

Inspire policy making by territorial evidence

ESPON Policy Brief

Territorial Implication of Better Regulation for Europe towards 2050

Better Regulation, with the aim to lead to EU policies achieving their objectives in the most effective and efficient way, is one of the central themes of the Dutch EU-Presidency. Upon request the ESPON EGTC analysed possible long-term effects in case the design and implementation of the regulatory framework would not be aligned with Better Regulation. This policy brief shows the necessity of better regulation by addressing two types of EU policies: Cohesion policy and the Transport Infrastructure policy. Comparing better and less efficient regulation conditions in relation to 3 territorial scenarios that assume alternative policy mixes towards promoting the development of (1) metropolitan areas, (2) the city network and (3) regions (smaller cities, more rural and lagging regions) respectively, the regional diversity of implications of less efficient regulation becomes evident.

Key policy messages resulting from the analysis of EU Structural Funds subsidies and Transport Infrastructure policies are:

- Better regulation is expected to have a positive effect on the European territory supporting a better overall balance between European regions improving the convergence process of member states currently falling behind and leading to higher overall economic growth for Europe. At the same time, less efficient regulation is likely to slow down the convergence process.
- For Structural Funds the likely impacts related to less subsidy absorption and efficiency are measurable but not large probably due to the fact that the total Structural Funds subsidies only amount to 0.4 percent of the total GDP of the European Union, however regional diversity is significant.
- The long-term impacts of better regulation in Transport Infrastructure policies are likely to add up to 3 percent of increased economic performance of individual regions in the year 2051.
- Negative impacts in the less developed member states are expected to be substantial as, due to the policy attention to cohesion, convergence and territorial balance, they receive the highest Structural Funds subsidies relative to their GDP per capita.
- Negative impacts of less efficient regulation are in general expected to occur to a lower degree in the core areas and to a higher rate in the more peripheral regions of Europe, regardless of the territorial scenario being promoted by policies. The impacts are expected to spread beyond the regions directly affected due to transport network effects.

- However, the territorial patterns of impacts differ significantly depending of the territorial scenario promoted in policy terms with more evenly spread impacts when promoting metropolitan areas and network of cities and with a higher concentration of vulnerability to less efficient regulation in eastern and southern parts of Europe when promoting regions, including smaller cities and lagging regions.
- Dedicated efforts and investments in administrative and human capacity to ensure an efficient regulation in particular in countries/regions characterised by high relative levels of Structural Funds subsidies, are expected to contribute to cohesion and balance within the European territory.
- For territorial cohesion, a clear and explicit territorial orientation towards higher regional convergence in the policy coupled with sufficient attention to efficient regulatory framework and administrative capacities, is likely to increase positive policy outcomes.

Better regulation

Citizens and businesses are increasingly concerned that the rules delivered by the European Union and its institutions are difficult to understand and apply. Better Regulation should ensure that the European law-making design and procedures remain at the highest standard in terms of impact assessment, transparency, public consultation, and implementation.

The Better Regulation Agenda has been adopted by the European Commission on 19 May 2015. It is a comprehensive package of reforms that covers the entire policy cycle from planning via implementation towards ex-post evaluation. It aims to boost openness and transparency in the EU decision-making process, improve the quality of new laws and promote constant and consistent review of existing EU laws.

Better regulation should lead to EU policies achieving their objectives in the most effective and efficient way. For the 2 policies considered, better regulation would mean that projects subsidised by the EU will be co-financed within the member states, implemented within a reasonable given time frame, achieve the expected effects, and that the integration of the Single European Market will proceed.

Less efficient regulation on the other hand reflects a world that is less characterised by the well-oiled mechanisms as described above, not only in relation to how the rules are designed, but also in relation to how they are implemented. For the two policy fields considered, this means that the co-ordination between EU policies and their implementation in the EU member states are less efficient or even distorted by lack of institutional and human capacity. This leads to projects subsidised by the EU being delayed or even not implemented and the anticipated positive effects and potential synergies being less.

Territorial Regulation scenarios

Scenarios are useful tools to support policy-making by capturing long-term desires and/or implications of future developments. Scenarios with a territorial focus reflect upon the territorial diversity of future developments. The ESPON ET2050 project has developed a baseline scenario and three contrasting territorial scenarios for the year 2050 that in policy and investment terms promote three different territorial structures: (1) metropolitan areas, (2) network of cities and (3) regions (smaller cities and lagging regions).

The baseline scenario (scenario 0) sticks to the principles of smart, sustainable and inclusive growth and follows a structural description of the European territory. The 3 territorial scenarios are developed in relation to Territorial Cohesion and a balanced European territory and consider how dedicated policy mixes in different territorial structures and patterns could influence the social and economic future of Europe in 2050, and vice versa. All 3 territorial scenarios promote polycentric development at three different geographic scales: global (scenario A), national/macro-regional (scenario B) and regional scale (scenario C).

To compare the territorial implications of better versus less efficient regulation, in total eight different scenarios have been analysed. The existing baseline and 3 territorial scenarios developed by the ET2050 project all assume that Better Regulation is in place (0Br, ABr, BBr, CBr). To contrast these scenarios four additional scenarios have been developed reflecting the hypothesis of less efficient regulation and implementation of Structural Funds subsidies and Transport (0Lr, ALr, BLr, CLr). The overview of scenarios is presented below:

Table 1. Territorial Regulation scenarios

	Br – Better regulation		Lr – Less efficient regulation	
0 – Baseline	0Br	Continuation of current policies in better regulation framework conditions	0Lr	Continuation of current policies in less efficient regulation framework conditions
A – MEGAs	ABr	Promotion of large metropolitan areas in better regulation framework conditions	ALr	Promotion of large metropolitan areas in less efficient regulation framework conditions
B – Cities	BBr	Promotion of secondary European cities in better regulation framework conditions	BLr	Promotion of secondary European cities in less efficient regulation framework conditions
C – Regions	CBr	Promotion of peripheral regions in better regulation framework conditions	CLr	Promotion of peripheral regions in less efficient regulation framework conditions

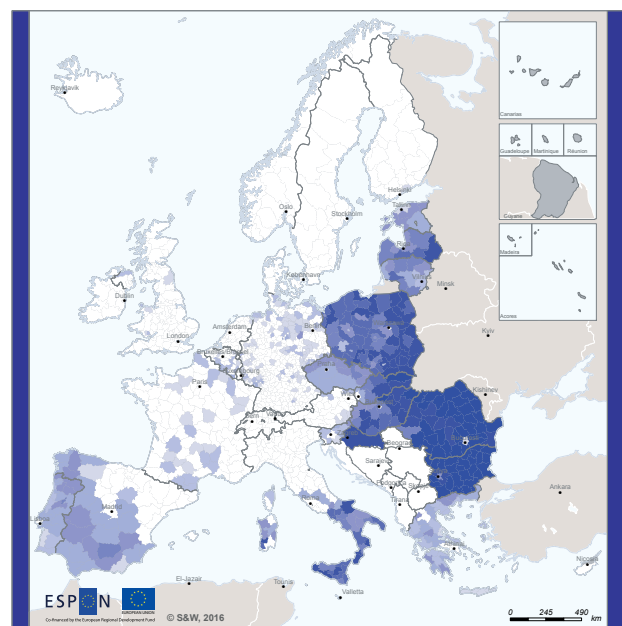
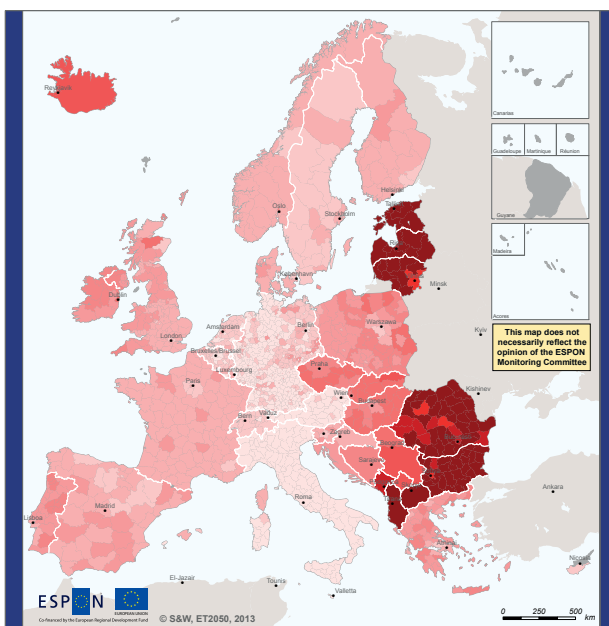
Comparing better and less efficient regulation in scenarios towards 2050

The baseline

Better Regulation implemented within the continuation of current policies as projected in the Baseline Scenario (0Br) will improve the territorial balance in Europe as visualised in the map on the left. The catching-up process of the new EU member states in central and eastern Europe will continue, although with a lower speed than before the economic crisis. In particular the Baltic States and Romania and Bulgaria are expected to significantly improve their economic situation compared to the rest of Europe.

Map 1. Baseline: GDP progress of regions with better regulation

Map 2. Baseline: Slowdown of GDP progress with less efficient regulation



Mean annual change in GDP per capita (%), 2011 - 2051

2.8 - 3.0	1.8 - 2.0	no data available
2.6 - 2.8	1.6 - 1.8	
2.4 - 2.6	1.4 - 1.6	
2.2 - 2.4	1.2 - 1.4	
2.0 - 2.2	1.0 - 1.2	

Regional level: NUTS 3
Source: Spielkeimann and Wegener Urban and Regional Research (S&W), 2013
Origin of data: SASI Model, 2013
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Difference in GDP per capita, 0Lr - 0Br (%), 2051

> -0.3	-1.8 - -1.5	no data available
-0.6 - -0.3	-2.1 - -1.8	
-0.9 - -0.6	-2.4 - -2.1	
-1.2 - -0.9	-2.7 - -2.4	
-1.5 - -1.2	< -2.7	

Regional level: NUTS 3
Source: Spielkeimann and Wegener Urban and Regional Research (S&W), 2016
Origin of data: SASI Model, 2016
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However, less efficient regulation would slow down the convergence process of new EU member states in Central and Eastern Europe as well as the South-West Iberian Peninsula and Southern Italy as can be seen in the map on the right showing this process for both policy fields considered.

The distribution of impacts clearly reflects the distribution of Structural Funds having much higher subsidies in percent of regional GDP in the new member states in Eastern Europe and more recently in Croatia and in the Mediterranean countries. The impacts related to the transport infrastructure development appear to be almost negligible for most European regions. Only a few areas will have stronger effects, such as the Baltic States and Eastern Poland, Romania and Bulgaria. Full implementation of transport infrastructure projects, such as the Rail Baltica, lead to an increase in regional economic performance compared to a situation in which those projects are only partially implemented.

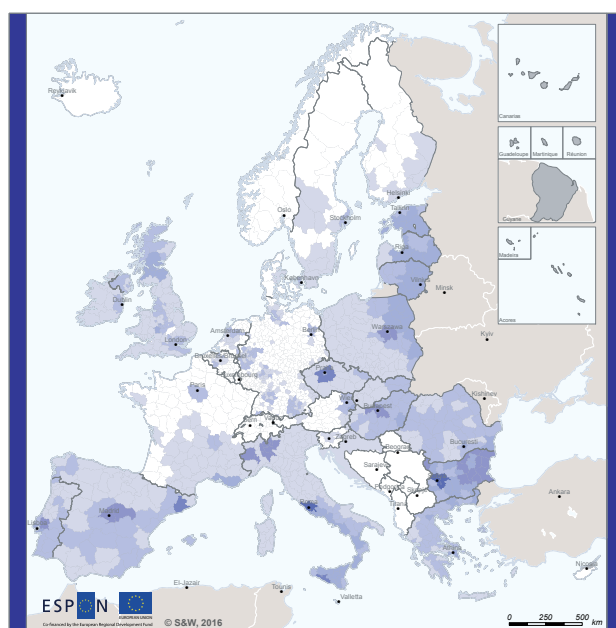
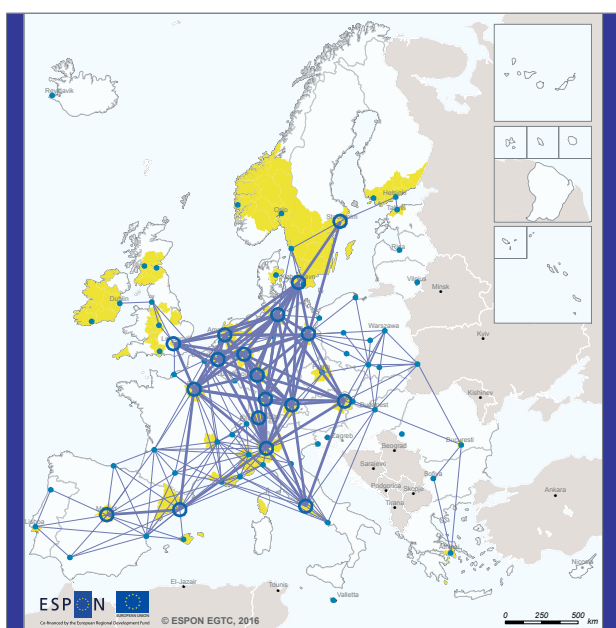
In general, the overall impact of better regulation for the two policies investigated can be considered as modest with highest values (3-5 percent) in Romania and Bulgaria. Given their current nominal GDP per capita (between 8000 and 10000 Euro) this amounts to between 240 and 500 Euro per capita annually.

Territorial Scenario A: promoting Metropolitan areas

The Structural Funds in this territorial scenario (A) are allocated towards 76 metropolitan areas (map on the left) in proportion to their GDP. In addition, and on top of the already planned trans-European transport core network, all Metropolitan areas, less than 500 km apart, will have improved road and rail connections (blue lines) and the metropolitan areas themselves will have improved intra-regional transport systems. The yellow zones, experiencing GDP growth above EU-average in this scenario, are mainly located in the North and West of Europe and around the Metropolitan areas.

Map 3. Scenario A: Territorial footprint with better regulation

Map 4. Scenario A: Slowdown of GDP progress with less efficient regulation



Territorial elements of Scenario A, 2051

- MEGAs category 1
- Other MEGAs
- Links between MEGAs of category 1
- Links between all MEGAs
- Relative increases in GDP per capita, 2051
'Scenario A'/Baseline' average over 50 (100=EU31 average)

Regional level: NUTS 3
Source: MCRIT, 2013
Origin of data: S&W Model 2016
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Difference in GDP per capita, ALr - ABr (%), 2051

- > -0.3
- -0.6 - -0.3
- -0.9 - -0.6
- -1.2 - -0.9
- -1.5 - -1.2
- -1.8 - -1.5
- -2.1 - -1.8
- -2.4 - -2.1
- -2.7 - -2.4
- < -2.7
- no data available

Regional level: NUTS 3
Source: Speckmann and Wegener
Urban and Regional Research (UM) 2016
Origin of data: S&W Model 2016
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The consequences of less efficient regulation within the A-scenario are present in the form of lower GDP per capita (map on the right) with a small, but clear slowdown of the metropolitan areas promoted. In total, up to 9.8 percent of Structural Funds subsidies are expected not being used. The impact on GDP is small because the subsidies they receive are relatively low in percentage of their GDP, and, in addition, these metropolitan areas are located in countries with relatively high absorption rates and opportunities.

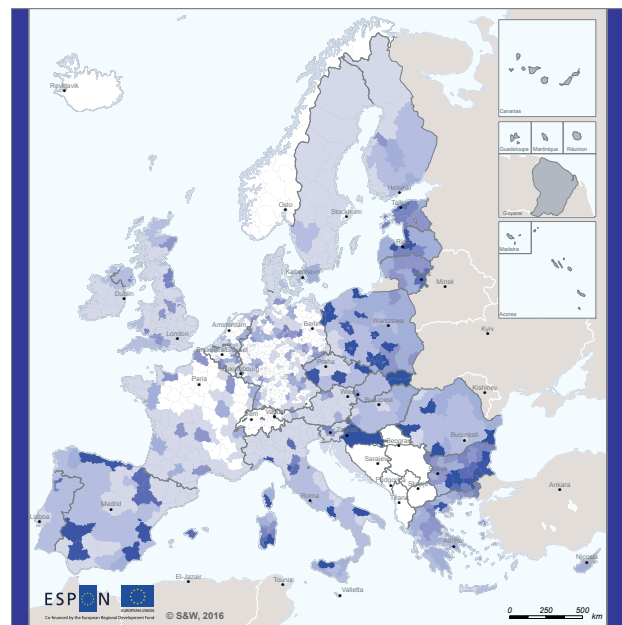
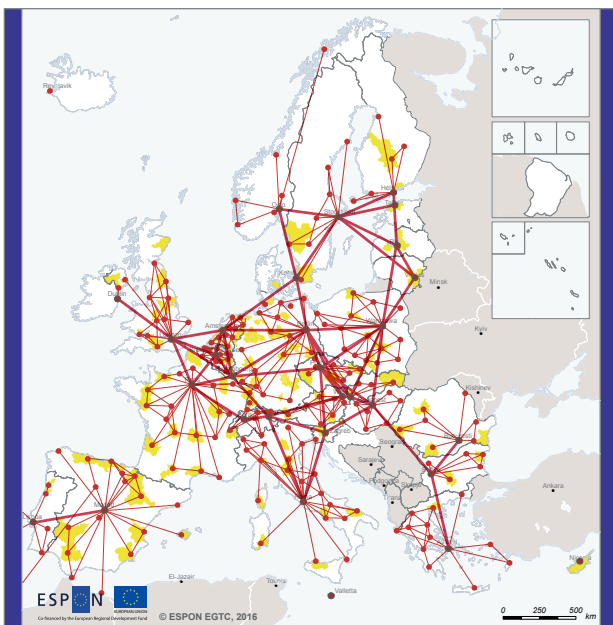
The impacts related to the Transport Infrastructure investments appear to be lower in the core areas and higher in the more peripheral regions of Europe. This is probably due to a spreading of effects beyond the regions where the additional transport infrastructure network improvements were introduced.

Territorial Scenario B: promoting the Network of Cities

The Structural Funds in this territorial scenario (B) are allocated towards 260 secondary European cities (map on the left) in proportion to the population of the promoted cities. In addition, and on top of the already planned trans-European transport core network, all cities less than 300 km apart, will have improved road and rail connections (red lines) and they will have improved intra-regional transport systems. The yellow zones, experiencing GDP growth above EU-average, are more evenly located throughout Europe around the promoted cities.

Map 5. Scenario B: Territorial footprint with better regulation

Map 6. Scenario B: Slowdown of GDP progress with less efficient regulation



Territorial elements of Scenario B, 2051

- Capital cities
- Regional capitals
- Links between capital cities < 650 km
- Intranational links
- Relative increases in GDP per capita, 2051
'Scenario B'/Baseline' average over 100 (100=EU31 average)

Difference in GDP per capita, BLR - BBR (%), 2051

- > -0.3
- -0.6 - -0.3
- -0.9 - -0.6
- -1.2 - -0.9
- -1.5 - -1.2
- -1.8 - -1.5
- -2.1 - -1.8
- -2.4 - -2.1
- -2.7 - -2.4
- < -2.7
- no data available

The effects of less efficient regulation within the B-scenario (map on the right) appear to be stronger than within the A-scenario amounting up to 10.0 percent of Structural Funds subsidies not used. The effects are concentrated in the medium-sized urban areas promoted, which in turn has consequences for the polycentric structures within national territories.

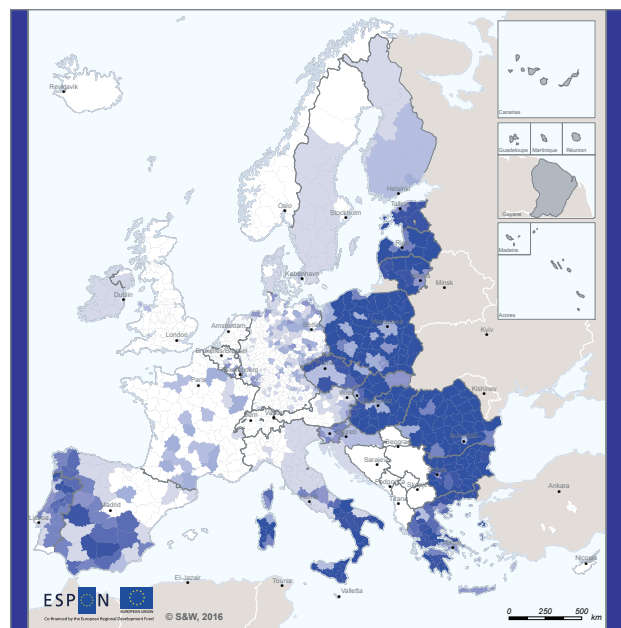
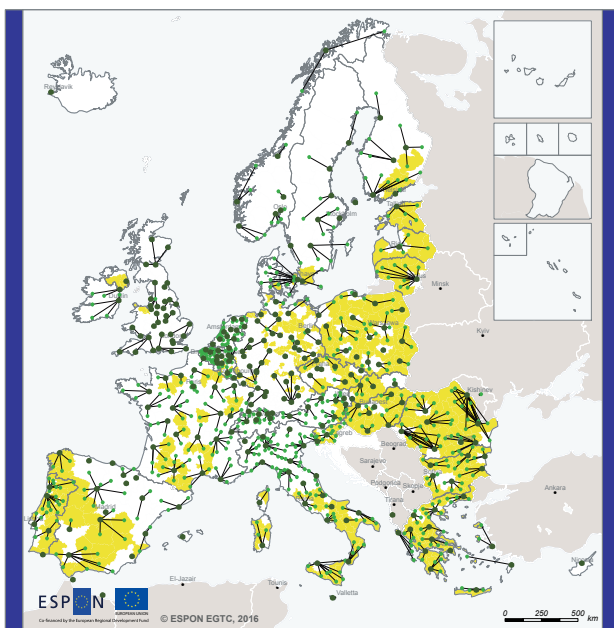
Also here, the impacts related to the Transport Infrastructure investments appears to be higher in the more peripheral regions and lower in the core areas of Europe, although the differences are smaller.

Territorial Scenario C: promoting Regions (smaller cities and lagging regions)

The Structural Funds in this territorial scenario (C) are allocated towards rural and peripheral regions following the baseline (map on the left). In addition, and on top of the already planned trans-European transport core network, all regions will have improved regional transport systems and improved road and rail connections (green lines) to the Metropolitan areas and cities of the A and B scenarios which are located within a distance of 200 km. The yellow zones, experiencing GDP growth above EU-average, are mainly located in the East and South of Europe.

Map 7. Scenario C: Territorial footprint with better regulation

Map 8. Scenario C: Slowdown of GDP progress with less efficient regulation



Territorial elements of Scenario C, 2051

- Regional capitals (NUTS2; NUTS1 in DE and UK)
- Regional capitals (NUTS3; NUTS2 in DE and UK)
- Intraregional links
- Relative increases in GDP 2051 per capita, 'Scenario C'/'Baseline' average over 100 (100=EU31 average)

Difference in GDP per capita, CLr - CBr (%), 2051

- > -0.3
- -0.6 - -0.3
- -0.9 - -0.6
- -1.2 - -0.9
- -1.5 - -1.2
- -1.8 - -1.5
- -2.1 - -1.8
- -2.4 - -2.1
- -2.7 - -2.4
- < -2.7
- no data available

The effects of less efficient regulation within the C-scenario (map on the right) appear to be stronger than within the A- and B-scenario amounting up to 11.2 percent of all Structural Funds subsidies not used. The effects are concentrated in the rural and peripheral regions in Eastern Europe, Portugal, Spain, Southern Italy and Greece and can be quite equally contributed to inefficiencies within the Structural Funds and Transport Infrastructure investments.

Observations in relation to Territorial Cohesion

Implementing the Better Regulation Framework appears to have positive effects on regional GDP growth and territorial cohesion. In general, better regulation seems to improve the convergence process of member states currently falling behind, decrease territorial imbalances and lead to higher overall economic growth for Europe.

When measuring territorial cohesion towards 2050 using the degree of disparities in relation to GDP per capita between the NUTS3 regions, all eight scenarios show improvements over the next decades although with some variation.

In terms of slow down of GDP the 3 territorial scenarios expectedly display different territorial patterns. The metropolitan scenario concentrates negative effects around these territories while the scenario promoting regions (smaller cities and lagging regions) will encounter particular negative implications of less efficient regulation in the regions of eastern Europe, southern Italy and on the Iberian peninsular.

The analysis of the scenarios also indicates the importance of a clear and explicit territorial orientation towards higher convergence in EU policies. Indeed, it is the content of the policy framework that primarily defines its impact on reducing territorial imbalances across Europe. At the same time, sufficient attention to efficient regulatory framework and administrative capacities is likely to increase positive policy outcomes.

Further reading:

- Working paper “SASI Modelling for ET2050 Scenarios with “Less efficient Regulation” Framework Conditions”, Spiekermann & Wegener, Urban and Regional Research (S&W), 27 April 2016
- ET2050 project Final Report, 2014

ESPON 2020 - More information

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