advantages, while the inability to rapidly adopt these technologies will certainly have a negative effect on employment.

From a socio-economic perspective, the information society opens up opportunities for new working schemes such as teleworking, potentially providing wider access to jobs and more flexible timing of work; it provides a basis for overcoming mobility and access problems arising, for example, from remoteness and/or poor transport infrastructure, especially in rural areas; it opens up new opportunities in the areas of education, health and caring activities; and provides for increased transparency in the public administration - to mention but a few examples.

3) All these processes also have profound spatial and social implications. Though ICTs are not, by themselves, bringing about or determining any particular spatial outcome, their up-take affects regions’ ability to exploit and develop their human resources, infrastructures and the like, thus determining a region’s development potential. This is important, in particular, for SMEs which represent the backbone of regional economic structures, especially in LFRs. At the same time if all citizens are not offered equal opportunities of access to the information society, we risk the creation of new forms of social exclusion.
The quality of information and telecommunication infrastructure is a key determinant of the effective capacity to participate in the information society. Other factors include: the level of qualification and the educational level so as to support the widespread use of information society services; a pro-active role played by the private and public sectors in promoting the information society; organisational and investment capacities for pursuing an effective information society strategy; availability of the technical support for facilitating the diffusion of information society activities; and the creation of public awareness for the information society.

4) For the opportunities of the information society to be grasped by individuals, institutions and firms independent of their location, these enabling factors need to be put in place throughout the EU. A review of the available data as taken up in the Statistical Annex to this document suggests that an important gap still exists between the richest and the less favoured regions (LFRs) of the Union at the level of basic infrastructure provision, the cost and reliability of services, and the availability of advanced services.

For example, looking at the proportion of all households passed by cable network (which indicates the future potential for rapid deployment of local loop competition and broadband services), about 97% of the Belgian population and 84% of the Dutch population had access in 1993 to cable TV networks compared to 0% in Italy and Greece, 2% in Portugal and 8% in Spain. Another example concerns the cost of using information society services: at the beginning of 1996, the residential installation of a telephone line costs respectively on average 32.5% more in cohesion regions than in the European core; 65.0% more in Ireland and 76.0% more in Greece.

Often, averages hide the existence of major differences within countries. In Portugal, for example, 62 main telephone lines per 100 inhabitants were available in Lisbon against 29 in the rest of the country and 18 in the Açores; in Spain, Madrid had 45.2 lines against 36 in the rest of the country and 22 in Estremadura; and in Greece, 52 lines were available in the Athens region against only 27 in Anatoliki Makedonia.

Evidence also suggests that some particular groups or individuals may face problems of adaptation to the information society and that their needs should be addressed.

The central issue is, therefore, how to combine developments in information society and telecommunication policies with the role to be played by structural interventions in order to rapidly reduce these disparities and promote a cohesive information society.

THE CONTEXT

The regulatory framework

5) Recognising the need to accelerate the diffusion of telecommunication networks, to facilitate service and network innovation, and to bring down the costs of usage, leading to further innovation and the development of new applications, the European Commission has promoted and supported the liberalisation of telecommunication
markets. At the same time, Commission policy is based on the recognition that also in the emerging pro-competitive environment in the field of telecommunications, it is essential to ensure the provision of universal service and, where necessary, the financing through the creation of specific mechanisms funded by market players. This regulatory approach has been chosen partly to avoid “cherry picking” by new entrants who are not themselves required to deliver universal service and who are likely to focus their activities on both business and residential customers in and around major cities, but also to ensure that all citizens of the Union have access to certain services of high quality at prices they can afford. As such, the concept of universal service is a central part of the European model of society contributing to solidarity and equal treatment, and an essential element of economic and social cohesion. The importance of universal service for cohesion has also been stressed in the First Report on Economic and Social Cohesion.

6) It is often said that the forces of liberalisation and competition will reach out to the whole territory of the Union. Yet, given the rapid pace of technological change, frequently, there will be fresh rounds of investment, service innovation and competitive entry in the core regions which, if not reciprocated, will affect development and employment opportunities and sustain the relative gap between different types of areas. Therefore, from a cohesion perspective, there is a need to keep the regulatory framework and, more particularly, the scope of universal service, under review so as to ensure that all territories participate in the full range of benefits of liberalisation in terms of affordable price, level of service and innovation. Targeted support, where necessary, for investment expenditures to spread the beneficial effects to the less developed, peripheral and/or rural areas of the Union, in line with the competition rules, should complement the regulatory framework.

The role of the Structural Funds

7) A recent analysis of European Regional Development Fund (ERDF) and European Social Fund (ESF) interventions suggests that, overall, only a surprisingly small part (about 2.0%) of expenditure goes to investment in the telecommunication sector. Furthermore, the most significant part of these investments (about 1.5%) is used for upgrading and completing the information and communication infrastructure, especially the basic telephony network. A tiny portion (approximately 0.3% of total expenditure) of the Community Support Frameworks (CSFs) is then dedicated to demand-side measures. An analysis Objective by Objective does not reveal substantial differences. Hence, it is fair to say that, with few exceptions and despite having received increased attention under the current programming period, efforts for supporting the emergence of the information society and preparing regions to grasp the related benefits remain modest and insufficient.
TABLE 1 - TOTAL EXPENDITURE OF CSFs FOR OBJECTIVES 1, 2, 3, 4 AND 5B IN THE TELECOMMUNICATION SECTOR (1994-99)

<table>
<thead>
<tr>
<th>MECU</th>
<th>MEMBER STATES</th>
<th>EUROPEAN UNION</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Private</td>
<td>Public</td>
<td>SFs</td>
</tr>
<tr>
<td>Telecom (i)</td>
<td>33</td>
<td>2.005</td>
<td>1.332</td>
</tr>
<tr>
<td>- Basic</td>
<td>0</td>
<td>1.417</td>
<td>877</td>
</tr>
<tr>
<td>- Advanced</td>
<td>27</td>
<td>524</td>
<td>369</td>
</tr>
<tr>
<td>Telematics (iv)</td>
<td>46</td>
<td>382</td>
<td>437</td>
</tr>
<tr>
<td>TOTAL (v)</td>
<td>81.504</td>
<td>85.087</td>
<td>117.280</td>
</tr>
</tbody>
</table>

(i) Percentage of the total Community Support Frameworks (CSFs) on the Total Value of the line.
(ii) Percentage of the total budget for the item on the total budget allocated for the CSFs (i.e. ECU 283.871 million).
(iii) Total funds allocated to axes, measures or simple actions covering telecommunications (infrastructures and service) mentioned in the Community Support Frameworks. A further distinction is made between Basic (provision and modernisation of basic telephony, including digitalisation and optical fibre in national or regional networks) and Advanced (implementation of advanced infrastructures and services such as optical fibre in local access, satellite links, ISDN and broadband network).
(iv) Budget allocated to telematic applications in several fields like health, education, transport. This line include actions like teleworking schemes, telelearning and multimedia applications.
(v) This is the total of CSFs and not the sum of the items above.

8) The nature of the Commission’s initiatives to support and stimulate a wider diffusion of information infrastructures and applications in LFRs has evolved over time from the STAR programme with a strong infrastructural focus, to the TELEMATIQUE programme which stressed the stimulation of demand for telecommunication services and the efficient use of telecommunication infrastructures among the public and the private sectors.

TABLE 2 - TOTAL EXPENDITURE OF COMMUNITY INITIATIVES IN THE TELECOMMUNICATION SECTOR (i)

<table>
<thead>
<tr>
<th>MECU</th>
<th>MEMBER STATES</th>
<th>EUROPEAN UNION</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Private</td>
<td>Public</td>
<td>SFs</td>
</tr>
<tr>
<td>Telecom</td>
<td>6</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td>- Basic</td>
<td>0</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>- Advanced</td>
<td>4</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Telematics</td>
<td>66</td>
<td>112</td>
<td>166</td>
</tr>
<tr>
<td>TOTAL</td>
<td>3.337</td>
<td>3.280</td>
<td>5.910</td>
</tr>
</tbody>
</table>

(i) The same footnotes of Table 1 apply to Table 2.
The European Social Fund (ESF)\(^\text{11}\), through its interventions under the different objectives and the Community Initiatives EMPLOYMENT and ADAPT, has been particularly attentive in promoting training and supporting structures for jobs and skills related to the information society. In 1996 the ADAPT Initiative was reinforced with a new set of actions, ADAPT-BIS (Building the Information Society), aimed at promoting pro-active social policies facilitating the transition to the information society.

The Structural Funds are also an important tool in seeking to address the risk that rural areas be left behind by both financing provisions of ICT infrastructure to remote rural areas (particularly in Objective 1 regions) and by offering help to rural areas to exploit new employment opportunities\(^\text{12}\).

In 1994, the Commission launched the Interregional Information Society Initiative (IRISI), which aims to demonstrate a methodology based on subsidiarity and a bottom-up approach for creating awareness among the general public and decision makers, including the private sector. The objective here is to define information society actions which are relevant to the economic fabric of the region and to develop synergies between regional resources, private capital and the Structural Funds, and to provide inter-regional guidance and learning\(^\text{13}\). Based on the success of IRISI a new generation of innovative actions for the information society (RISI) under Art.10 of the ERDF and Art.6 of the ESF has been launched\(^\text{14}\).

**THE WAY FORWARD**

9) The debate and more policy initiatives relating to the information society, which have initially focused on technological and supply-side aspects, are now also focusing on social and demand side aspects. The pervasive and systemic nature of the changes brought about by the information society necessitate both the integration of all pertinent areas of action and the participation of all interested actors at local, regional, national and EU level.

*Advancing cohesion through the regulatory process ...*

10) Taking into account the dynamic and evolutive nature of universal service, which must be kept under continuous review, the Commission is due to report\(^\text{15}\), for the first time, on the scope, quality, level and affordability of universal service by January 1st, 1998. It must also examine and report to the European Parliament and to the Council on the functioning of the Directive on the application of Open Network Provision (ONP) to voice telephony and on universal service before December 31st, 1999\(^\text{16}\).

There is a broad recognition that universal service must respond to technological evolution and changes in the needs and expectations of Europe’s citizens. In the future, in the context of the development of the concept of universal service or the development of public service obligations, different levels of minimum service could be imaginable, adapted to different user groups, such as SMEs, health centres or educational institutions. Access to more advanced services and subscriber connection to digital switch might pave the way towards ISDN provision.
Public and “community” access, involving the connection of schools, colleges, hospitals, public offices, libraries and other public access points may be of particular importance to LFRs where there may be a risk of delay in accessing advanced telecommunications services if left to market forces alone. In that context, assessing periodically also the need for any reshaping of the concept of universal service and/or universal access at a European level will be part of the review exercise.

Indeed, if all the population is to share the benefits of the information society, then a consensus must be achieved around the shape universal service should take and the ways to pay for it.

Therefore, in order to aid the review process, the Commission urges and supports Member States and regions to continue in the course of 1997, and thereafter, a wide and structured consultation on universal service and on public access involving the general public, SMEs, community organisations, educational institutions and local communities. The outcome of that consultation will constitute a fundamental and necessary input for the future shape of universal service and to the mandate of National Regulatory Authorities in each Member country. In this way, the full transparency of the review process will be ensured.

Complementary to any evolution in the scope of universal service, developing public access as part of a demand stimulation strategy is an important element and will be further discussed under point 13.

11) Member States have a key responsibility in rapidly adapting the regulatory framework to the new competitive environment. The Commission recommends that they complete the liberalisation process as soon as possible. The slow pace of regulatory reform in some countries is likely to be counter-productive in terms of cohesion since uncertainty in the regulatory environment may well deter new investments. The licences awarded to telecommunications operators represent a powerful cohesion instrument which, taking into account the proportionality principle and the necessity of open and competitive markets in the European Union, could be explored in view of integrating coverage targets including less favoured regions. Competition policy plays an important role and the Commission will continue to ensure that recently liberalised markets and/or newly emerging markets are not foreclosed.

... completing the network infrastructure ...

12) The primary responsibility for the development and deployment of the information society rests in the hands of private business, telecom operators and service providers. Even within LFRs, investment in telecommunications infrastructure is potentially profitable in many sub-regions. The digitalisation of trunk lines and local exchanges and the extension of GSM, to take a few examples, are likely to be profitable from the very outset in the most densely populated urban areas.

Yet the investment gap in cohesion regions compared to the rest of the Union remains significant. In addition, in Objective 1 regions (and, more in general, in poor/rural/peripheral areas) the cost of installing and operating new lines is often higher than in other areas and levels of GDP per capita tend to be lower. For example, the cost
of digitalising the last 10% of the network in Greece, Ireland, Italy, Portugal and Spain has been estimated to be in the range of ECU 4 to 5 billion\(^\text{19}\). A truly universal digital network would thus require considerable extra investment. Furthermore, there may be a “time gap” concern which justifies public interventions, whereby support is meant to anticipate the diffusion of a given infrastructure or service (as the STAR Programme has amply demonstrated). As acknowledged in the First Report on economic and social cohesion, the cohesion countries may require accompanying measures to help accelerate the development of networks under a liberalisation regime.

The Commission invites Member States and the regions concerned to carefully assess investment decisions (also in the framework of the current ERDF programming period), identifying the link between investment and regional performance, and to target investment on projects that optimise the contribution to cohesion and on areas where investment would not otherwise be forthcoming under market conditions. In the context of EU structural policies, the Commission, in partnership with Member States, will strictly evaluate where and when there is a strong case for public support for telecommunications investment in line with the competition rules.

... and stimulating demand

13) The role of policy action for demand stimulation as a means to speed up and smoothen the transition to the information society has been emphasised, for example, by the Competitiveness Advisory Group\(^\text{20}\) and has been widely acknowledged\(^\text{21}\).

Assessing real need and demand, as part of the exercise to review the scope of universal service, is particularly complicated in the information society because services may require more up-front resources, acting as barriers for many potential users, who cannot experiment the new services to determine their utility\(^\text{22}\). Supporting the direct access of the public to new information services in institutions such as schools, public libraries and local development centres can provide a cost-effective solution\(^\text{23}\). In these circumstances, the general public would be given access that would otherwise be denied them, but at a tiny fraction of the cost of providing the service to every home; training and support can be offered in a cost-effective form; and the utility and popularity of different services can be tested. The feasibility of using the Structural Funds to provide assistance for such schemes will be explored.

14) Currently, regional ICT programmes often lack the adequate measures complementary to the development of new advanced infrastructures and applications. Initiatives need to be taken to integrate ICT programmes with ICT training and awareness schemes, regional structural economic support, project seed money and risk capital for users\(^\text{24}\).

Also, LFRs are often characterised by traditional organisational structures and lack of intermediary institutions, resulting in many cases in the inability of decision-makers to formulate relevant information society objectives and to implement effective plans. Initiatives should be launched to offer training courses for the development of organisational and managerial skills and to support the dissemination of such skills in the region\(^\text{25}\). In addition, stimulating co-operation between enterprises and between companies and knowledge resource centres seems an effective way to mobilise demand for new services and applications.
Finally, lack of experience in using ICTs represents a barrier to the participation of some LFRs in the information society. Effective use of advanced ICT applications requires computer literacy, availability of appropriate supporting and maintenance services, and language skills - to mention but a few. Therefore, initiatives are necessary to reinforce educational programmes on ICTs, to support the ability to develop distance working relations, to promote awareness campaigns and training and re-training schemes in communication and information inquiry.

15) The information society is a dynamic concept. As the IRISI initiatives have demonstrated, it is likely to take different forms in different contexts depending on the structure of local productive systems, local institutions, and the demand expressed by the population. For this reasons, the Commission has no ready-made solutions; it does, however, have a methodology to propose and the instruments to accompany it. The point of departure is the recognition that the regional level is the most appropriate for identifying the opportunities offered to it by the information society. Only an approach based on consensus, partnership and dialogue among users and ICT providers within the regional context can make the information society a reality adapted to the needs of people and firms rather than a celebration of technology. This bottom-up approach mirrors the approach of the territorial employment pacts as launched by the European Confidence Pact for employment and supports the role of small and medium-sized enterprises as the driving force for regional development and employment creation. It should contribute to realising the potentially powerful role of the information society in building European awareness of indigenous regional potential, identifying and encouraging expanded cross-border trading possibilities and economic opportunities.

The regions involved in the IRISI and RISI initiatives exemplify this approach. Mainstreaming these types of actions through the use of the Structural Funds in close co-ordination with other financing mechanisms available at the EU level, in particular projects within the framework of the Information Society Action Plan, will be one of the priorities.

The Commission will carry out an in-depth assessment of the information society content of the new Obj.2 programmes and of Obj.1 programmes, both before and after the review due by mid-1997. This analysis will assist the Commission, Member States and regions to identify opportunities for supporting information society activities within existing programmes and to define their priorities for the future.

Already, the Commission has recently issued guidelines for programmes in Obj.2 regions for the programming period 1996-99 which affirm that the emphasis “should be on practical IT applications and services proven to be effective for employment and business creation and retention” with particular attention to awareness and training actions. With the same spirit, the Commission is preparing the new guidelines for Obj.1 regions whose programmes are due for revision in mid-1997. Within the margins available, Obj.1, 5(b) and 6 regions and Member states are invited to explore how to increase the number of actions related to the information society.

Further to operations in Obj. 1 and 2 regions, the Commission intends to harness the possibilities offered by operations in Obj. 3 and 4 to support the provision of information society skills training in favour of those unemployed and those at risk of
being unemployed. In particular, the development of preventive approaches in enterprises, and facilitating the introduction and adaptation to new forms of work organisation combined with training and retraining of workers, is seen as essential in the process of transition to the information society.

16) The participation of actors from LFRs in the 4th Framework Programme already provides a basis for the take-up and diffusion of results, applications and best practices. The preparation of the 5th Framework Programme for RTD provides a further opportunity for better integrating the cohesion dimension in RTD policy and responding to users’ needs, particularly in the area of the information society. The guidelines proposed by the Commission28 identify the creation of a “user-friendly information society” as one of the priorities of the 5th Framework Programme. In order to improve the complementarity with structural policies, the active participation of regions in the implementation phase will need to be promoted.

CONCLUSIONS

17) Information is increasingly recognised as a key resource on which the world economy depends. Progress in ICTs has the potential to reduce the economic significance of distance, potentially affording firms and households with access to vital information independent of their location. By uniting traditionally separate sectors (i.e. telecommunications, computers and media) it has created vast possibilities for the emergence of new activities, services and jobs. Yet, the capacity to access and effectively use the information society is unevenly distributed across European regions.

18) Aiming at reducing these disparities and improving economic and social cohesion, this Communication attempts to lay down some key working principles in the area of regulation, infrastructure investment and demand stimulation.

• Member states should ensure appropriate development of their regulatory framework. In particular they should:

  ⇒ continue the debate on the scope of universal service and on the concept of public access in the information society in order to contribute towards the future development of the regulatory framework involving individuals, SMEs, community organisations, educational institutions, regions and local communities;

  ⇒ provide for early completion of the liberalisation process;

  ⇒ explore licensing regimes with a view of integrating coverage targets including less favoured regions, taking account of the proportionality principle and the development of open and competitive markets throughout the European Union.

• It is recommended that Member states should:
⇒ give priority to the completion and upgrading of the telecom networks, identifying the link between investment and regional performance. Given the existing budgetary constraints, support should be targeted on telecommunication infrastructure investments that optimise the contribution to economic and social cohesion and which do not distort competition in the new environment;

⇒ adopt a strategic and integrated approach to the information society in partnership with regional and local authorities, social partners, infrastructure and service providers and other relevant actors;

⇒ establish public/private partnerships, where necessary, so as to involve the private sector thus ensuring the selection of suitable projects, their effective implementation and their long-term economic sustainability.

⇒ launch a range of initiatives (including within the framework of the Structural Funds) in the areas of education, training and work organisation as already proposed in the Commission action plan “Learning in the information society” and the Green Paper “Living and working in the information society - People first”. Increasingly, efforts must concentrate on education and training;

- The Commission intends to:

  ⇒ take into account the results of the consultation carried out at the Member state level (see above) when developing further its policy on universal service in the context of its legislative initiative and in view, particularly, of the report on the Directive on the application of ONP to voice telephony and on universal service due by 31 December 1999;

  ⇒ increase the coherence of its actions in the field of the information society; in particular, in the relation between the 4th Framework Programme for RTD and the Structural Funds. It will also intensify its efforts for mobilisation and awareness raising and ensure that the needs of users continue to be truly represented in the 5th Framework Programme for RTD;

  ⇒ prepare for spring 1997 a communication describing the set of actions to be undertaken as a follow-up to the consultation and debate process on the Green paper “Living and working in the Information Society”. This will develop a focused “People first” approach to social policy in the information society that responds to the demand for practically oriented activities;

  ⇒ grant technical assistance to Member States and regions for promoting new ICTs including electronic commerce; and increase, in the framework of its enterprise policy, the access of SMEs to the opportunities granted by the information society, both considering their specific needs and reinforcing the information efforts as regards these opportunities;
accompany and continuously support the actions of Member states and regions in the framework of the Structural Funds, in particular, in order to devise integrated and strategic approaches to the information society, to enhance regional capacity building at all levels. The Commission will also carry out an in-depth assessment of the information society content of Obj.1 and Obj.2 programmes; highlight the importance of the information society in the new guidelines for Obj.1 regions and harness the possibilities offered in the framework of Objectives 3 and 4 and ADAPT-BIS.
FOOTNOTES - see separate file (com_not2.doc)