

**Verbatim Transcript**

**Rt. Hon Rhodri Morgan EGIPP Lecture, Cardiff University School of European Studies**

**Cohesion Policy at a Crossroads: Wales' Voice in the European Debate.**

Monday, 14<sup>th</sup> February 2011

**Professor Alistair Cole:** Welcome to Cardiff School of European Studies, we're absolutely delighted to have today's speaker, the Rt. Hon, sorry I was going to say the First Minister because after serving for 9 years and 10 months, nearly all of the time since I've been in Cardiff, I still think of Rhodri of course as the First Minister but that's not true he is in fact a Distinguished Honorary Professor of the School of European Studies at Cardiff University which is a great distinction for us and hopefully for Rhodri as well. Now Rhodri is going to speak today about Cohesion Policy at a Crossroads: Wales' Voice in the European Debate. And I think this is a particularly appropriate time to address that subject and I don't think there's anyone that could address that with more authority than Rhodri Morgan who is Chair, as you know, of the National Assembly for Wales' European and External Affairs Committee at the moment. This document, there are some copies of the document, the Committee's report on the future of Cohesion Policy published in July 2010 and without further ado Rhodri will speak to 20-30 minutes and then we will have at least half an hour for questions.

**Rt. Hon Rhodri Morgan AM:** Can I just say, you were kind enough to refer to the fact that I was First Minister for 9 years and 10 months, which probably means that in the old days

when Welsh traditions of how people got their names or at least their mock-names were much better established, as in the days of the 1930s when a music Professor in Cardiff University was known as Dai Canary and I would be Dai Decade not quite I suppose, if my first name were David which it isn't so that would spoil that one...Now let's do a very simple 'Was Ist Dat?' about what Cohesion Policy is then so that we're all clear on what it is, but it is a fundamental idea about Solidarity not merely with the Member States of the European Union but with the regions of the Member States that lag behind the general growth in prosperity given that the general growth in prosperity may be determined by the old days when there were only six or later nine Member States this pull towards the Northern Triangle between Milan and Paris and the Ruhr or Milan, Paris, Ruhr and London and this area would suck the resources and the brightest people out of the outer areas of Europe and that would become self-reinforcing when actually what we want is for it to become self-resisting so that there is more movement out of the 'golden triangle' or quadrangle down into Southern Italy, Greece, Spain, Portugal, Western and Northern Parts of Great Britain, East Germany when it eventually came in and so on. So that was what Cohesion was about and it was a fundamental pillar of the British view of when we entered in 1973 we knew we weren't going to do very well out of the Common Agricultural Policy, that was 80 odd, 90% of expenditure, there must be something for Britain equivalent to the CAP for France. Germany at that point didn't matter because it was a by-word for speed of industrial development and the whole world was going to be drowning in Volkswagens and so on, so Germany didn't have to worry about jobs and prosperity. France had the guarantee of the CAP and what was in it for Britain? Well it needed to be something pretty strong on the regional front. But 'regional' in Europe means something quite different to 'regional' in Britain. 'Regional' in Britain means the ex-coalmining and steel-making, ship-building areas, railway and engineering areas, Tyne and Weir, Industrial South Wales, West Central Scotland, to a lesser extent then were the textile mill areas of West Yorkshire, the North West of England, anywhere which had experienced the first wave of the industrial revolution. 'Regional' in pretty much every other country in Europe is areas which have never experienced the

Industrial Revolution. So Ireland would be the classic example but Southern Italy, large areas of Spain not all, certainly Portugal, Greece, non-industrial areas are distinct from the worn out rust-belt industrial areas which would have been of huge significance in British consideration of 'getting something out of the EU', equivalent to what rural France gets out of the CAP. To bring that up to date, we are now in the middle of a discussion on Cohesion and its future and how that relates to the next Financial Perspective, which starts in January 2014. And to be fair to Europe there's a timeline established which will give plenty of ideas for consulting now on the future of Cohesion; does it need to be redefined, in that the European Commission will publish the results of the public consultation in a couple of months' time, in April and then there'll be an informal meeting of Ministers with a regional development responsibility organised during the Hungarian Presidency and then in June when the Hungarian Presidency is coming to an end there will be proposals on a Financial Framework, who's going to finance for Cohesion in the EU budget for the next Financial Perspectives starting in three years' time. So there will be a fairly clear idea, two years almost before, well yes two and a half years before it actually happens on what the next phase of Cohesion is going to mean and who's going to fund it. Now the pressures that we will be seeing are ones that we've experienced before, in other words how do you justify a European involvement except on the theological principle of Solidarity of Europe with all the regions of Europe not only with the Member States of Europe for the less well off regions like Wales or especially West Wales or the Valleys, two thirds of Wales, North and West of Cardiff, and the East Germany as it used to be called, the four East German Lander out of the, what was it, the 18 I think in total now in the unified Germany and how do you justify that when really you could say that the British government and the German government should look after the lagging areas of GB and the lagging parts of Germany, the old East. The question therefore of 'repatriation' is of huge significance if you agree with repatriation, that is responsibility for encouraging regional development in the old East Germany should be left to the unified government of Germany then where's the European Solidarity in that? And if you accept the idea that regional development in Wales or West Wales and the Valleys, in

Northern Ireland, in parts of the North of England, Tyne and Wear, West Central Scotland, Highlands and Islands of Scotland, Cornwall, South Yorkshire should be left, Merseyside, should be left to the British government by 'repatriating' responsibility in the budget – where's the European Solidarity in that?

You could say, well Europe knows a lot more, no sorry, knows a lot less, than the individual Member State governments about the individual problems of the regions within the Member States. But actually there is a very good, interesting counter example of that, in that in 1976 not long after Britain had joined, the European Commission produced a report on Britain's regions, well actually on all the regions but it caused a little bit of a stir in Britain because it predicted that before very long, the West Midlands, which had been regarded as a by-word for prosperity in Britain, would shortly become a real problem area long before any agency of the British government had identified the emerging problems of the West Midlands, that was identified first by the EU, not by the British Government. It was a terrible shock, because up to that point it had been generally assumed you could try to grab industry out of the West Midlands, as there was seen to be too much of it and take it to Wales and take it to West Central Scotland, take it to Merseyside and there would still be plenty more where that came from in Birmingham and the Black Country. And the EU said no, actually the Black Country and Birmingham are going to have very serious problems themselves and they were right and three years later, by the early eighties the West Midlands was declared a full development area with full assistance and so on. So it isn't always true that Member States know more than the European Commission, because sometimes, by doing exercises across an entire continent you can spot a trend coming.

So we're in the middle of the argument now then, about what this principle of solidarity is going to mean in the future. The Commission will be looking to say well, we still have a job to

do, clear added value from Europe, if there's clear added value from Europe we will stop doing it, providing regional funding, but we think we can still provide that funding and the programme which fits into it, so that the benefit will be there in that the lagging regions are stopped from lagging any further behind, or in principle will be able to catch up with the best of regions. But in order to do that there will be an awful lot of changes needing to be made. In other words, nothing stays the same, I think it's safe to say, you do have to update cohesion so that it's effective in a period when the European economy has changed enormously. And let me give you an example of that in that we have just lived through this period of the reunification I suppose you'd call it of Cold War Europe, Eastern Europe, Western Europe into a Single European Market comprising 40 odd million people, the job is not finished yet and there are huge issues as to whether the Western Balkans can come in, what conditions would you accept your Croatian, Serbian, Macedonia and so on. And then there's an EU of 30. Are you going to see an EU of 650 million before very long? The consequence of that has been an enormous Eastwards shift in the centre of gravity of Europe, not a healthy thing for Wales of course on the North Western frontier of Europe and above all in that the new countries of Eastern Europe which came in, what was it now, eight years ago, but really came in psychologically about eighteen years ago not long after the collapse of the Berlin Wall have been seen as places into which given the centre of gravity moving Eastwards and given the change in markets for certain products like cars the one litre car become the dominant car, the high efficiency car, where have all the one litre car factories been built? In Eastern Europe, not in Western Europe, Wales has been trying for years to get a car factory and has failed, Latvia got three in the space of five years after joining the EU. Why? Well you know, attractiveness and locations, right in the middle of the new market for one litre cars. But its a pretty astonishing shift and an indication of just how rapidly that Eastward suction, you can almost feel it pulling industry out of Wales and moving it Eastwards and not just Eastwards onto the mainland of Europe, but Eastwards, East of the previous boundary of the EU which was basically just East of Berlin and now its way East of

that in the Carpasian or wherever it is, I am not too clear on the geography of that European area, I've never actually visited it myself.

The Eastward shift of Europe, combined with this emergence of a new market for new supply chains, which people used to joke about, I can remember you know you sit next to somebody on a plane travelling back from Germany or Paris and so on, you'd been sent out from Wales to help persuade Hungary or whatever to establish supply chains, and they used to say what a joke it was because they had no idea, and this was really only 2003/2004. They would go down to the nearest factory because they'd been told in the new photocopier factory, to get some transistors to fit and so on and they'd sent them ones that would fit into the back brake light of a Skoda and when it was about fifteen times too big, they didn't have a clue these poor dabs you know, whereas we did in Wales but we didn't realise just how quickly those supply chains would adapt to the jump and how rapidly the comparative advantage of central and eastern Europe would pull industry away from the North and the West of areas like Wales. The other big threats or reconsiderations of the change in shape, the change in geography, the change in the centre of gravity of Europe has been whether there should now be different categories of assistance. Now because we've just lived through this period when you've had this huge expansion into Eastern Europe and of course subject to Turkey coming in you could be faced with another one over the next ten years. Although there's no immediate prospect of Turkey coming in but it would be a repeat of the whole job really – but as you've had this extra 100m people coming in, in Poland and the countries south of Poland, well also the countries north of Poland, the Baltics but they're very small, even smaller than Wales. So you have got that extra 100m people and the impact of those countries coming in has meant that the countries that are now qualifying for European assistance, or regions that are now qualifying for regional assistance, extend to 170m people but if you use the same 75% of GDP per head, region cut off point then by 2014 by a statistical quirk, the number of people in Europe, that is, forget about Turkey and Serbia, any

of the new countries coming in, will drop from 170m to 120m so 50m people won't make the cut because they won't be poor enough to be qualifying for convergence assistance. Now it's a statistical quirk because obviously 75% and 75% is 75% so therefore it should approximately be the same number of people but it isn't for reasons of the new countries having come in, so it will go from 170m to 120m unless something is done about it. So this big proposal has been made that an intermediate category will be established because the break between the amount of money that you would get for areas which are just outside the Convergence area, areas like Cardiff for instance, the Vale of Glamorgan and Newport and so on but eligible programmes elsewhere in the UK you know London, Birmingham, wherever but not tier one, which isn't the full convergence areas which is only Cornwall, West Wales and the Valleys, South Yorkshire and Merseyside and I think the Highlands and Islands of Scotland is a kind of category B Convergence area but that you can have competitiveness funding outside that as well but you're only talking about one tenth of funding that you get in Convergence. So people are saying that that area outside is too, too wide a category because once you are outside the 75%, you've got 75.1% of GDP per head, all of a sudden you get, pretty well nothing or the drop down to a tenth of what you had before. That's too sharp. You could find regions which are unable to cope with that drop in funding and then drop back into the need for Convergence, seven years afterwards, but if you miss out, obviously you've got to wait seven years before you can get back in because of the financial framework being seven years, it may not always be seven, it could shorten to five, lengthen to ten, but it's still a very long time before you can get back in if you drop out through your prosperity level just taking you above the 75%.

There are allegations that certain regions, I think Dresden, the Dresden urban region were accused of fiddling the figures or trying to find methods by which they could depress their GDP per head, just below 75% for the relevant three years and then don't ask me how, but Eurostat were looking into it, whether there are ways of fiddling the figures on your GDP per

head so that you keep low enough to qualify. So the proposal is that there should be an intermediate category for those areas between 75% and 90% and so you should still be able to get something and instead of dropping to a tenth of what you had before you'd be able to drop to a half of what you had before although there have been no figures of what the funding regime for this would be but that you'd want some intermediate figures. Now some of this will be political because if you are going to drop from 170 million to 120 million which is roughly speaking from a third to a quarter of the EU population then you lose political backing, that difference between a third and a fourth is so many MEPs' votes that are now against the regional policy rather than for regional policy don't cover state membership anymore and so if you add back another 60 million by having 75% to 90% in the intermediate category you've still got the same political backing as you had before. But the problem with that is that this is a period when there is a huge downward pressure on EU funding and therefore there's criticism of this intermediate funding idea, you know how you justify this when all National Governments are slashing budgets, where's the money going to come from for the EU to maintain a budget, the equivalent of which in the domestic country is actually being reduced by 25% or whatever it might be, and that's not just the British; its the whole of Europe, for example in Germany and elsewhere. So if they're slashing the budget, why should the EU maintain a budget for essentially the same reduction of regional inequalities purposes? So now had we therefore identified this, and in any case what's its real purpose, is it just a political purpose to maintain the stake in regional development and cohesion or is it something else? So there's an argument between intermediate level funding for regions between 75% and 90% or make it transitional funding as we've had in the past, for instance in Dublin, in Ireland when they got far too prosperous, though of course in a way they may be in danger of slipping back now, we'll have to see, just how devastating the effects of the banking holocaust have been in Dublin but up until the collapse of the Irish property economy, the property side of the Irish economy, I should say then Ireland was far more prosperous than the East, therefore they tried to concentrate the assistance there but the issue for the Dublin area is transitional funding. Now transitional funding is tapering off,

so in the seven year period so, one year you get 90%, year two you get 75%, year three 50%, year four you get 25%, year five you get 10% and in year six and seven you have nothing. So tapering off transitional assistance is one thing. Its immediate funding would be at the same level for the whole of the seven years and would be for a category, not merely to wean you off the structural funds, so is it going to be transitional or is it going to be intermediate, that is going to be the huge issue.

Should there be an urban policy? Urban means really this campaign that had been run for a long time, Ken Livingstone was heavily involved, Paris, Johannes Hahn, who is now the Regional Affairs Commissioner, Mayor of Vienna he was passionately in favour of otherwise, rich metropolitan centres in rich member states like Austria, UK, France nevertheless conceding that they had high problems in zones of every large capital there will be an urban zone of acute urban depression, the area that new immigrants move to, the areas that the Roma moved to, the area where unemployed youth move to, youth with no educational complications tend to just drift in to, we've many areas like that in Cardiff, of the Bute town, Riverside, Plas Newydd, type but this would be on a much bigger scale in Paris, Vienna and London. Now should they have access to Structural Funds? In Wales, we said well if it's extra, yes. If it's by deduction of the present Structural Funds, we're going to strangle this at birth or we're going to attempt to, and so did all Structural Funds areas really. No other dimension unless it's on top of the present Structural Funds. So that's another big issue and with Johannes Hahn now having become the actual Commissioner, he's in a difficult position. Will he deliver on what he's been talking about for the past ten years or so as Mayor of Vienna? Or can he not deliver in which case all these ex-mayor colleagues of, now Boris Johnson, not Ken Livingston, will say, you know he wasn't very good at keeping his promises when he got the job. But probably the most important thing is the battle against repatriation. The UK government, and it happened under Labour as well, but certainly happened recently under the Conservatives were trying to get this to concentrate just on the

poorest countries. Brown's Treasury did it but a big effort by the British Government and I think Kim Darroch, the British Permanent Representative, effectively the UK Government's Ambassador to the EU, gave evidence to our committee not that long ago, a few weeks ago in which he did say you know, when we were asking him well where was the British Government in trying to engender support in that we knew they'd only got support from Sweden and Holland I think. We asked him, does that mean that that policy is now dead in the water and he said well, yes, there is a lot of support for Structural and Cohesion Policy across the EU, including in some of the net contributor Member States including France and Germany so if you can't recruit Germany into your camp to repatriate the responsibility back to the Member States you can't get anywhere and we finished that, he said. Oh and the same applies to any major reform of the Common Agricultural Policy to eliminate the direct payments for production. So I think his view was that he said:

"The government will have to prioritise what it really wants, does it want the smallest budget [slash and burn Europe] and within that budget is it prepared to let the existing and strongly supported projects like the CAP and Structural Funds continue in their present form. Can it achieve both a smaller budget and some radical reform of these EU internal policies. In my experience from these negotiations, it's always hard to achieve all the objectives. "

Now that's speak for 'we failed to get the Germans on board', you know, we tried, David Cameron rings up Angela Merkel and tells her, look are you on for trying to take on responsibility for regional funds back to the Member State? And she said, you can't do that in Germany because the shock effect of the four East German Lander would be so great that you know that would be seen as an outright betrayal and of course as an ex-East German herself, she would be very prone to agree with that.

One final point then before I end my part of this and we move over to the questions is on the other instruments. Now, I've mentioned the CAP, this burning issue of whether we're going to see an ending of direct payments to farmers and a concentration on you know, regional development policy for agricultural areas, the Pillar Two proposals for diversification out of agriculture in to new sources of income, stewardship of the countryside, or payment for stewardship of the countryside. On the Structural funds, will there or won't there be repatriation? But I think the key thing is to try and raise our eyes to the Lisbon Agenda here [sic. Europe 2020], which is about trying to have a kind of smart and sustainable component to regional development so that it isn't just about who gets the new car factory from Hyundai or Volkswagen or whoever. It's what happens in 2020 and beyond in terms of smart sustainable growth and why can't Europe ever engender new e-technologies of the calibre of Amazon or Google or Yahoo or Ebay or all these, or Facebook of course, but why does Europe struggle so much by comparison with the USA in engendering e-companies? How do we make sure that if it does engender brilliant new companies that they're not all going to be within the quadrangle from Milan to London to Paris to the Ruhr? How do we get beyond the car factory or supply chain model of what regional development is all about? So the smart and sustainable part of it links then with other less well known policies, such as the policy for supporting Research and Development and the FP6/FP7 and there will be an FP8 programme coming which is intended to encourage cross border -usually a minimum of three member states must be involved - partnerships in developing new intellectual property, whether it's university research or combined university and private sector research for government institutes of health, government institutes of different forms of technological research in different countries – you can't just do it on your own; it must involve more than two member states, a private sector company in Wales with a University in Germany and a Government research centre in Denmark, that's fine but it can't just be, you know government research institute in Wales, with a University in Wales and a private sector company in Wales - off limits. It's a way of encouraging in Europe to cease thinking within the Member State boundaries but also to try and create this R&D and IT space that will help

Europe to catch up with the USA in terms of engendering new technology companies and stay ahead of India and China given that in the low wage areas, call centres, back office functions or manufacturing, you can't beat because of the wage differentials. We've recently done a report in our Committee on the Forward Programme 6 and 7 – well Wales is underperforming and repeats the same pattern as the Research Council funding by comparison with the rest of the UK and the Golden triangle plus central Scotland do very well; the North of England, Middle of England and Wales and Northern Ireland don't do well. We underperform relative to the size of our HE sector. You can understand it in a way in that, they will always say what we are doing is supporting excellence, that's what the research councils always say, there is no distributive component to this, they are just not designed to break out of the golden triangle - Oxbridge and London University and Heathrow and all these symbols of where the magnetism of high IT funding tends to go. Same with the Paris area in France. It's very difficult to break into that, very difficult to get Research Council, QR funding, Wellcome Trust funding at a UK level, likewise for EU funding through FP7. When FP8 comes down the track we need for it to link with Structural funds so it is a mechanism for breaking down the near monopoly of the central Scotland plus South East pattern of Research and Development funding, whether its Private Sector Funding because that's where you tend to get these huge, or you tended to get the R&D Labs and where you tend to get these universities which outperform other universities in terms of getting big numbers of projects publicly funded and there tends to be a reinforcement of existing unequal patterns with no mechanism for finding a way of reducing the inequalities. Now you know we've got to find a method, there's got to be a linkage between Structural Funds and IT development, otherwise the Lisbon Strategy just doesn't work and otherwise smart and sustainable growth by 2020 is just not going to happen in a way that redistributes Europe's prosperity away from the geographical centre of gravity to the outer areas and as I mentioned earlier, perhaps the most significant factor over the 50 years since the fall of the Berlin Wall is that we, Wales were always on the periphery of Europe but now we are a lot more peripheral because the centre of gravity has moved a minimum of a hundred miles

further eastwards and will move if Turkey comes in, at least a hundred miles, if not two hundred and further miles further southwards, thanks very much. We are now open for questions!