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NOTE

From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	The contribution of cohesion policy programmes to recovery, competitive sustainability, green and digital transition, resilience and economic, social and territorial cohesion - challenges and opportunities in the coming years = Policy debate

At the meeting of the **General Affairs Council** dedicated to cohesion policy of next 18 November, Ministers in charge of cohesion policy are invited to provide further political guidance on the contribution of cohesion policy programmes to recovery, competitive sustainability, green and digital transition, resilience and economic, social and territorial cohesion - challenges and opportunities in the coming years, on the basis of the Presidency paper set out in annex to this note.

Background paper - GAC Cohesion 18 November 2021***The contribution of cohesion policy programmes to recovery, competitive sustainability, green and digital transition, resilience and economic, social and territorial cohesion*****Challenges**

Over recent decades, regional disparities across the EU have been shrinking with a noticeable convergence in GDP levels. However, the impact of the economic and financial crisis of 2008 has meant that progress has been uneven since then and, in addition, the COVID-19 crisis has created new disruptions. In particular, while convergence has continued to be robust in the eastern Member States, many of the middle-income regions in the southern EU and some in north-western Member States have instead declined relative to the EU, thus demonstrating that progress can be reverted.

Cohesion policy has contributed significantly to reducing many of these disparities. The Commission services estimate that 2014-2020 cohesion policy programmes have had a significant impact on GDP per head, notably in less developed regions, which are expected to grow by an additional 2.6%. Projections suggest that the gap between the richest and poorest regions (each representing 10% of the EU population) will drop by 3.5%.

The COVID-19 pandemic has brought a series of previously unimagined challenges for the EU's territorial cohesion in general. Whereas the COVID-19 pandemic is too recent to fully assess its impact on EU regions, initial estimates suggest that the pandemic will affect southern EU regions most, and especially those with a large share of value-added in wholesale and retail trade, transport and accommodation.

Even before the COVID-19 crisis, the EU economy faced several long-term structural challenges. Some of these will become even more acute in the years to come. In particular, a rapidly aging society will eventually reduce labour supply and thus EU growth potential. Weak productivity growth continues to act as a drag on growth and the EU is lagging behind China and the United States in the process of digital transformation. A less educated workforce is also holding back economic growth and makes it difficult to catch up in terms of productivity. Last but not least, the climate transition, with an uneven territorial impact, will trigger significant social and economic costs.

EU regions are not only unevenly vulnerable to these challenges but also unevenly equipped to address them. This could result in a widening of disparities in the coming years. In particular, ongoing depopulation primarily affects Eastern EU regions and some Southern ones. The transition to a climate-neutral economy will impact those territories heavily dependent on mining and extraction activities and carbon and energy-intensive industries, underpinning the rationale of the Just Transition Mechanism. The rise of carbon and energy prices is also expected to hit the most peripheral regions, by increasing their connection costs to the internal market.

In general, rural areas are particularly vulnerable. Their population is already older, on average than the population in towns, suburbs and cities. These demographic trends, when coupled with a lack of connectivity, infrastructure and productivity challenges and low access to public services including education and care, can contribute to the lower attractiveness of rural areas as places to live and work.

It is therefore critical to strengthen the resilience of EU regional economies and enhance their responsiveness to asymmetric shocks. In particular, the pandemic has highlighted the fact that regions heavily dependent on just a few manufacturing or service sectors are particularly vulnerable. Further diversification of regional economic activities, steered by smart specialisation strategies, investment into education and life-long learning, and continuous support for drivers of - future proof - economic growth, will be necessary.

Opportunities

To face up to this unprecedented combination of challenges in the coming years, a massive package of funding support through the combination of Next Generation EU resources and the 2021-2027 multiannual financial framework was agreed by the co-legislators. Through a proper articulation of the complementary instruments available and effective coordination mechanisms, Member States will be able to maximise the benefits from the remaining 2014-2020 cohesion funding, the REACT-EU Initiative, the Recovery and Resilience Facility, and the new 2021-2027 cohesion policy allocations, including the Just Transition Fund financing. This combination of instruments will enable the Member States to make their economies and societies more resilient and better prepared for the future, all while contributing to the green and digital transitions.

However, making the EU as a whole stronger and more resilient will only be effective if no one and no region is left behind. Without this inbuilt guarantee of solidarity, there is a risk of unbalanced and unsustainable growth, and of undermining trust in democracy, European values and the European project itself.

To this end, addressing the situation of “left-behind places”, where globalisation and technological change may have left a legacy of deindustrialisation, environmental degradation and low skills traps, is crucial. Similarly, it is vital to strengthen the role of smaller cities and towns, so that they can act as regional centres supporting neighbouring rural areas; provide access to a range of public and private services; and create new economic perspectives for less developed and peripheral regions. This involves also exploiting opportunities for rural areas building on their natural assets such as natural resources in particular for renewable energy, bio-economy, sustainable food production and processing and tourism, to name but a few. The main drivers for successfully facing these challenges relate to enhanced connectivity, stronger diversification of economic activities, improved environmental, climate change and social resilience – in the context of empowered local communities.

Supporting place-based policies, underpinned by tailored territorial development strategies and anchored in effective partnership mechanisms has always been the cornerstone of the cohesion policy governance model. However, effective coordination mechanisms with other EU instruments, notably the Recovery and Resilience Facility, which pursue different objectives and use different delivery modes are required.

Questions for discussion

- How can cohesion policy be combined with other EU instruments to further reduce development disparities and enhance resilience in the medium and long term?

- How can the different needs of individual regions and territories be properly addressed and the implementation of EU funds be brought closer to beneficiaries and citizens?