

EUROPEAN UNION



**Committee of the Regions**

# **Challenges at the Horizon 2025**

**This report was written by the Leuven Centre for Global Governance Studies  
(Wim Van Aken, Axel Marx, Pierre Schmitt and Kolja Raube)  
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# Executive Summary

Good governance is based upon foresight that allows decision makers to highlight their choices under a new perspective. The Committee of the Regions (CoR) has turned to forward planning and foresight to react to new political and socio-economic developments in Europe.

The aim of this report is to identify the future challenges that confront the CoR and the European local and regional authorities (LRAs) at the horizon in 2025. It draws up three possible scenarios with predictions about the future evolution of European integration and the implications for the LRAs and the CoR.

The future evolution of European integration necessarily involves an identification of a number of trends, challenges and opportunities over the coming decades. Subsequently, the report formulates key questions for debate and provides practical options and suggestions on how LRAs can make progress.

As a first step in the CoR's Horizon 2025 process, the report invites engagement with these issues and preparation for the EU in 2025. Against this background, the report aims to generate debate on the policies that will be formulated and implemented given the challenges ahead.

Today, European integration is in a state of flux raising doubts about the future of the EU. The three scenarios for the future of European integration – two extreme and one middle ground approach – provide more clarity on where EU governance is heading and the implications for the CoR and its Members:

1. **A Europe of Nation States:** EU integration will witness the growing importance of the Member States individually and in groups by means of the European Council and the EU Council of Ministers. To have their voice heard, the CoR and the LRAs will need to focus on the Member States.
2. **A 'Fédération d'Etats-nations':** EU integration will further empower EU institutions. The CoRs' and the LRAs' interests will be best advanced by engaging with the dominant supranational EU institutions.
3. **Multilevel Governance as a middle-ground approach:** The territorial dimension will be left, right and centre in the EU integration process. Governments at all levels in the EU will work in partnership. The CoR will

be more involved in EU decision-making and LRAs will operate to varying degrees at different decision-making levels.

The report then considers seven policy domains with challenges and opportunities for the European LRAs and the CoR in 2025:

1. **Finance and Economy:** LRAs increasingly struggle with the impact of the financial and economic crisis. Economic growth, employment and public finances increasingly diverge and public investment declines. The economic importance of LRAs calls for longer term solutions and more say in the EU's new economic and fiscal governance.
2. **Societal Issues:** Indecisiveness about ageing is not an option. In 2025, LRAs will have a much older population, which will have significant budgetary consequences. Many LRAs need more active labour market policies particularly for older workers and migrants (the future war for talents). However, a *silver society* creates opportunities for the economy and intergenerational solidarity.
3. **Sustainable Growth and Resource Efficiency:** Climate and energy management will change. LRAs need to adapt their infrastructure to changing climate conditions. They also should be alarmed at the degree of uncertainty about how an affordable supply of secure and low-carbon energy can be assured. Rising pollution and consumption of raw materials equally necessitates a structural and common response.
4. **Territorial Governance and Urbanisation:** Around 80% of the EU population will be living in urban areas accompanied by rising urbanisation and urban sprawl. For other LRAs, urban shrinkage will be at the top of the policy agenda. The growing demand on land, vulnerable ecosystems and habitats, access to clean water and air, healthy food, mobility, and housing call for more compact, greener and smarter cities.
5. **Technology, ICT and Communication:** The use of ICT and big data will grow massively. They challenge privacy and present great opportunities for the economy and the governance in all policy areas. LRAs need to provide more ICT training to harness the potential of big data and accelerate well informed decision-making. LRAs particularly need to grasp the often neglected potential of involving citizens and businesses in public governance by centralising and opening their big data for free.

6. **Political Governance and Democratisation:** Growing discontent and the EU legitimacy crisis question the achievements of EU integration. LRAs and the CoR are well placed to legitimise the EU and bring citizens closer to the EU. Subsidiarity, more transparency and European parliamentarism will undoubtedly play a more important role.
7. **Globalisation and International Issues:** Global multipolarity continues to characterise interdependence on an unprecedented scale. LRAs are challenged to cooperate more on issues such as border management and immigration policy, but also liaise with cities across the world to share information and benefit from the opportunities rising urban middle classes present.

For each of those trends, the action-oriented questions point out the core choices that LRAs need to make in order to rise above the challenges. Well informed policy formation and good implementation takes time. The Horizon 2025 is just around the corner and the representatives of LRAs should realise that they have little time to act.

The trends also present an important common, horizontal and transversal challenge for the CoR: How can the CoR contribute? The CoR has the opportunity to become the *European knowledge hub* and *network* that disseminates practical information on how to address the LRAs challenges ahead. In using the open method of coordination, it could help LRAs in anticipating the Horizon 2025. The CoR could launch common guidelines, indicators, benchmarking and the sharing of best practice in view of the Horizon 2025. It could also hold competitions among LRAs in the different categories with grants and awards for the best bold and practical ideas that will improve the lives of citizens in tomorrow's LRA.





# 1 Introduction

Good governance is based, among other things, upon foresight and forward looking exercises that allow decision makers to highlight their choice under a new perspective. Like the European institutions and international organisations, the Committee of the Regions (CoR) has turned to forward planning and foresight in order to increase its ability to react to new political and socio-economic developments. The aim of this report is to identify the future challenges that will confront the CoR and its Members, i.e. the European local and regional authorities (LRAs) over the medium and long term. In addition, this report is a first step in the Horizon 2025 process that aims to generating questions for debate for the CoR and the LRAs.

The report is structured as follows. The first section sets out the perceived current state of play of European integration and prepares the ground for the section on the scenarios for the future of European Integration. Subsequently, the report presents three scenarios, focusing on a Member State centred, a supranational and a multilevel governance approach to European integration. The third section identifies the key policy domains, with challenges and trends and their relevance for the CoR, the LRAs and individual policy areas. The final summary ties in the main findings and messages followed by the annexes.



## 2 European Integration: State of Play

The EU is in a state of **political, economic and social transition**. These transitions are uneven with a different impact across the European Union (EU), resulting in a heterogeneous political, economic and social situation across the EU Member States, the European regions and cities. Some European countries, regions and cities have witnessed a severe economic and financial crisis with knock on effects for political confidence and the society at large. While some of these countries are seeing the first fragile green shoots of an economic recovery, they continue to be seriously challenged on economic, political and social dimensions. In contrast, a number of EU Member States have experienced less economic, political and social strain. They arguably have benefited from a growing confidence and even have taken position among the global export leaders.

Strong global economic, political and social trends unevenly reinforce these ongoing transitions within the EU. External trends such as global economic restructuring, globalised production and manufacturing, and the worldwide position of trade have an uneven effect on the economics and politics across the European countries, regions and cities, and they sometimes toughen the heterogeneous situation across the EU.

These ongoing European transitions and global changes heighten the level of **uncertainty** about the state of the EU and raise doubts about things to come. Particularly their simultaneous and uneven effect on the EU, the EU member States and regions and cities make it **difficult to predict the future**. In his 2012 State of the Union European Commission (EC) President, José Manuel Durão Barroso, calls this a ‘crisis of confidence’ that requires a debate about ‘where we are now and how we must move forward’.<sup>1</sup> In response, EU institutions have given focus, direction and lay out a vision that inspires policy decisions. The State of the Union address of 2012 and 2013 and the European Parliaments (EP) foresight exercise ‘Preparing for Complexity’ are a case in point.<sup>2</sup>

At the same time EU institutions are also in the process of addressing several **economic and political challenges**. The European crisis response has embarked

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<sup>1</sup> J.M.D, Barroso, State of the Union 2012 Address, Strasbourg, 12 September 2012, p. 2-3.

<sup>2</sup> Barroso (2012) State of the Union. strasbourg, Barroso (2013) State of the Union. Strassbourg, CSG EP 2025 Long-term Trends Team (2013) The European Parliament 2025: Preparing for Complexity: The Answers. Brussels, CSG Strategic Planning Team (2012) The European Parliament 2025: Preparing for Complexity. Brussels.

upon deep reforms for the economic and monetary union (EMU). The response remedies the structural problems of the Euro, the European fiscal and financial architecture and the integrity of monetary policy. They contribute to the stabilisation of EMU and aim at boosting sustainable growth and restoring competitiveness throughout the EU. These efforts are built upon European solidarity among EU Member States, European regions and cities. Most importantly, they also raise the question of political union as a horizon and a debate on the future of Europe.

Against this background, the upcoming **European Parliamentary elections in 2014** are crucial. Citizens across the EU will elect a new EP. For the first time the European political parties will present their preferred candidate for the post of Commission President. The electoral choices of EU citizens will therefore not only determine the composition of the Parliament but also that of the Commission President. These elections will generate a debate about the possible future of Europe, the post-2015 period and the possible revision of the European 2020 strategy.

The debate on the future of Europe necessarily involves a discussion of a number of **external and internal shocks** that are expected over the coming decades. These external and internal shocks present **several serious challenges** for the EU, the Member States and the European regions and cities over the coming decades. Two types of shocks and challenges are present: internal and external shocks and challenges. Internal shocks and challenges have their origin in the EU with a proven influence on the functioning of local and regional authorities and their capacity to participate effectively in European integration. Examples of such internal shock and challenges are the possible erosion of European solidarity and cohesion, the reinforcement or weakening of EU governance, the level of coordination and (de-)centralisation of budgetary and economic policy, the potential for a revived community method or the degree of a strengthened democratic life in the EU.

External shocks and challenges relate to the external world but have a direct or indirect impact on the EU, the local and regional authorities and their capacity to participate effectively in European integration. Examples of such shocks and challenges are global demographic changes and migration, climate change, global environmental calamities and global governance.

It is important to identify these external and internal shocks and challenges and ask specific questions about them for a **genuine debate about the future of European integration** and the impact on the CoR and the LRAs.

# 3 Scenarios for the Future of European Integration

European integration is characterised by an **uneven evolution of fits and starts**. Over the **last 60 years**, European integration has witnessed different phases during which integration has accelerated, decelerated, and completely stopped in certain domains to be followed by rapid and progressive integration. During these periods, European integration has wavered between the greater role and interventionism of the EU Member States on the one hand and, on the other hand, the empowerment of the super-national institutions like the Commission, the EP, the Court of Justice of the European Union (hereafter the CJEU) and the European Central Bank (ECB) as well as the reinforcement of EU law. In this context, it is important to note that the CoR is a relatively new body with gradually expanding powers since 1993.

**Currently**, the general perception is that EU integration is witnessing a period characterised by a growing role of the Member States individually as well as through the European Council and the EU Council of Ministers. However, the crisis response in the EU has also witnessed the transfer of competences from the national level to the European level and in particular to the EC and the ECB. The combination of these two trends was already set in motion with the entry into force of the Lisbon Treaty. The latter has increased but simultaneously curtailed the powers of the EC and the EP in areas such as budget, agriculture and international affairs.

Whether the current phase of EU integration is approached from the perspective of the Member States or the EU institutions depends on the preference of the observer. It is also related to the general question about the declared versus real powers of European institutions and the political context of the moment. This observation also applies to the question of the place of LRAs and the CoR in the EU institutional configuration and their future development. For instance, is there sufficient margin to manoeuvre and opportunities to act both collectively and, for the CoR, as a representative institution?

The field of EU integration theory is vast and has a rich tradition of theoretical approaches that explain the emergence, functioning and likely direction of European integration. These approaches are characterised by several dimensions, but one recurrent and overarching dimension dominates. It is defined by the degree of intergovernmentalism versus the level of supranationalism of the European

integration process.<sup>3</sup> At the most basic level, this dimension presents a spectrum between state-centric and supranationalist perspectives underlining that the EU is likely to evolve between two extremes at each side of the integration spectrum, i.e. pure inter-governmentalism and complete supranationalism (see Figure 1). All integration perspectives that anticipate more or less EU integration are located along this spectrum.<sup>4</sup>

Intergovernmentalism is arguably one of the most evolved European integration theories. Its most modern version is liberal intergovernmentalism.<sup>5</sup> At the opposite end, neofunctionalism and its more recent incarnation known as supranationalism dominate the literature.<sup>6</sup> Even today, these two bodies of European integration theory still inform most of the academic work on the subject and allow us to consider the extent to which the EU has evolved at each side of the integration spectrum. These approaches generate hypotheses and provide us with internally consistent predictions about the development of EU integration over the coming decades.

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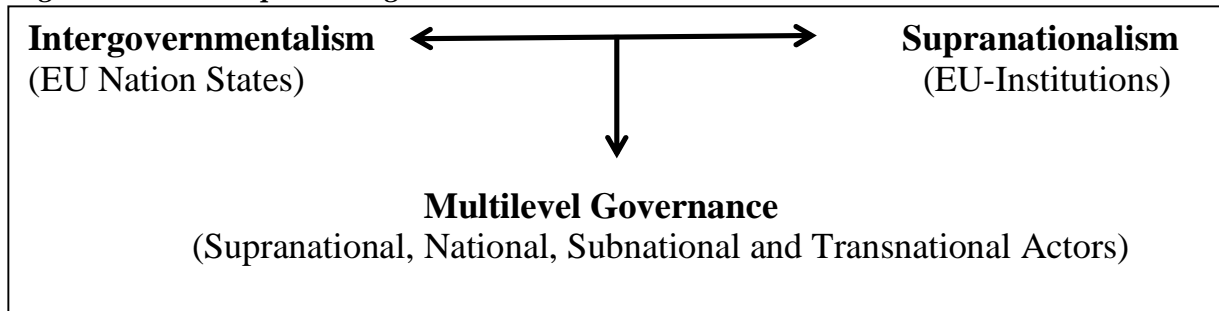
<sup>3</sup> Menon, Jones and Weatherill (eds.) 2012. *The Oxford handbook of the European Union*, Oxford: Oxford University Press, pp. 20-21.

<sup>4</sup> Intergovernmentalism is represented by realism, neo-realism, liberalism and neoliberalism, liberal intergovernmentalism and the EU of Member States and their variations. Supranationalism epitomises functionalist, neo-functionalist, supranational institutionalist, federalist and political union approaches and their variations.

<sup>5</sup> Moravcsik (1999) *The choice for Europe: social purpose and state power from Messina to Maastricht*, London: UCL Press.

<sup>6</sup> Haas (2004) *The uniting of Europe: political, social, and economic forces, 1950-1957*, Notre Dame, Ind: University of Notre Dame Press, Schmitter (1969) *Three neo-functional hypotheses about international integration*, Berkeley: University of California, Schmitter (1970) *A revised theory of regional integration*, Berkeley: University of California, Sandholtz and Stone Sweet (1998) *European integration and supranational governance*, New York: Oxford University Press.

*Figure 1: The European Integration Continuum*



Despite the prevalence of intergovernmental and supranational approaches, more practically-oriented territorial and governance approaches to European integration have emerged in recent decades. They represent perspectives that do not necessarily explain the origin and direction of European integration but rather account for the everyday mechanisms of EU decision-making and the functioning of the EU institutions. In contrast to the intergovernmental and supranational perspectives that depart from the EU as an integrating international organisation, these approaches draw on comparative politics and decision-making literature. They analyse **the EU as a political system** and emphasise the governance role, the different institutions and the daily interactions in the EU. **Multilevel governance** theory is a leading contender of this approach and is particularly relevant in the context of the CoR and the LRAs.<sup>7</sup>

The three approaches that make up the selective literature review (see Annex 2), i.e. Liberal intergovernmentalism, supranationalism and multilevel governance, generate and answer questions about where European integration stands today and where it is heading in the more medium and longer run. They allow us to develop ideas about trends such as the evolution of European solidarity and cohesion, the reinforcement or weakening of EU governance, the level of coordination and (de-) centralisation in general and on budgetary and economic policy, the potential for a revived community method, and the degree of a strengthened democratic life in the EU. They also allow us to formulate overarching hypotheses that gauge the tangible outcomes and challenges that EU internal trends generate and their influence on the functioning of the LRAs in the context of the territorial model of the EU. They provide us with an idea about the relationship between the CoR and the LRAs and the process of European integration. From this perspective, theorising European integration is not *l'art pour l'art* but rather an important

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<sup>7</sup> Hooghe and Marks (2001) *Multi-level governance and European integration*, Lanham, MD: Rowman & Littlefield Publishers.

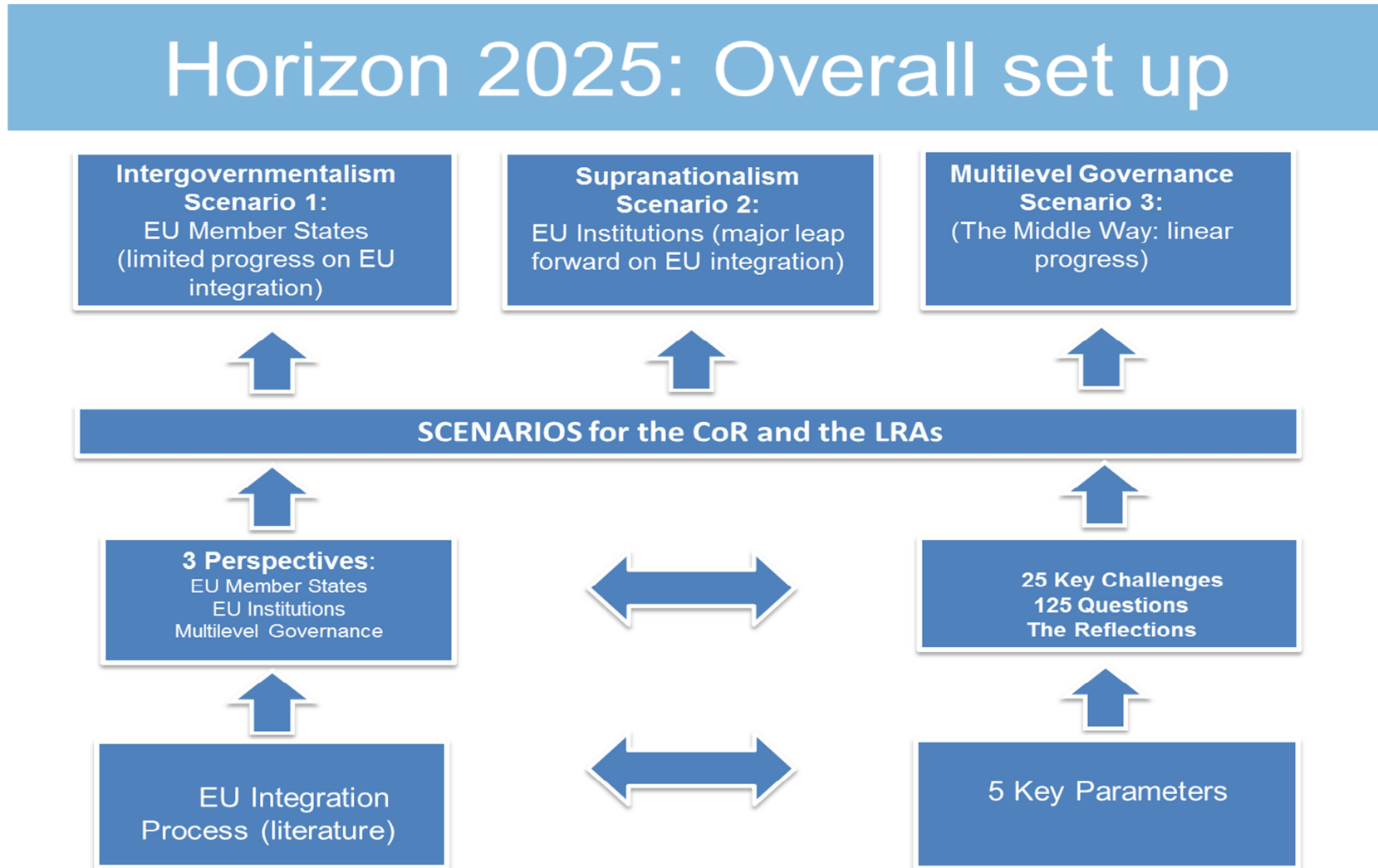
condition for successfully shaping international cooperation in a hitherto turbulent twenty-first century.<sup>8</sup> For a more schematic set up of the foresight report on the Challenges at the Horizon 2025 see Figure 2.

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<sup>8</sup> Leuffen, Rittberger and Schimmelfennig (2013) *Differentiated integration : explaining variation in the European Union*, Basingstoke: Basingstoke: Palgrave Macmillan, 2013, p. 268.



Figure 2: Horizon 2025: Overall Set Up



### 3.1 Scenario 1: *Intergovernmentalism* – A Europe of Nation States

Following the main predictions of the intergovernmentalist approach, European integration over the next decades is likely to revolve around **the Member States** with **the Council of the European Union** (the EU Council, the Council of Ministers or simply the Council) and especially **the European Council** in the driver's seat. Some observers argue that the EU Council and the European Council have strengthened and expanded their influence following the Lisbon Treaty and the financial and economic crisis that erupted in 2007. The Member States will continue to give clear direction to the development of the EU, particularly in the area of financial and economic policy, owing to their membership of the two most important EU institutions: the European Council and EU Council<sup>9</sup>.

The intergovernmentalist perspective makes a number of predictions about the future of EU integration. These predictions carry implications for the legislative procedures, the evolution of parliamentarism in the EU and the role of the CoR:

- EU integration will continue to be state centric and the **most powerful Member States remain the primary decision-makers** in the EU. They shape the future of the EU integration process according to their respective interests and preferences.
- **Inter-state bargaining and the relative power of the Member States** in the European Council and the EU Council will continue to account for the future outcomes of EU integration.
- The **role of EU institutions is limited** to their designated role with the Member States as gate keepers. EU institutions enjoy limited autonomy and their influence on the EU integration process is secondary and in line with the Member States' preferences.

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<sup>9</sup> Schoutete and Micossi (2013) On Political Union in Europe: The Changing Landscape of Decision-Making and Political Accountability. *Politics and Institutions, CEPS Essays*.

- Under the intergovernmentalist perspective, the weight of the most powerful **Member States dominates the ordinary legislative procedure** via the EU Council<sup>10</sup>. Also the Member States' influence in the European Parliament is expected to prevail as opposed to the influence of the EU institutions or the EU political party groups. In addition, the EU Council is expected to make **more use of the special legislative procedure** where the Parliament's role is limited to consultation or approval.
- The future evolution of European Parliamentarism, defined as the growing cooperation between regional and national parliaments and the European Parliament, will be piecemeal. Instead, the role of the nation state will grow within the EU at the expense of the internal decentralised division of powers, which would be considered in the context of a more centralised state.

### Background Box 1

#### **The Regional Dimension of the Intergovernmental Perspective Impact on the CoR and the LRAs**

The intergovernmentalist perspective expects European integration over the next two decades to revolve around **the most powerful Member States** with the **EU Council** and the **European Council** firmly in the driver's seat. The Member States will remain the gate keepers for further transfers of competences to the European level. Member States continue to represent the central arena and channel for interest and preference formation in the EU. It puts the Member States in a central position of coordinator and negotiator strengthening their intermediary function between the EU levels and the local and regional levels of governance. As a result, the **Member States will remain the most important venue through which the LRAs and the CoR can influence EU decision-making**. Some regions could even strengthen the Member States' role as an EU policy setter given that they are their main interlocutors in the EU Council and European Council.

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<sup>10</sup> For the dynamic in the EU Council on contested decisions see Van Aken (2012) Voting in the Council of the European Union: Contested Decision-Making in the EU Council of Ministers (1995-2010). Stockholm.

Under the intergovernmentalist perspective, the weight of the Member States will dominate the **ordinary legislative procedure** via the EU Council. **The Member States' influence in the European Parliament is expected to prevail** as opposed to the influence of the EU institutions or the EU political party groups.

The EU Council is also expected to make more use of the **special legislative procedure** where the Parliament's role is limited to mere consultation or approval.

Another implication of the intergovernmental logic is that national governments are likely to **reoccupy devolved areas of competence as a result of the growing concentration of power in the EU Council of Ministers** Against this background, the expanding competences of the EU that come with the widening and deepening of EU integration overlap with areas devolved to regional governments. **This process can be expected to narrow the opportunities for the non-state governments or other actors such as LRAs and the CoR. This process exemplifies signs of 'reversal, retrenchment and renationalisation' of EU policies.**

One example is **EU economic and fiscal policy making**. The main response to the financial and economic crisis has come from the Member States through the EU Council and the European Council with the Fiscal Compact as a guiding intergovernmental treaty outside the EU structure. Over the coming years the Fiscal Compact will make the rule of budgetary balance irreversible and Member States agreed to incorporate balanced budgets in their national legislation. The rule will have significant impact on **LRAs who tend to be EU policy receivers**. As a result, the Member states have reinforced their position in terms of EU policy and crisis management.

The intergovernmental perspective on EU integration also expects **limitations to the autonomy of EU institutions and the CoR**. The CoR continues to be regarded as an advisory and consultative body only, perhaps at least provide a voice for LRAs. Its network capabilities as coordinator, interlocutor, mediator and expert are likely to be downplayed. In this context, the intergovernmentalist perspective expects little or no expansion of the CoR's prerogatives in terms of the consultative role and competences throughout the legislative procedure unless they serve the Member States' interests and preferences.

These intergovernmental predictions stands in sharp contrast to what a supranationalist approach of EU integration would expect.

This is likely to create tensions between the Member States' centripetal forces and the subsidiarity principle where the preferences of the Member states are conflicting with the more decentralised preferences of the CoR and its Members. **The CoR is therefore challenged on whether and how it will use its right** to bring an action before the CJEU if the subsidiarity principle is breached.

Finally, the intergovernmentalist perspective would expect a piecemeal evolution of **European Parliamentarism**, defined as the growing cooperation between regional and national parliaments and the European parliament. While some progress is likely to be made given the legitimacy crisis in the EU, the Member States and national parliaments would remain the primary locus for legitimising the EU.

These intergovernmental predictions stands in sharp contrast to what a supranationalist approach of EU integration would expect.

### 3.2 Scenario 2: Super-National Governance – ‘Fédération d’Etats-nations’

The supranationalists expect that **EU supranational institutions** such as the Commission and the CJEU often play a decisive and independent role in advancing EU integration. EU liberalisation of telecommunications, the electricity market, air transport, the development of EU level higher education policies, the production of EU rules for financial services, the emergence of EU transport policies and EU wide rights for immigrants are all cases in point. In these areas, supranationalists predict that **transnational exchange, the authority of the EU institutions and supranational-rule making** move together often enough to matter a great deal to the overall course of integration. Their influence includes treaty revisions, the extension of new competences to EU institutions, agencies, advisory bodies and policy-making within established legislative processes.

Supranational governance approaches generate four groups of testable expectations about the development of EU integration today and tomorrow<sup>11</sup>:

- **Increasing cross-border transactions will lead to greater activity on the part of supranational organisations and to the expansion of supranational rules** in the EU. In a recursive process, expanding supranational rules should lead to higher levels of cross-border transactions. Those sectors in which cross-border transactions are more numerous and important should move faster and farther toward supranational governance particularly in respect to EU-level rules and regulations. The growth of the supranational rules should lead to increases in the number and the activity of interest groups at the EU level. The most recent example is the activity in the domain of economy and finance. The evolution also encouraged LRAs to compete and co-operate with each other<sup>12</sup>.
- **The expansion of EU rules and regulations will increase supranational dispute resolution** such as the activity of the CJEU and also the ECB in regard to financial regulation.

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<sup>11</sup> Sandholtz and Stone Sweet (2012) Neo-Functionalism and Supranational Governance, in: menon, Jones and Weatherill (eds.) *The Oxford Handbook of the European Union*, Oxford: Oxford University Press, p. 25. .

<sup>12</sup> Heinelt and Niederhafner (2008) Cities and organized interest intermediation in the EU multi-level system, *European Urban and Regional Studies*, 15, 173-187.

- **EU institutions like the Commission and the CJEU will routinely produce supranational outcomes that the EU Member States would not have produced on their own.** These supranational outcomes as well as the ensuing governance will routinely produce outcomes that conflict with the revealed preferences of the most powerful Member States.
- **Under the supranationalist perspective the weight of the European Parliament dominates the ordinary legislative procedure.** As opposed to the influence of the individual Member States that of the European political party groups is expected to prevail in the EU Council. **The use of the special legislative procedure would be exceptional.** The role of the Commission at the initiation, negotiation and implementation phase will also grow considerably.
- **The future evolution of European Parliamentarism,** defined as the growing cooperation between regional and national parliaments and the European parliament, **is expected to grow** to legitimise supranational governance. **The role of the European Parliament will tower over the national and regional cousins.** The importance of the nation state in the EU would diminish and the internal division of powers (the decentralisation processes) will progress apace and increasingly serve the purpose of further EU integration and supranational governance.

### Background Box 2

#### **The Regional Dimension of the Supranational Perspective Impact on the CoR and the LRAs**

The supranationalist approach expects that **EU supranational institutions often play a decisive and independent role** in advancing EU integration. Supranationalist perspectives predict that transnational exchange, the authority of the EU institutions and supranational-rule making move together often enough to matter a great deal to the overall course of integration.

They weigh on treaty revisions, the extension of new competences to EU institutions, agencies, advisory bodies and policy-making within established legislative processes. The EU Member States would not have produced such supranational outcomes on their own.

The observation that supranational institutions will act independently following their own interests and preferences heightens the importance and role of the CoR. Hence, **EU institutions are the most important venue through which the LRAs as well as the CoR can influence EU decision-making.**

Under the supranationalist perspective **growing cross-border transactions in the EU will result in the expansion of supranational rules** and become a self-reinforcing mechanism. Not only will the CoR participate in this process but it will be increasingly active. Its activity will be highest in those sectors with higher cross-border transactions and more EU-level rules and regulations. In such context, **the CoR's activity can take different forms ranging from networking to knowledge dissemination and consultation. These activities will facilitate enforcement and implementation of EU legislation.** With approximately 2/3<sup>rd</sup> two thirds of EU legislation implemented by local and regional authorities in the Member States this element is most relevant to the CoR and the LRAs over the next two decades. As the CoR expands its activity and competences over time and becomes a policy setter, the supranationalist dynamic predicts that it increasingly will become the target of interest groups lobby campaigns.

**Furthermore, the supranationalist perspective expects that cross border transactions evolve along sectoral lines and EU policy domains.** For instance, the dynamic of the Structural Funds has had an important impact on the EU as bearers of new ideas about regional development, social partnership and innovation. Another example is the growing integration of the Single Market with rising sectoral cross border transactions and the expansion of EU regulations. The evolution has encouraged LRAs to compete and co-operate with each other. Such supranational policy outcomes are likely to continue and encourage the territorial dimension in the European integration process.



The expansion of EU rules should also increase supranational dispute resolution. The CoR's new power under the Lisbon Treaty to bring an action before the CJEU if the **subsidiarity principle** is breached becomes particularly important. The supranationalist approach would expect regular but conflictual interactions between the CoR wishing to bring actions and the Member States. These interactions serve the allocation of authority at the national and European level and will enhance the power and visibility of the CoR. As a result, **the clearer definition of the principle of subsidiarity and the early warning system would also progressively expand the CoR's supranational influence.**

Under the supranationalist perspective, the weight of **the European Parliament will dominate the ordinary legislative procedure.** European political party groups are expected to prevail in the Council as opposed to the influence of the individual Member States. The use of **the special legislative procedure will be exceptional.** The role of the Commission at the initiation, negotiation and implementation phase would also grow considerably.

Finally, to legitimise supranational governance the future evolution of **European parliamentarism**, defined as the growing cooperation between regional and national parliaments and the European parliament, **is expected to become a central** feature of EU integration. The role of the European Parliament will tower over the national and regional cousins. The importance of the Member States as a locus of legitimacy would diminish, and the internal division of powers (the decentralisation process) would progress apace and serve the purpose of further EU integration and supranational governance.

### 3.3 Scenario 3: Multilevel Governance: A Middle-ground Approach

Following the multilevel governance perspective, European integration and EU decision-making will be characterised as follows:

- Member States are likely to become part of a **multilevel polity** and progressively lose control over EU decision-making. State sovereignty will increasingly be compromised at national and international level. Subnational actors will mobilise directly in the European arena that is beyond the reach of the Member States. To extract concession, make decisions irreversible and set up self-binding strategies Member States will sometimes even encourage the subnational actors to engage with the EU.<sup>13</sup>
- The **Single Market** process will be driven by multilevel governance approaches relying on European regulation and hard policy. Self-regulation and delegation of decision-making authority to non-state actors and public-private networks of actors at various levels of governance for policy implementation will feature prominently.<sup>14</sup> Economic policy making increasingly takes place at the EU level, putting pressure on the size of government and creating new governance and partnership agreements involving markets and civil society.<sup>15</sup>
- The transfer of decision-making will create **tensions between state-centric and multilevel governance approaches**. Such tensions will come to the fore during important European integration periods when diffused authority

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<sup>13</sup> Hooghe and Marks (2001) *Multi-level governance and European integration*, Lanham, MD: Rowman & Littlefield Publishers, pp. 71-73, Moore (2007) The Impact of Devolution on EU-Level Representation: British Regional Offices in Brussels, *Regional & Federal Studies*, 17, 275-291, Heinelt and Niederhafner (2008) Cities and organized interest intermediation in the EU multi-level system, *European Urban and Regional Studies*, 15, 173-187, Niederhafner (2010) Städte im EU-Mehrebenensystem 2030 : Anmerkungen zu den Potenzialen einer besser integrierten lokalen Ebene - Cities in the EU multi-level system in 2030 : comments on the potential of a better integrated local level., in: Abels, Eppler and Knodt (eds.) *Die EU-Reflexionsgruppe 'Horizon 2020-2030': Herausforderungen und Reformoptionen für das Mehrebenensystem*, Baden-Baden: Nomos Verlag.

<sup>14</sup> Tömmel and Verdun (2009) *Innovative governance in the European Union : the politics of multilevel policymaking*, Boulder Colorado: Lynne Rienner Publishers, Follesdal, Wessel and Wouters (eds.) 2008. *Multilevel regulation and the EU : the interplay between global, European and national normative processes*, Leiden: Leiden : Martinus Nijhoff, 2008, Golonka Multilevel Regulation and the EU: The Interplay between Global, European and National Normative Processes – Edited by A. Follesdal, R.A. Wessel and J. Wouters, *JCMS: Journal of Common Market Studies*, 47, 682-682.

<sup>15</sup> Jonathon Perraton and Wells (2004) Multi-Level Governance and Economic Policy, in: Bache and Flinders (eds.) *Multi-level governance*, Oxford: Oxford University Press.

and shared control are challenged with different subnational actors turning to their respective Member States, particularly in view of the national competences to redistribute wealth.

- Multilevel governance approaches reinforce vertical and horizontal **partnership principles and practices** among local and regional authorities, national governments and the EU as well as between local and regional authorities and civil society. Such partnerships will lead to **integrated policy making**. In certain areas of EU activity policy **experimentation** at local and regional level is part of multilevel governance such as the strategy for growth and jobs and at the level of the social agenda, innovation policy, cohesion policy, sustainable development and civil defence.<sup>16</sup>
- Multilevel governance perspectives expect the **empowerment of technocratic actors, sub-national actors and institutions** and the reinforcement of **the partnership principle and civil society**.<sup>17</sup> However, the prevalence of informality with a central role for non-state actors, public-private networks and informal coordination patterns serves as a strategy for political interests to escape or bypass regulations. Such an un-level playing field for political actors could potentially lead to problematic outcomes and regulatory capture.<sup>18</sup> The observation questions the legitimacy, accountability and the democratic character of an increasingly politicised, internally fragmented EU that addresses cross-national issues located along the left-right political spectrum that go beyond pro- or anti-integration.
- Multilevel governance predicts the further expansion of the **ordinary legislative procedure** with equal involvement of the European Parliament and the EU Member States. Working closely with each other, both institutions will duly take account of local, regional, national and European political perspectives. The role of the Commission as initiator, negotiator and at the implementation phase would play an equal part in the ordinary

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<sup>16</sup> The Committee of the Regions (2009) The Committee of the Regions white Paper on Multilevel Governance. Brussels.

<sup>17</sup> Moore (2008) A Europe of the Regions vs. the Regions in Europe: Reflections on Regional Engagement in Brussels, *Regional & Federal Studies*, 18, 517-535, Kern and Bulkeley Cities, Europeanization and Multi-level Governance: Governing Climate Change through Transnational Municipal Networks\*, *JCMS: Journal of Common Market Studies*, 47, 309-332.

<sup>18</sup> Peters and Pierre (2004) Multi-Level Governance and Democracy: A Faustian Bargain?, in: Bache and Flinders (eds.) *Multi-level governance*, Oxford: Oxford University Press.

legislative procedure. The **special legislative procedures would no longer be needed in a partnership.**

- **The future evolution of European Parliamentarism**, defined as the growing cooperation between regional and national parliaments and the European parliament **will become a dominant feature of the new EU.** Regional and national parliaments will work in partnership with the European Parliament. The consultative practices bestowed upon advisory bodies of the EU such as the CoR would increasingly play an important role. The internal division of powers and decentralisation process would advance significantly and all levels of the Member States and share responsibility for EU governance.

### **Background Box 3**

#### **The Regional Dimension of the Multilevel Perspective Impact on the CoR and the LRAs**

The advent of **multilevel governance approaches puts territorial thinking left, right and centre.** Multilevel governance expects that over the next two decades the state can no longer be expected to monopolise all relationships between its constituent territories and the external world. Instead, complex patterns of diplomacy and inter-regional networking will continue to evolve within and across undisputed but porous borders in an EU of 28 Member States.

The CoR and LRAs will play an economic, political, social and institutional role and will in many cases strengthen their position in the wider European and global markets and political arenas. Particularly LRAs will operate to varying degrees, at different decision-making levels and will no longer be encased within state borders.

**Multilevel governance predicts that a growing multitude of transnational and cross-border bodies will provide policy spaces for non-state territorial actors.** This is likely to happen in a fragmented and differentiated way, according to territories, policy sectors and organisations. Multilevel governance therefore provides scope for a new relationship between LRAs and the Commission that goes beyond the Structural Funds. This is happening for instance in the area of EU foreign policy.

Other areas such as innovation policy and more recent forms of economic policy making have also developed in this direction. These new possibilities rest on the need for better intelligence, a horizontal perspective on European policies and improved implementation.

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**Multilevel governance expects the CoR to play a growing role in furthering EU integration.** As an advisory body, the consultative role is likely to gain in importance based on its representative function and voice of the LRAs. Moreover, the CoR will be increasingly consulted for its network capabilities as coordinator, interlocutor, mediator and expert. In this context, multilevel governance expects the expansion of the CoR's prerogatives in terms of the consultative role and competences throughout the legislative procedure. The evolution is likely to lower the pressure on the CoR's role as custodian subsidiarity principle. As the decentralised preferences of the CoR and its Members are taken on board in EU policy, the subsidiarity principle is less likely to be breached and the right to bring an action before the CJEU will be less likely to be exercised.

**The growing role of the CoR as a representative body for a heterogeneous membership also entails a competency challenge.**

With more policy involvement comes more responsibility and need for effectiveness. The various policy actors and networks are likely to raise issues for the effective functioning and the emergence of a more homogenous third level of European representation. Against this background, **the heterogeneity of membership is likely to encourage reform of the CoR with more recognition of the differences among its members and their respective roles in the EU policy process.**

Multilevel governance predicts the **expansion of the ordinary legislative** procedure with equal involvement of the European Parliament and the EU Member States. Working closely with each other, these institutions will duly take account of local, regional, national and European political perspectives. The role of the Commission as initiator, negotiator and at the implementation phase would play an equal part. The **special legislative procedures would no longer be needed.**

However, multilevel governance also predicts the **increasing politicisation** of EU decision-making. The **permissive consensus** of the past decades will be replaced with a **constraining dissensus** on European integration. Identity politics in the LRAs will become a critical factor in shaping contestation in the EU.

These factors will be decisive for the future evolution of European Parliamentarism, defined as the growing cooperation between regional and national parliaments and the European parliament. Regional and national parliaments will work in partnership with the European Parliament.

Finally, at the Member State level the internal division of powers and **decentralisation process** will advance significantly and all subnational levels share responsibility for EU governance. While parliamentarism will become a dominant feature to legitimise EU decision-making will also be challenged from an efficiency and effectiveness point of view.

### 3.4 Conclusion

**Intergovernmental** and **supranational approaches** represent longer established perspectives on European integration. They provide an account of European integration and their predictive power goes beyond the debate whether EU policy-making is more or less intergovernmental or supranational. They provide us with future markers about the direction of the EU integration process that veer between state-centred and supranational road signs with clear-cut implications for the CoR and its members. Most likely, the EU is bound to be characterised by *both* elements and mechanism for rule-making.

The third approach presented in this study is **multilevel governance**, which analyses the daily activities of European decision-making. Whereas it does not provide us with clues about the origins and the direction the EU, it presents a picture of how the EU will look like over the coming decades. Multilevel governance expects that the territorial dimension of European integration will continue to be a prominent element of European politics over the next decades. European integration will continue to be characterised by decision-making at the state, sub-state, supranational and transnational levels. The CoR and LRAs will play an economic, political, social and institutional role and will in many cases strengthen their position in the wider European and global markets and political arenas. Particularly, LRAs will operate to varying degrees, at different decision-making levels and will no longer be encased within state borders.

The three governance approaches of European integration individually also generate hypotheses that highlight the trends, challenges and opportunities for the European integration process, the CoR and its members. To name but a few these relate to reversal, retrenchment and renationalisation of EU policies, politicisation, democratic accountability and legitimacy, representation, and budgetary policies.





# 4 The identification of key trends, challenges and opportunities

## 4.1 A Growing Need for Foresight and Strategic Planning

How will the EU and the world look like in the future? What are the key trends over the coming years? Do these trends represent challenges and/or opportunities? To give answers to these questions a growing number of public and private institutions turn to foresight exercises and strategic planning. They seek solutions to ongoing, emerging and new interconnected trends, challenges and opportunities. The foresight studies lower the levels of uncertainty about the future particularly in times of transition.

All EU institutions have engaged in foresight exercises with extended time horizons of planning and prediction. One of the most recent is the European Parliament 2025 report ‘Preparing for Complexity’.<sup>19</sup> It has allowed the Parliament’s stakeholders to build their own vision of long term major trends that are likely to impact their mission and working processes. The report identifies structural changes to be initiated in order to prepare the European Parliament for a much more complex and challenging environment in the years to come. The European Council also engaged in forward planning with the ‘Project Europe 2030, Challenges and Opportunities’.<sup>20</sup> The report is the outcome of lengthy debates and discussions among the members of the reflection group. Its focus is on the challenges of the EU in 2030 and how the EU might address those. Equally, a number of European Foreign Affairs Ministers formed a reflection group on the ‘Future of Europe’. The informal and open dialogue among the ministers focused on organisational and structural change in the EU at the decisive juncture between the sovereign debt crisis and the ever accelerating process of globalisation.<sup>21</sup>

The European Commission has established the most extensive and diverse forward looking activity and research in foresight and forecasting through the European

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<sup>19</sup> Welle (ed.) 9 April 2013. *Preparing for complexity, European Parliament in 2025, Going global, going local, going digital, Final report by the Secretary-General*, Brussels: European Parliament.

<sup>20</sup> Reflection Group on the Future of the the EU 2030 (May 2010) *Project Europe 2030, Challenges and Opportunities, A report to the European Council by the Reflection Group on the Future of the EU 2030*. Luxembourg.

<sup>21</sup> Westerwelle (ed.) 17 September 2012. *Final Report of the Future of Europe Group of Foreign Ministers of Austria, Belgium, Denmark, France, Italy, Germany, Luxembourg, the Netherlands, Poland, Portugal and Spain*, s.l. See also Abels, Eppler and Knodt (eds.) 2010. *Die EU-Reflexionsgruppe 'Horizon 2020-2030': Herausforderungen und Reformoptionen für das Mehrebenensystem*, Baden-Baden Nomos Verl.-Ges.

Strategy and Policy Analysis System (ESPAS). It covers a broad spectrum of topics and horizons including the inter-institutional dynamics among the different EU institutions.<sup>22</sup> The ‘Global Europe 2050’ research ‘provides images of possible futures’ that combine visionary thinking with plausibility and stimulates policy and decision makers.<sup>23</sup> The research is supported by Eurostat data and analysis<sup>24</sup>. This thinking is also reflected in the Commission President’s State of the Union addresses of the last two years.<sup>25</sup> Often the Commission’s foresight exercises broaden the horizon and include global foresight analysing trends and challenges such as the rise of Asia and socio-ecological transition in the world<sup>26</sup>. The thinking reflects the foresight endeavours of global international organisations such as the United Nations (UN)<sup>27</sup>, the International Monetary Fund (IMF)<sup>28</sup>, and the World Bank.<sup>29</sup> These reports include long-term global scenarios. Also the Organisation for Economic Cooperation and Development (OECD)<sup>30</sup> is actively engaged with future scenarios for the world.

Finally, many private institutions, think tanks and universities also engage in strategic foresight sometimes in cooperation with EU institutions<sup>31</sup> or alone.<sup>32</sup> A

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<sup>22</sup> European Commission (2010c) European Forward Looking Activities: EU Research in Foresight and Forecast. Brussels.

<sup>23</sup> European Commission (2011c) Global Europe 2050. Brussels.

<sup>24</sup> Konstantinos Giannakouris (2010) Regional population projections EUROPOP2008: Most EU regions face older population profile in 2030. *Population and social conditions*. Luxembourg, Giampaolo Lanzieri (2011) The greying of the baby boomers: A century-long view of ageing in European populations. *Population and social conditions*. Luxembourg, Eurostat (26 August 2008) Population projections 2008-2060, From 2015, deaths projected to outnumber births in the EU27: Almost three times as many people aged 80 or more in 2060. Luxembourg.

<sup>25</sup> Barroso (2012) State of the Union. strassbourg, Barroso (2013) State of the Union. Strassbourg.

<sup>26</sup> European Commission (2009) The World in 2025: Rising Asia and Socio-Ecological Transition. Brussels.

<sup>27</sup> United Nations (2012a) Prosperity of Cities. *State of the World's Cities 2012/2013*. New York.

<sup>28</sup> International Monetary Fund (October 2013) Transitions and Tensions. *World Economic Outlook*. Washington D.C.

<sup>29</sup> Worldbank (January 2013) Assuring growth over the medium term. *Global Economic Prospects*. Washington D.C, Worldbank (2013) CHINA 2030: Building a Modern, Harmonious, and Creative Society. Washington DC, Worldbank (January 2012) Uncertainties and vulnerabilities. *Global Economic Prospects*. Washington D.C.

<sup>30</sup> Organisation For Economic Cooperation and Development (2012b) Economic Outlook, analysis and forecasts: Looking to 2060: Long-term growth prospects for the world. Paris, OECD (August 2010) Trends in Urbanisation and Urban Policies in OECD Countries: What Lessons for China? Paris.

<sup>31</sup> Welle (17 September 2013) Global Societal Trends and the EU: Democratic progress, citizen's empowerment at the European level. *European Strategy and Policy Analysis System (ESPAS)*. Brussels.

<sup>32</sup> Annika Ahtonen, Andrea Frontini, Hans Martens and Yves Pascouau (3 May 2013) Think Global - Act European. Brussels, Balfour and Raik (17 January 2013) Equipping the European Union for the 21st century. Brussels, Schoutteete and Micossi (2013) On Political Union in Europe: The Changing Landscape of Decision-Making and Political Accountability. *Politics and Institutions, CEPS Essays*, Fabbrini (1 June 2012) After the Euro Crisis: The President of Europe - A new paradigm for increasing legitimacy and effectiveness in the EU. *Politics and Institutions, EuropEos Commentaries*, Reinilde Veugelers (ed.) 2013. *Manufacturing Europe's future*,

recent case in point is the report ‘Now for the Long Term’, which explores the impact of trends on future generations.<sup>33</sup>

The present report on the ‘Challenges at the Horizon 2025’ draws and builds on these foresight exercises and strategic planning reports to systematically identify and select trends and policy areas in relation to the CoR and LRAs. In close cooperation with the CoR services an initial 25 trends and challenges were selected. These trends and challenges were discussed and ranked within the Leuven Centre for Global Governance Studies and upon advice of the CoR services (see Annex 1: 25 identified trends and challenges ranked according to relevance within each overarching theme or parameter followed by an overall relevance ranking of the trends and challenges for the CoR and the LRAs). After thorough consideration these trends and challenges were future regrouped and related to seven policy domains comprising bundles of policy areas.

## 4.2 Seven Policy Domains, Trends and Challenges and Issues for Debate

Seven policy domains with relevant challenges the European LRAs and the CoR would be faced with in 2025 are selected for initial reflections. They are: 1) **finance and economy**; 2) **societal issues**; 3) **sustainable growth and resource efficiency**; 4) **territorial governance and urbanisation**; 5) **technology, ICT and communication**; 6) **political governance and democratisation**; and, 7) **globalisation and international issues and the global role of Europe**. For each policy, domain the report provides a critical narrative identifying key trends, challenges and opportunities highlighting potential pitfalls for EU policies and future decisions while bearing in mind the role of LRAs and the particular position of the CoR members. Finally, the study formulates action-oriented questions for debate. The set of action-oriented questions can guide debates between CoR members and experts in a subsequent step of the Horizon 2025 process.

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Brussels: Breugel, Pisani-Ferry (26 October 2012) The known unknowns and the unknown unknowns of the EMU. *Breugel Policy Contribution*. Brussels.

<sup>33</sup> Oxford Martin Commission for Future Generations (October 2013) Now for the Long Term: The Report of the Oxford Martin Commission for Future Generations. Oxford.

<b>Policy Domain</b>	<b>Nr</b>	<b>Trend</b>	<b>Challenge</b>
<b>1 Finance and Economy</b>	1	Rising regional disparities at the level of growth, employment and investment in LRAs and connecting infrastructure	Promoting convergence among LRAs and increasing economic, social and territorial cohesion across the EU
			Generating economic growth and jobs
			Generating investment
	2	Increasing national, regional and local budgetary deficits and diverging investment patterns in LRAs	Consolidating budgets
			Participation of LRAs in European semester planning and realisation
	3	Growing erosion of European solidarity	Growing need to solve problems together and built joint policies
<b>2 Societal Issues: Demography, Solidarity, Individual Empowerment, Migration</b>	1	Ageing and uneven population developments	Growing dependency ratios
			Creating age-friendly infrastructure
			Changing family structures
	2	Solidarity and rising healthcare and pension costs and growth of third age economy	Reforming health care
			Encouraging older age employment
			Increasing labour market participation
	3	Growing individual empowerment	Need for LRAs to be actively involved
			Silver economy presents opportunities
	4	Growing immigration and problems of integrating minorities	High labour market barriers
			High social integration barriers

Policy Domain	Nr	Trend	Challenge
<b>3 Sustainable Growth and Resource Efficiency</b>	1	Growing scale and urgency of climate change	Greater clarity and consistency from policymakers
			Further cuts in greenhouse gas emissions
	2	EU energy security	Redirection towards low carbon capital
			Sustainable infrastructure investment
			Creating cleaner and more energy efficient technologies and creating a true common energy market with pan European energy networks
	3	Rising consumption of raw materials and water. Rising pressure on land and global food insecurity	Growing need for clean power investment and (shale) gas future
			Growing need for food security with a special role for the common agricultural policy
4	Growing vulnerability of cities to climate change	Growing need for infrastructure adaptation	
<b>4 Territorial Governance and Urbanisation</b>	1	Growing global and EU urbanisation	Need to address shrinking and stagnating cities
	2	Growing urban sprawl and urban-rural synergies in the areas of recycling, food and renewable energy production Growing urban rural relations	Growing need for territorial balance with compact and green cities in Europe
	3	Increased stress and damage to vulnerable ecosystems and habitats	Need to protect the country side

<b>Policy Domain</b>	<b>Nr</b>	<b>Trend</b>	<b>Challenge</b>
	4	Limited and declining EU cohesion funds and infrastructure investments	Need for smarter local investment and cooperation between territorial units sharing costs and profits. Need for regional specialisation strategies
<b>5 Technology, ICT and Communication</b>	1	Growing availability of big data and the data deluge	Need to harness the opportunities of data availability
			Need for big push to exploit ocean of information
			Need to guarantee privacy of data
	2	Growing pressure on LRAs to better understand society, use of big data in areas such as e-health and e-education	Need to promote key enabling technologies
	3	Fragmentation of regulatory approach to ICT and big data	Developing a common approach
	4	Growing knowledge about citizens choices and preferences and the dawn of internet of things	Growing need to help make well-informed public choices
			Growing need to understand society
Growing need to understand society			
5	Continued importance of communicating the EU	Growing role of the CoR and LRAs to communicate the EU	
<b>6 Political Governance and Democratisation</b>	1	Growing need to restore citizens' perceptions about voice	Need to effectively aggregating citizens voice in the EU

<b>Policy Domain</b>	<b>Nr</b>	<b>Trend</b>	<b>Challenge</b>
	2	Rise of anti-EU, anti-establishment movements	Growing need to generate trust in the EU
			Growing need to turn the tide on voter turnouts
			Growing need to legitimise the EU
			Growing need for citizens' representation in the European Parliament
			Growing need for Multilevel Governance, consultations with national parliaments, the EESC and CoR
	3	Growing need for effective decision-making	Need for decision-making at appropriate time, place and level; Need for impact assessment and EU law simplification
<b>7 Globalisation and International Issues: the "Global role of Europe"</b>	1	Development of multipolarity and The growing interdependence on unprecedented scale	Need for a boost to the EU External Action Services and a single diplomatic corps for the EU (including Member States); Need for careful coordination and reform of global institutions
	2	Rising middle class in the developing world	Opportunity for global prosperity
	3	Growing trade and risk of rising protectionism	Need to conclude trade agreements: WTO, EU-US, EU-JAPAN, EU-China, EU-India

Policy Domain	Nr	Trend	Challenge
	4	Growing competition and the rise of emerging powers and relative decline of the West calling for a redistribution of global power and the EU's role in international organisations and the global diplomatic stage	Need for cooperation in the framework of WTO as well as a European single voice in multilateral institutions
	5	Continuing presence of instability in the world	Need for closer co-operation/integrated policies in areas such CFSP, immigration policy, development policy, enlargement policy and neighbourhood policy



# 5 Policy Domains, Trends and Challenges

## 5.1 Finance and Economy

- 1. The EU is confronted with growing disparities. Economic growth, employment and investment are diverging among LRAs with knock-on effects on social cohesion and solidarity.**

The global economic and financial crisis has weakened regional economic and social cohesion in the EU with diverging economic growth, employment and investment. Likewise, the budgetary deficits at national, regional and local level have risen, but the situation varies widely throughout the EU depending on economic and social positions. Also the investment climate has suffered with diverging borrowing costs and investment levels throughout the EU. These disparities relate to structural weaknesses and the uneven impact of the crisis.

The result has been a trend of growing imbalances between and within EU Member States.<sup>34</sup> By and large, the divergence is characterised by a pattern of rising regional inequality with poorer LRAs in the Eastern and Southern EU Member States and richer LRAs in Central and Northern Europe. It will be a major challenge over the coming decades to reverse this trend of growing disparities.

- 2. The trend of growing disparities among LRAs stands out against the trend of growing constraints and demands on public finances over the coming years at all EU levels of government.**

The economic and financial crisis and budgetary responses has put downward pressure on the public finances of the Member States with a delayed and substantial impact on local finances.<sup>35</sup> LRAs have experienced a sharp drop in their revenues as a result of the combined effect of lower economic growth and a cut in central governments transfers to LRAs.<sup>36</sup> At the same time the financial and economic crisis defies sub-national authorities, with rising demands on social

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<sup>34</sup> Committee on Regional Development (2013) Report on effects of budgetary constraints for regional and local authorities regarding the EU's Structural Funds expenditure in the Member States. Brussels, European Investment Bank (25 February 2013) The impact of the recession in 2008-2009 on EU regional convergence. Luxembourg.

<sup>35</sup> Organisation For Economic Cooperation and Development (2011) Making the Most of Public Investment in a Tight Fiscal Environment. Paris.

<sup>36</sup> Committee of the Regions (2012a) Impact of budgetary austerity on local finances and investment. Brussels.

services putting extra pressure on the LRAs' public purses. The situation varies widely between Member States and LRAs, depending on their economic and social situation and the type of public policies. Nevertheless, as a result of these conflicting trends national and sub-national governments face the imperative challenge of **doing better with less and/or increase funding**.

### **Trends in City impact and selected responses to the Crisis**

The crisis blew out from the banking sector to the business sector into the labour market and down to urban and rural social conditions. Youth unemployment and joblessness among women and migrants and social problems are major challenges over the next decade. The trickling down of the crisis increasingly pressures LRAs services related to poverty relief, homelessness, indebtedness, health problems, crime and threats to social cohesion. At times the crisis has worsened pre-crisis problems in many cities. At the same time 80% of LRAs have cut budgets.

Cities have fought back with varying responses. Tallinn, the Estonia capital city, confronted a 13% increase of unemployment and has helped out in the short run with heating, housing and food. The Greek City of Veria has confronted a severe downturn with a combined short and long term strategy focussing on immediate relief and a medium term urban regeneration plan potentially supported by the EIB to attract tourism and encourage the emergence of a vibrant SME sector. In the long run, Veria's authorities prioritise investment in e-services in the area of transport networks, logistics, cultural and educational facilities and tourism.

**Public investment has declined in two out of three EU Member States. Financing local investment is a daunting challenge over the coming decades.**

The investment trend is in part due to earlier efforts to fight the financial crisis.<sup>37</sup> Public investment has suffered as budgetary corrections have been made to repair public finances. The decline of investment began in 2010 with investment acting as a correction mechanism in two out of three EU Member States. The sharp drop in investment continued in 2011 and in all likelihood will continue. Declining investment is a major challenge particularly in view of the fiscal constraints and new means of financing need to be found over the coming years. All levels of government need to identify new sources to finance future spending and raise the level of potential economic growth. To support the economic growth many LRAs urgently need infrastructure investment just as they are required to stop borrowing and balance their budgets.<sup>38</sup>

The declining trend can also be explained in part as a result of the contraction in bank credit and developments in banking regulations that provide incentives to local finance authorities to slash their credit activity and the provision of long-term loans.<sup>39</sup>

**The public investment challenges gain additional weight in view of the economic importance of LRAs for economic growth.** With over 90.000 subnational governments and thousands of public local offices in the EU, the subnational public sector acts as an employer, a service provider, an economic agent, an investor and agent of national solidarity.<sup>40</sup> Two-thirds of public investment and one-third of public expenditure is carried out at subnational level.<sup>41</sup>

To overcome the crisis, LRAs need to focus on both sides of the coin. One side of the coin is the correction of budgetary deficits to bring public debt back to a sustainable path. The other side of the coin is economic growth and competitiveness. Typically, LRAs are a cornerstone for generating economic growth through education, training environmental protection, transport, innovation and R&D. The economic and financial crisis has demonstrated the need for infrastructure investment and the strategic importance of updating and upgrading

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<sup>37</sup> European Investment Bank (25 February 2013) The impact of the recession in 2008-2009 on EU regional convergence. Luxembourg.

<sup>38</sup> Financial Times (17 October 2013) Merkel unveils her core agenda.

<sup>39</sup> Committee of the Regions (2012a) Impact of budgetary austerity on local finances and investment. Brussels.-18

<sup>40</sup> Frank Lierman (26 April 2012) Finances publiques territoriales dans l'Union européenne (Local and regional public finances in the European Union). s.l. .

<sup>41</sup> Financial Times (17 October 2013) Merkel unveils her core agenda.

infrastructure in the EU. More importantly, the crisis has shown that infrastructure is crucial for Europe's economic future. Estimated investment needs for networks of European importance amount to about EUR 1 trillion before 2020 in flexible energy, transport and ICT infrastructure networks. How to meet this investment challenge is one of the big questions that the EU has to face in the next decade.<sup>42</sup>

<b>Local Government and Responses to the Crisis</b>	
<b>Area</b>	<b>Response</b>
People and Labour Market	<ul style="list-style-type: none"> <li>• Workforce investment</li> <li>• Tax cuts or freezes</li> <li>• Social initiatives</li> <li>• Support to vulnerable people</li> </ul>
Local Economic Resilience	<ul style="list-style-type: none"> <li>• SME support</li> <li>• Tax relief</li> <li>• Tourism promotion</li> </ul>
Quality of Place	<ul style="list-style-type: none"> <li>• Borrowing to invest where possible</li> <li>• Innovative financing and public-private partnerships</li> </ul>

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<sup>42</sup> European Commission (2011d) A growth package for integrated European infrastructures. Brussels.

<b>Local Government and Responses to the Crisis</b>	
<b>Area</b>	<b>Response</b>
Long-term Strategy and Positioning	<ul style="list-style-type: none"> <li>• Long-term strategic rethink</li> <li>• Innovation promotion</li> <li>• Green sector investment</li> <li>• Distinctive positioning</li> <li>• Infrastructure investment</li> </ul>
Local Governance/Leadership	<ul style="list-style-type: none"> <li>• Recession strategy</li> <li>• Special purpose vehicle creation or direction</li> <li>• Budget adjustments</li> <li>• Cost saving</li> <li>• Central and regional government alignment</li> </ul>

**Source:** OECD, *The Impact of the Global Crisis on Local Governments*, October 2009, p. 23.

**3. Against this background there is a strategic challenge to use joint policies on the basis of European solidarity.**

The EU Cohesion Policy for the period 2013-2020 is an important element to boost public and private investment and contribute to economic growth, employment, sustainable development and social cohesion in the EU and the LRAs. However, cash strapped LRAs are challenged to have sufficient access to the necessary financial resources to be able to use the EU Cohesion Policy effectively.<sup>43</sup> The challenge is related to more decentralisation of key powers from central to subnational governments; however, this trend has not been followed by the transfer of financial resources.

<sup>43</sup> European Investment Bank (25 February 2013) The impact of the recession in 2008-2009 on EU regional convergence. Luxembourg.

**Instead, there has been a trend to increase EU oversight, monitoring and decision-making with respect to Member States budgetary policy.**

In response to the financial crisis, the EU reformed and reinforced the economic and fiscal governance framework with the reinforced EU fiscal governance framework. More specifically, the EU adopted the so-called *Six Pack* (referring to six legislative changes), the *Fiscal Compact* as part of the *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union* (TSCG) and the *Two Pack* with two legislative changes further reinforcing economic governance of for the Eurozone. The reformed rules and procedures focus on better monitoring and enforcement of EU economic and fiscal governance in the EU at different stages in the budgetary cycle. The three pillars (the Six Pack, the Fiscal Compact and the Two Pack) will continue to be the main legal determinant of fiscal policy for the Member States.<sup>44</sup> Combined, these reforms limit governments' budgetary leeway and their effect will be uneven across EU Member States and more substantial in southern EU Member States, particularly with respect to public investment and public expenditure and with knock-on effects for economic growth, infrastructure investment and spending on education, research and development at the level of LRAs.

**While LRAs have been heavily affected by EU's policy response to the crisis, they have limited say in that response which will influence their economic and financial climate over the coming decades.**

With two-thirds of public investment and one-third of public expenditure agreed and implemented at the subnational level, these **reforms are having a significant influence on LRAs as decentralised growth engines**. The impact of the new EU system of economic and financial governance is felt at the local and regional level, albeit with a delay, in terms of closer monitoring (the golden rule), transfers of central budgets, debt reduction and access to investment. Moreover, it is likely that over the coming years also the management of public governance at the local level will adapt to the new regime. The multiannual economic and fiscal trends at national level will ultimately lead to similar strategies at local and regional levels. At the same time LRAs have not received a larger role in the EUs new economic governance. With the LRAs being profoundly affected by the new economic and

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<sup>44</sup> Van Aken and Artige (2013) Reverse Majority Voting in Comparative Perspective: Implications for Fiscal Governance in the EU. In DE WITTE, HERITIER and TRECHSEL (eds.) *The Euro crisis and the state of European democracy*. Florence.

financial governance, their main challenge is the future involvement in areas such as the European semester planning.<sup>45</sup>

**The new fiscal governance challenges governance models to the extent that it encroaches on national sovereignty at a time when citizens are increasingly distrustful of the EU.**<sup>46</sup> For the first time, the 17 governments that are Members of Eurozone will send their draft budgets to Brussels for review before they are debated in the national parliaments. That potentially sweeping change is the result of new legislation, known as the ‘two-pack’, that was drafted in response to the Eurozone crisis and represents one of the many ways that Brussels is seeking to tighten fiscal discipline and economic management in the currency zone<sup>47</sup>.

**Therefore, over the coming decade, a major challenge for LRAs is to have more say in the EU’s new economic governance.** The budgetary challenge will be reinforced in view of increased demands and budgetary requirements of LRAs needed to fulfil their role in areas such as economic growth, spending on infrastructure, contributions to EU democratic processes, accountability and legitimacy. Simultaneously, there will be a limited EU budget for the LRAs for the period 2014-2020, both with money for Cohesion Policy tightened up particularly for transition regions and also in the form of increased scrutiny. This raises the **challenge for the post-2020 EU budget and the creation of new resources.**

**Identified challenges with respect to ‘Finance and Economy’:**

- Growing divergence of levels of economic growth, employment and investment among LRAs with knock-on effects on EU social cohesion and solidarity over the coming decade(s).
- Growing constraints and rising demands on public finances over the at all EU levels of government over coming years.
- Growing expectations from and responsibility for EU joint policies to maintain and strengthen European solidarity.

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<sup>45</sup> Elisa Molino, Serban Chiorean-Sime and Fabian Zuleeg (2011) What role for local and regional authorities in the post-2013 budgetary framework? A territorial perspective on the interrelation between the Europe 2020 strategy, the Multiannual Financial Framework post-2013 and new EU economic governance. Brussels.

<sup>46</sup> Financial Times (16/10/2013) Brussels starts Eurozone budget monitoring.

<sup>47</sup> Ibid.,

**Key Question 1:**

How will the CoR and LRAs address the strategic challenge of growing constraints and demands on public finances over the coming years?

**Options and Suggestions:**

- Raise revenue through additional taxes.
- Generate economic growth via new types of income such as providing new innovative services that meet citizens' and business' needs in the 21st century (e.g. providing a single anonymised public data feed that improves LRAs' governance).
- Free up resources that can be used elsewhere by raising transparency of local budget allocation, the efficiency and the productivity of public services.
- Set up performance measurement in LRAs, providing tools to measure performance and satisfaction in order to take the right decisions for the future.
- Push for regeneration of underused resources and assets such as creatively refocusing unused land, buildings and services.
- Harness technological advances to free up resources that can be better used elsewhere. For instance, the reduction of the public energy bills can be achieved by picking low hanging fruit such as through insulation of public buildings, the installation of LED technology for street lighting, the reduction of water leakages, the decrease of traffic jams through information management, the collection-sorting-sale and re-use of waste for different purposes such as green energy for homes and public buildings.

**Key Question 2:**

How will the CoR and LRAs approach the daunting decline of public investment in two out of three EU Member States and finance local investment over the coming decades including the necessity to invest EUR 1 trillion in infrastructure by 2020?



**Options and Suggestions:**

- Agree more loans from the public and private sector with extended maturities for the LRAs.
- Agree more loans and co-financing from the EIB for the LRAs.
- Enter into more public and private partnerships to access credit beneficial for both public and private partners.
- Set up or strengthen a dedicated unit within the administration that specifically focusses on funding.
- Specify tax incentives to attract private investment.
- Improve childcare, education, public services, infrastructure and recreational areas to create an environment attractive to a talented labour force with investment potential.

**Key Question 3:**

How to address the limited LRAs policy say and input on the new EU economic governance against the background of profound economic and social impact on the LRAs over the coming decades? How to turn LRAs into policy setters rather than policy takers in the EU's new economic governance?

**Options and Suggestions:**

- Lobby the government, the European Commission, the national and European associations.
- Develop specific proposals on how LRAs and the CoR can influence national and European new economic and financial governance.
- Develop partnerships among LRAs within the national context to influence all the Member States and Commission on the new budgetary cycle.
- Organise conferences and workshops and seek expertise.
- Develop practical and specific proposals on how LRAs and the CoR can have a say and become a policy setter in the European Semester within remit of the Treaty.

## 5.2 Societal Issues: Demography, Migration, Solidarity and Individual Empowerment

1. Over the coming decades the overall population of the EU is projected to grow but it will be much older than it is now.

The EU as a whole is likely to witness uneven population growth over the coming two decades. The EU population is projected to rise from 504 million in 2012 to a peak in 2040 at 526 million and thereafter decline to 517 million by 2060.<sup>48</sup> Population trends for the 28 Member States will differ substantially. The populations in the Member States in the North East are projected to decline. The populations of those Member States located in the South and the North West are likely to grow (see table).

**Table: Total population (000s)**

	Population at 1 January			Growth since 1.1.2008 (%)	
	2008	2035	2060	2035	2060
<b>EU27</b>	<b>495 394</b>	<b>520 654</b>	<b>505 719</b>	<b>5.1</b>	<b>2.1</b>
<b>Belgium</b>	10 656	11 906	12 295	11.7	15.4
<b>Bulgaria</b>	7 642	6 535	5 485	-14.5	-28.2
<b>Czech Republic</b>	10 346	10 288	9 514	-0.6	-8.0
<b>Denmark</b>	5 476	5 858	5 920	7.0	8.1
<b>Germany</b>	82 179	79 150	70 759	-3.7	-13.9
<b>Estonia</b>	1 339	1 243	1 132	-7.2	-15.4
<b>Ireland</b>	4 415	6 057	6 752	37.2	52.9
<b>Greece</b>	11 217	11 575	11 118	3.2	-0.9
<b>Spain</b>	45 283	53 027	51 913	17.1	14.6
<b>France<sup>3</sup></b>	61 876	69 021	71 800	11.5	16.0
<b>Italy</b>	59 529	61 995	59 390	4.1	-0.2
<b>Cyprus</b>	795	1 121	1 320	41.1	66.2
<b>Latvia</b>	2 269	1 970	1 682	-13.2	-25.9
<b>Lithuania</b>	3 365	2 998	2 548	-10.9	-24.3
<b>Luxembourg</b>	482	633	732	31.3	51.7
<b>Hungary</b>	10 045	9 501	8 717	-5.4	-13.2

<sup>48</sup> Eurostat (26 August 2008) Population projections 2008-2060, From 2015, deaths projected to outnumber births in the EU27: Almost three times as many people aged 80 or more in 2060. Luxembourg.

	Population at 1 January			Growth since 1.1.2008 (%)	
	2008	2035	2060	2035	2060
<b>Malta</b>	410	429	405	4.5	-1.4
<b>Netherlands</b>	16 404	17 271	16 596	5.3	1.2
<b>Austria</b>	8 334	9 075	9 037	8.9	8.4
<b>Poland</b>	38 116	36 141	31 139	-5.2	-18.3
<b>Portugal</b>	10 617	11 395	11 265	7.3	6.1
<b>Romania</b>	21 423	19 619	16 921	-8.4	-21.0
<b>Slovenia</b>	2 023	1 992	1 779	-1.5	-12.1
<b>Slovakia</b>	5 399	5 231	4 547	-3.1	-15.8
<b>Finland</b>	5 300	5 557	5 402	4.9	1.9
<b>Sweden</b>	9 183	10 382	10 875	13.1	18.4
<b>United Kingdom</b>	61 270	70 685	76 677	15.4	25.1

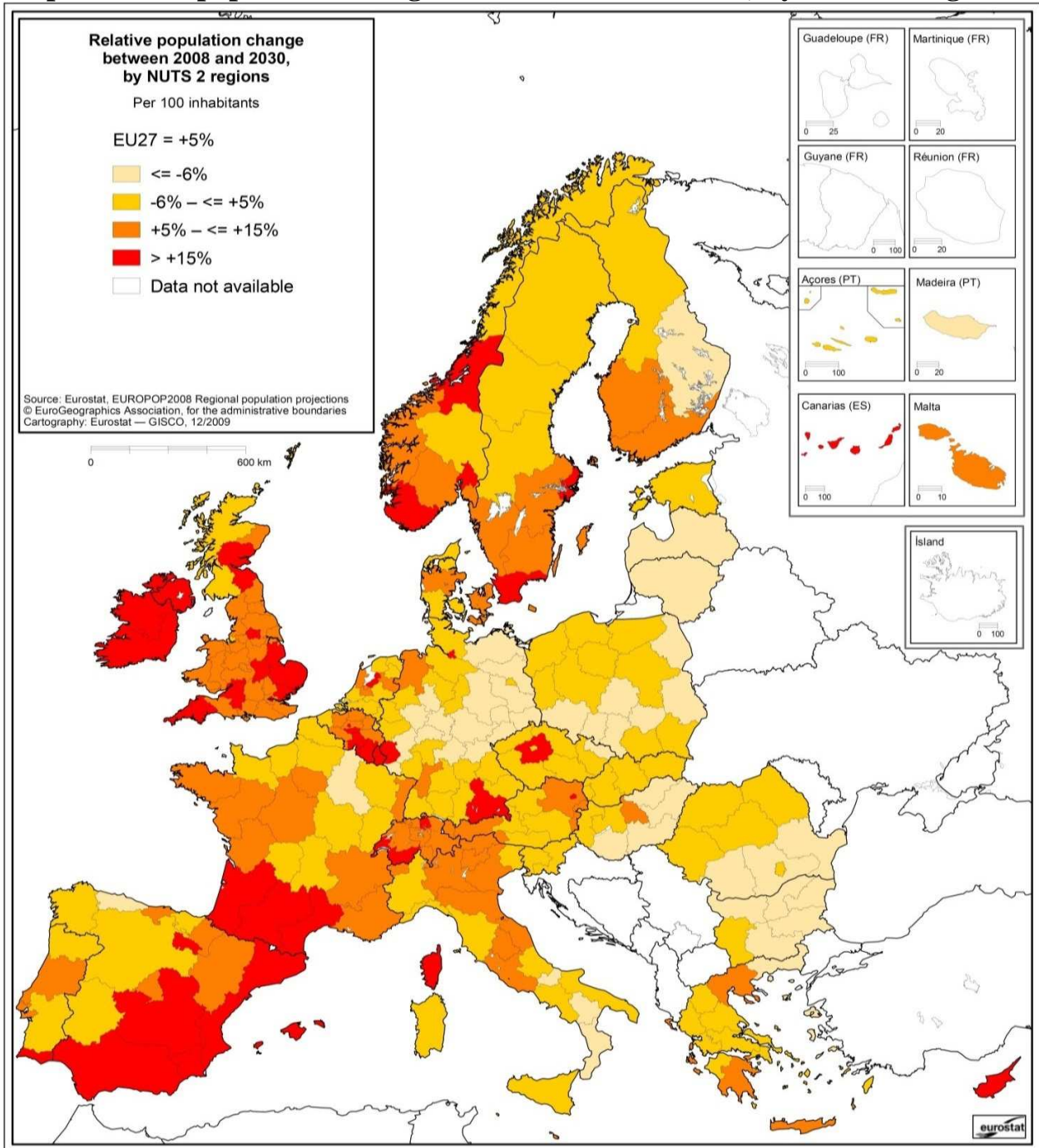
Source: Eurostat, Eurostat (26 August 2008) Population projections 2008-2060

**These trends are also manifest at the regional level with most regions projected to have a larger population.**<sup>49</sup> There is considerable variation between the regions in the EU. While all regions are likely to experience a rising population in the next two decades, those regions in Estonia, Latvia and Lithuania as well as the majority of regions in Bulgaria, Romania, Germany, Hungary, Poland and Slovakia are expected to have smaller population in 2030 than today (see map). Particularly Eastern Europe including East Germany is going to continually witness a decline in its population of more than 10%. **Ageing will be a widespread phenomenon in all but seven European regions in the EU.**<sup>50</sup>

<sup>49</sup> Konstantinos Giannakouris (2010) Regional population projections EUROPOP2008: Most EU regions face older population profile in 2030. *Population and social conditions*. Luxembourg.

<sup>50</sup> Giampaolo Lanzieri (2011) The greying of the baby boomers: A century-long view of ageing in European populations. *Population and social conditions*. Luxembourg, Eurostat (26 August 2008) Population projections 2008-2060, From 2015, deaths projected to outnumber births in the EU27: Almost three times as many people aged 80 or more in 2060. Luxembourg.

## Map: Relative population change between 2008 and 2030, by NUTS 2 regions



Source: Eurostat

**The EU will face a dramatically and progressively older population profile by 2030.** The ‘growing older’ population is the combined effect of four factors – the existing population structure, fertility, life expectancy and migration. This will increase the median age in all but seven EU regions.<sup>51</sup> From 2015 onwards, deaths are projected to outnumber births, and as a result the natural growth of the EU population would stop. Any increase of the EU’s population would subsequently come from migration inflows. From 2035 this positive net migration would no longer make up for declining births and the EU population is projected to fall.

**Also the age structure of the EU population will dramatically change.** By 2060 the number of elderly would be more than double the number of children.<sup>52</sup> Data pointing to the potential of a ‘baby recession’ in Europe underlines the problematic of progressively older populations.<sup>53</sup> The effects of progressively older societies will impact some regions more severely than others. **In 2030, the share of the population aged 65+ is projected to vary from 10.4% to 37.3% between different regions.**<sup>54</sup>

**Ageing will impact on the functioning of EU, regional and local labour markets and the key challenge is progressively extending retirement age and activating the unemployed.**

The overall employment ratios are projected to increase, but labour supply will decline because of population trends. The employment rate would increase, but the number of workers would shrink. The EU is projected to move from **four working-age people to two working-age persons** for every person over 65 years old. In Europe this decline started in 2012. As a result, **labour productivity will become a key driver of growth** within the EU.<sup>55</sup> The key **labour market and pension policy** challenge, which is already being addressed to varying degrees, is increasing the labour market participation rates by activating the unemployed and prolonging working life.

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<sup>51</sup> Konstantinos Giannakouris (2010) Regional population projections EUROPOP2008: Most EU regions face older population profile in 2030. *Population and social conditions*. Luxembourg.

<sup>52</sup> European Commission (2012) The 2012 Ageing Report: Economic and budgetary projections for the 27 EU Member States (2010-2060). *European Economy* Brussels.

<sup>53</sup> Giampaolo Lanzieri (2013) Towards a ‘baby recession’ in Europe? Differential fertility trends during the economic crisis. *Statistics in focus*. Luxembourg.

<sup>54</sup> Roma Capitale (May 2011) ACTIVE A.G.E., Managing Change A.G.E.:Impact of demographic Ageing for cities. s.l.

<sup>55</sup> European Commission (2012) The 2012 Ageing Report: Economic and budgetary projections for the 27 EU Member States (2010-2060). *European Economy* Brussels.

### Ageing in Cities: A Seniors Strategy

**Barcelona** and **Milan** are European cities with 20 per cent or more of their population over the age of 65. They also have just 12 per cent or less of the total population of the city under the age of 14. In Milan the number of elderly (24%) is twice the size of that of children in the city (12%). In Barcelona 21 % is over 65 while only 12% of the city population is under 14 years old. Such demographic developments call for careful preparation and a Seniors Strategy. Such strategy was set up in 2012 in **Toronto**, Canada. The objective of the strategy is to help make the city safe, navigable, affordable, accessible and enjoyable for everyone. The Seniors Strategy builds on the existing work of the city and its partners, research and best practices. The Strategy was developed in a number of steps involving research, consultation with city management and stakeholders, developing recommendations and raising awareness. The basis for the recommendations of the Toronto Seniors Strategy is practical, achievable, measurable and linked to specific outcomes. They also take into account the fiscal constraints of the city and want to achieve better results with limited resources. It proposes partnerships with the regional, the federal government and businesses. Most importantly the Seniors Strategy has set up service planning principles for an age-friendly Toronto. The service planning builds on key principles to guide future decisions regarding funding priorities and service improvements. These key principles are equity, respect, inclusion and quality of life.

That labour market challenge has only a small window of opportunity available before the full effects of the retirement of the baby-boom generation is felt. The challenges are to develop policies for older people in the labour force through education and lifelong learning. In this respect, **societies need to find ways to blur the dividing lines between work, learning and leisure throughout life.**<sup>56</sup>

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<sup>56</sup> Committee of the Regions (2012b) Opinion of the Committee of the Regions on ‘Active ageing: innovation — smart health — better lives, *Official Journal of the European Union*, C 225/05.

## **2. The effects on solidarity will be felt throughout the EU and present serious challenges with momentous budgetary consequences.**

The societal approaches of the last 50 years will not be able to face up to these demographic changes. Foremost, it is impossible to ignore that ageing will have momentous **budgetary policy** consequences. Greater old-age dependency ratios create challenges to maintain the pensions, healthcare and other public services needed by a growing number of older people. Old age will put pressure on health care, pension expenditures and the long-term sustainability of **public finance policy**.

In view of the financial crisis and ongoing budgetary constraints, the fiscal challenge becomes particularly acute.<sup>57</sup> The balancing of growing pension and health care needs for an increasing number of older people with limited spending resources will continue to be high on the political and economic reform agenda over the coming decades. They will also increase demands for continuous efforts to increase the efficiency and quality of health service delivery.<sup>58</sup>

### **As people live longer and have fewer children, family structures will change towards the ‘vertical family’.**

As people live longer and have fewer children, family structures will alter with important implications for healthcare. In societies with a low fertility, future generations will have few siblings and comprise several generations. As a result, people will have less familial care and support as they age. Coupled with increased mobility this makes it more difficult for different generations to care for each other as before. As a result of the emergence of the vertical family, there will be a need to share the care and responsibility with the rest of the community through public funded schemes.<sup>59</sup> The provision of more and better institutional care will challenge LRAs healthcare policies.

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<sup>57</sup> European Commission (2012) The 2012 Ageing Report: Economic and budgetary projections for the 27 EU Member States (2010-2060). *European Economy* Brussels.

<sup>58</sup> Committee of the Regions (2012b) Opinion of the Committee of the Regions on ‘Active ageing: innovation — smart health — better lives’, *Official Journal of the European Union*, C 225/05.

<sup>59</sup> Organisation For Economic Cooperation and Development (2 - 3 May 2011) Building a Fairer Future: the Role for Social Policy. *OECD Ministerial Meeting on Social Policy*. Paris, Proposals from the NGO Coalition for a 2012 European Year for Active Ageing and Intergenerational Solidarity (2012) Intergenerational Solidarity: The Way forward. s.l.

3. The **silver society**<sup>60</sup> will create an opportunity for the empowerment of **individuals** to promote their own health, interact effectively with health services and be active partners in managing potential ill health.

Against the background of the economic and financial crisis, it is more urgent than ever to **fundamentally review the manner in which society functions and to empower people to contribute actively in their communities to live as independently as long as possible**. Because empowerment needs to take place simultaneously at the population and the individual levels, LRAs need to be actively involved in this process. For instance, the promotion of age-friendly communities with the public space, transport, housing, and local services for all generations is key, including the fostering of solidarity and cooperation between generations.<sup>61</sup>

It is important to recall that **individual empowerment** signifies a multidimensional social process with individuals, groups and communities, employers, trade unions, schools, colleges and voluntary organisations gaining better understanding and control over their lives. It enables them to change their social and political environment and improve health-related life circumstances. For individuals, empowerment is an **important element of human development**. It is intended to encourage **self-determination and autonomy** with more influence on social and political decision-making and self-esteem. By establishing social networks and mobilising social support, LRAs can support their citizens in this process and promote cohesion between individuals during the difficult periods of vulnerability in life.<sup>62</sup> One way of achieving individual empowerment is **social innovations and ICT-based solutions** to improve the quality and cost efficiency of their health and long-run care services, both in urban and rural areas. **Social innovations and ICT-based solutions** may bring crucial services to older people at a more sustainable cost. However, such initiatives challenge the investment needs and actions at other levels of governance and require successful experiments to move to large scale national and EU models.<sup>63</sup>

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<sup>60</sup> A silver society refers the rising media age of the workforce.

<sup>61</sup> Committee of the Regions (2012b) Opinion of the Committee of the Regions on ‘Active ageing: innovation — smart health — better lives, *Official Journal of the European Union*, C 225/05.

<sup>62</sup> World Health Organization (2010) User empowerment in mental health – a statement by the WHO Regional Office for Europe. Copenhagen.

<sup>63</sup> Committee of the Regions (2012b) Opinion of the Committee of the Regions on ‘Active ageing: innovation — smart health — better lives, *Official Journal of the European Union*, C 225/05.



**The silver economy can create novel opportunities and societal models on the basis of more solidarity and cooperation among generations.**

A **silver economy** represents opportunities for the LRAs. To find ways to promote a healthy and active ageing population can create novel economic opportunities and societal models on the basis of more solidarity and cooperation among generations.

**An ICT based solution: Giraff**

The proportion of elderly in the population is steadily increasing with effects on healthcare. The trend calls for the implementation of health-related information and communication technologies (ICT) to assist in providing more healthcare to the elderly while maintaining or increasing their independence. The mobile telepresence device, a Skype on wheels as it were, called Giraff is such technology. It allows a doctor, a family member, a nurse, a caretaker or a housekeeper to virtually enter the home of elderly over the internet and pay a visit just as if the visitors were actually at the door. The robot of 1.5 meter high is an innovative manner of communicating with elderly that benefits carers and doctors and family as well as the elderly. The connectivity avoids isolation, avoids loneliness, contributes to well-being and allows for better care and empowers older individuals.

The objectives of Giraff are to improve the quality of life in the home and extend the time that elderly autonomously stay in their home. Different versions of Giraff are currently been tested in Sweden, Italy and Spain. Other innovations are smart homes, telemedicine, m-health (mobile phone based monitoring) and a range of software applications that enhance safety or quality of life for elderly faced with some limitations. The devices can be stationary, portable, wearable or implantable.

**A healthy and active ageing society does not necessarily put as much pressure on pension, health and support services.** Furthermore, ageing societies with actively engaged older people also represent a **social achievement** for the EU as well as a significant resource for society in the form of knowledge and experience. Older and retired people with significant care needs have a wealth of knowledge and experience to contribute to modern societies as citizens, volunteers, workers, family members and consumers.<sup>64</sup> The challenge and opportunities to public policy is to create the fertile conditions to realise and active ageing society. Ageing societies will also bring a **new potential of economic growth** based on services and creating age-friendly infrastructure in LRAs. Finding innovative ways to encourage healthy and active ageing and intergenerational solidarity can thus make a genuine impact on creating modern societies of all ages. The involvement of LRAs and the national programmes to support LRAs in the World Health Organization's Age- Friendly Cities programme is a case in point.

#### **4. Active labour market policies for migrants and improving migrant integration models present both a challenge and opportunity.**

One way to mitigate the effects of ageing is an active **(im)migration policy**. Immigration in the EU will continue but decelerate between 2010 and 2060. The EU annual net inflows are projected to rise from about 1,043,000 people in 2010 (0.2% of the EU population) to 1,332,500 by 2020 and thereafter declining to 945,000 people by 2060. The cumulated net migration to the EU over the entire projection period is 60.7 million. Migration trends vary across the EU Member States. Net migration flows are likely to be concentrated to a few destination countries: Italy, Spain and the United Kingdom. Countries currently experiencing a net outflow are projected to taper off or reverse in the coming decades.<sup>65</sup>

Effectively integrating migrants in their host society also presents challenges for **integration policy**, particularly in view of diversity and minorities. Migrants might be challenged by labour market and social integration barriers. It will be a challenge for the LRAs to develop more effective integration policies.

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<sup>64</sup> Roma Capitale (May 2011) ACTIVE A.G.E., Managing Change A.G.E.:Impact of demographic Ageing for cities. s.l.

<sup>65</sup> European Commission (2012) The 2012 Ageing Report: Economic and budgetary projections for the 27 EU Member States (2010-2060). *European Economy* Brussels, pp. 25-26

**A global market for labour entails a global war for talents to supplement EU labour forces as well as education policies to meet the needs of the economy.**

However, ageing is a global phenomenon with population declines projected, among others, in Japan, China and the US. Europe and Japan are estimated to have by far the largest old-age populations over the coming decades.<sup>66</sup> As a result, competition for labour migration at a global level is set to rise. Companies are already looking to supplement EU workforces with labour migrants. The challenges for EU **labour market policy** is to develop new ways to recognise and anticipate skill shortages at different levels of government and follow up with targeted action in the areas of **migration policy, education and employment policies**. In addition, with talented people having numerous choices of places to move other factors are increasingly important to attract and retain talent. It raises the question whether actions can be undertaken at the level of LRAs to enhance their attractiveness to talented migrants and focus on regional amenities that contribute to a quality of life.

**Identified challenges with respect to Societal Issues – Demography, Migration, Solidarity and Individual Empowerment:**

- Ageing will be a widespread phenomenon in all but seven EU regions. It will seriously challenge local labour market, retirement, health care and budgetary policies.
- A silver society creates opportunities for the empowerment of individuals and societal models on the basis of more solidarity and cooperation among generations.
- Active labour market policies for migrants and improving the integration of migrants present a challenge and opportunity.
- It will be increasingly challenging to attract, maintain and educate talent in a globalised labour market characterised by high levels of competition over skills.

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<sup>66</sup> See United Nations Global Population projections. United Nations Press Release (2013) World population projected to reach 9.6 billion by 2050 with most growth in developing regions, especially Africa. *World Population Prospects: The 2012 Revision*. New York.

**Key Question 1:**

How to balance growing pension and health care needs in an ageing society with ring-fenced spending resources?

**Options and Suggestions:**

- Further promote active ageing policies, i.e. encourage elderly to participate fully in society, the labour market, the voluntary sector and promote independent living.
- Fully exploit the profound and widespread expertise on the challenges for the ageing society and consult stakeholders such as social service providers, education, training and volunteering organisations.
- Stress the value of formal and informal lifelong learning as an important aspect of active ageing.
- Reap the social capital that older people offer and tap the talents and potential contributions of older people such as wisdom and experience.
- 
- Encourage active and healthy ageing at a younger age as a life-long project and not something that starts at old age.
- Set standards for easy access to buildings and transportation.
- Build retirement facilities and invest in local healthcare systems in partnership with regional and national levels of government.

**Key Question 2:**

How to balance ageing with intergenerational equity, solidarity and cohesion?

**Options and Suggestions:**

- Support intergenerational initiatives and exchange programmes and foster cooperation between organisations which work with children, youth and older people at the same time.
- Create awareness among all citizens through information campaigns.
- Modify job structures, career incentives and education patterns to improve the contribution that older people make to social life and improve the adaptability of younger employees.
- Develop intergenerational workplace cultures.
- Generate more intergenerational family solidarity and old-age support.
- Make cities more age friendly and develop age friendly city policy, planning and design.

**Key Question 3:**

How to train, attract, retain and integrate (migrant) labour in anticipation of labour market shifts and anticipate shortages?

**Options and Suggestions:**

- Encourage the development of living conditions attractive to local, regional, EU and global talented migrants (e.g. childcare facilities, child friendly infrastructure, good education, inexpensive real estate and a culturally open environment).
- Develop a consensus in favour of greater immigration of (skilled) foreign workers.
- Overcome resistance to labour immigration by paying careful attention to the extent and timing of labour market openings, enforcing labour standards (including minimum wages) and ensuring that social security applies to all workers.
- Provide employer incentives to adequately train foreign workers and avoid trapping them at the bottom of the labour market.
- Hire personnel with language and intercultural competences.
- Develop a consensus in favour of greater immigration of (skilled) foreign workers.
- Provide employer incentives to adequately train foreign workers and avoid trapping them at the bottom of the labour market.

## 5.3 Sustainable Growth and Resource Efficiency

1. **There is no substantial doubt about the trend in global warming and there is a growing scale and urgency of climate change with global warming of more than 2C.**

The assessment reports by the United Nations intergovernmental panel **leaves no doubt about the trend in global warming**: ‘Warming of the climate system is unequivocal, and since the 1950s, many of the observed changes are unprecedented [...] The atmosphere and ocean have warmed, the amounts of snow and ice have diminished, sea level has risen, and the concentrations of greenhouse gases have increased’.<sup>67</sup> The summary of the report approved by 195 governments around the world highlights that **if the world wants a 50% chance of avoiding global warming of more than 2C**, which countries have agreed as dangerous, the world cannot emit in total more than 1,445bn tonnes of CO<sub>2</sub> and other greenhouse gases over the next century. At the moment the world emits 50bn tonnes of emissions annually and at that level the world will have used up its entire budget in 15-25 years from now. If the world continues to emit more at the present rate, the world will exhaust it even more rapid.<sup>68</sup> Sluggish and feeble action increase the risks as greenhouse gases accumulate in the atmosphere and the continuous investment of countries, communities, cities in high-carbon infrastructure locks in future emissions. **With around 75 % of all CO<sub>2</sub> emissions coming from urban areas in the EU, there will be trend towards further cuts in greenhouse gasses in which LRAS play a crucial role.**

**The major challenge for EU policymakers is to reduce uncertainty about the policy direction and provide greater clarity and consistency on further cuts in greenhouse gas emissions.**

**The EU has been a leader on climate change** and seeks to reduce greenhouse gas emissions by 20%, improve energy efficiency by 20% and boost the share of renewable in the energy mix to 20% by 2020. These targets are part of long-term plans set out to reduce greenhouse emissions to 80-95% below 1990 levels by 2050.<sup>69</sup> However, **mixed signals from policymakers to reduce emissions confuse the efforts to meet the targets.** There is a danger that, through indecision and

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<sup>67</sup> Intergovernmental Panel on Climate Change (7 June 2013) Fifth Assessment Report (IPCC WGI Fifth Assessment Report). Geneva. See 'Summary for Policy Makers'

<sup>68</sup> Nicholas Stern (30/09/2013) World leaders must act faster on climate change. *Financial Times*.

<sup>69</sup> European Commission (2010b) Europe 2020: A strategy for smart, sustainable and inclusive growth. Brussels.

confusion, policy makers will create policy risk that undermines the confidence of companies largely responsible for delivering the transition to low-carbon economic growth and development.<sup>70</sup>

**Much of the policy wavering relates to a rapid shift in the global situation and energy map with energy price differentials challenging European producers and consumers.**

Much of the confusion today is related to a rapid shift in the global situation and energy map.<sup>71</sup> Worldwide, **few sectors are changing so rapidly as the energy sector**, which is experiencing an energy revolution. The last 10 years has witnessed a rise in global fossil fuel prices, linked partly to economic growth in Asia consuming increasingly a large share of global fossil fuels. More recently, the US has experienced a **shale gas revolution** making the US increasingly energy self-sufficient as well as a net gas exporter. So far, the shale boom in the US has resulted in a drop of natural gas prices and foreshowing an American industrial renaissance over the coming decades. It is likely that other countries such as China will follow. The **cost of some renewable energy** (notably solar) has also declined sharply. Lastly, there has been a growth in coal generation, and a rise in global carbon emissions, of which the EU is currently responsible for approximately 10%.<sup>72</sup>

One consequence of the shale gas revolution in the US is the **growing competitiveness gap for industry between the US and the EU** with prices substantially moving in opposite directions. **Europe has become the battleground for conflicting priorities and worries over prices.** In stark contrast to the US, the question of rising energy cost is coming to dominate the political agenda in Europe.<sup>73</sup> It is a problem that affects consumers and European industry equally with many manufacturers fearing the competitive cost disadvantages.

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<sup>70</sup> Nicholas Stern (30/09/2013) World leaders must act faster on climate change. *Financial Times*, Financial Times (14/10/2013) Energy: Stakeholders struggle to strike the right balance, Oxford Martin Commission for Future Generations (October 2013) Now for the Long Term: The Report of the Oxford Martin Commission for Future Generations. Oxford.

<sup>71</sup> International Energy Agency (November 2012) World Energy Outlook.

<sup>72</sup> House of Commons - European Union Committee (02/05/2013) No Country is an Energy Island: Securing Investment for the EU's Future - *Fourteenth Report*. London.

<sup>73</sup> Financial Times (14/10/2013) Energy: Stakeholders struggle to strike the right balance.

## 2. **The importance of energy security and dependence will grow and is likely to become the EU's Achilles heel.**

These shifts loom large over the **common EU energy policy focusing on the EU's energy security in the medium and long run**. It was not until the Treaty of Lisbon in 2009 that the EU allowed explicitly for an energy policy shared between the EU and Member States.<sup>74</sup> The relatively new policy area is caught in the midst of sweeping sectoral changes and touches upon **innovation policy, industrial policy, economic policy and defence policy and has substantial implications for economic growth and employment**. Moreover, the EU's energy policy is facing strategic challenges as global demand for energy is expected to rise by one-third by 2035<sup>75</sup>. Within the EU, demand for energy is also set to rise while indigenous fossil fuel production will decline implying a **growing dependence on imports of fossil fuels**. By 2030 two thirds of EU energy requirements must be met by imports, but the situation varies hugely between European countries (from 20% to sometimes 80%).<sup>76</sup>

**The EU should be alarmed at the degree of uncertainty about an affordable supply of secure and low carbon energy.**

At the core, this challenge centres on **the so-called energy trilemma: mitigating climate change by reducing CO<sub>2</sub> emissions, achieving security of supply and making sure energy is affordable to consumers**. The financial and economic side of the challenges make it harder for policy makers to balance these apparently conflicting goals. The cause for alarm is motivated by a number of reinforcing trends such as the imminent closure of **coal plants** across the EU, energy price volatility and the weak energy interconnection between many EU Member States and dependency on Russian energy.<sup>77</sup>

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<sup>74</sup> The Treaty of Lisbon established Article 194 of the TFEU, which outlines the competence for energy policy:  
"(1) In the context of the establishment and functioning of the internal market and with regard for the need to preserve and improve the environment, Union policy on energy shall aim, in a spirit of solidarity between Member States, to: (a) ensure the functioning of the energy market;  
(b) ensure security of energy supply in the Union; (c) promote energy efficiency and energy saving and the development of new and renewable forms of energy; and (d) promote the interconnection of energy networks."  
The EU may adopt measures to achieve those objectives, but: "Such measures shall not affect a Member State's right to determine the conditions for exploiting its energy resources, its choice between different energy sources and the general structure of its energy supply." [6]

<sup>75</sup> International Energy Agency (November 2012) World Energy Outlook.

<sup>76</sup> Centre for Energy Environment Resources Development (18th June 2009) Analysis of the energy trends in the EU & Asia to 2030. Bangkok.

<sup>77</sup> House of Commons - European Union Committee (02/05/2013) No Country is an Energy Island: Securing Investment for the EU's Future - *Fourteenth Report*. London.



**Providing consistency and coherence for EU energy policy is a strategic challenge and the absence of common energy policy framework unnerving.**

In response to these trends, the EU common energy policy pursues the goals of **diversifying supply, strengthening energy security, building a single market to drive prices down, increasing the share of renewable energy and harnessing new sources such as shale gas (see box)**. To that end the European Commission published its energy roadmap to 2050.<sup>78</sup> The main **challenge for the EU is to harmonise a fragmented mosaic of 27 markets into a true European competitive single energy market, without barriers.**

### **Shale Gas in Europe?**

**France** and **Bulgaria** banned the exploitation of shale gas and there has also been strong resistance in **Germany**. However, according to the US Energy Information Administration (EIA) Europe has vast quantities of gas reserves. In **the Netherlands**, for instance, future gas revenues estimated at EURO 15bn annually are projected to decline considerably by 2030. This has put the extraction of shale gas, known as hydraulic fracturing or fracking, high on the agenda.

The population of the local communities of **Flevoland**, including the cities of **Noordoostpolder**, **Boxtel** and **Luttelgeest**, is split on the issue with many fearing that fracking will lead to pollution. The Dutch are now engaged in gradual testing before any industrial-scale fracking occurs. Throughout Europe, LRAs have a significant role to play and are challenged to win or lose much. It is important for the EU to provide clarity on the challenges and opportunities that that come with shale gas.

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<sup>78</sup> European Commission (2011b) Energy Roadmap 2050. Brussels.

**The crucial challenge is substantial low-carbon energy investment under a clear policy framework.**

Without the actual energy **infrastructure**, the internal energy market is unlikely to be realised. Commission estimates the need for up to EURO 200bn for gas and electricity infrastructure across the EU over the next decades. This is only one part of the total estimated EUR 1 trillion for modern infrastructure and R&D over the period 2010-2020. **It is far from clear where the required investment will come from.** Without investment, **the EU will be uncompetitive and over-energy-dependent, potentially miss carbon emission targets,** and fail to seize an opportunity to make a material and enduring contribution to European economic recovery.

**Over the coming decades, coordinated support for innovation into both lower carbon technologies and ways in which energy can be saved are central.**

Within the EU, there are clear benefits from working together on the energy challenge. The Covenant of Mayors is just one example (see box).

#### **The Covenant of Mayors**

The Covenant of Mayors, set up in 2008, is a European movement involving local and regional authorities that voluntarily commit to increasing energy efficiency and use of renewable energy sources on their territories.

They aim to meet and exceed the EU 20% CO<sub>2</sub> reduction objective by 2020. The movement has gained significant momentum, and in 2013 the movement counted nearly 5000 signatories across Europe. LRA signatories contribute with initiatives such as free electric biking, driving on biogas, congestion charges, green social housing, increasing public transport options and increasing energy efficiency.

The initiative could be replicated in other key areas such as biodiversity and land use, waste and water management, or air pollution, with impacts on water-saving, reducing flood risk and re-use or recycling of water in farming and industry.

The key challenge is to enable regional representatives with a wealth of experience in tackling climate change and living sustainably to share those experiences with their counterparts beyond the EUs borders with neighbours in the South and East as well as with developing countries.

Reducing CO<sub>2</sub> and elevated energy efficiency has positive effects on **clean air**. The supply of clean air is essential for citizens' health and for the environment. **The air quality has deteriorated extensively as a result of the intense rise in road traffic, industrial and energy production, and the consumption of fossil fuels. In the LRAs, air pollution can lead to serious health problems such as lung conditions.** Today twice as many people suffer from asthma compared to 30 years ago. Air quality is still a major worry for many EU citizens. Despite progress since the 1970s, air quality continues to cause problems with summer smog and the presence of fine particulates pollutants over the coming decades.

**3. There has been a rising consumption of raw materials and water, raising pressure on land and global food security. This trend is unlikely to reverse soon.**

Every European citizen consumes 16 tonnes of materials annually, of which six tonnes are wasted, with half going to landfills. This consumption pattern stands in stark contrast to limited and increasingly expensive resources. Businesses are facing rising costs for essential raw materials and minerals, their scarcity and price volatility are having a damaging effect on the economy. These **consumption patterns put further pressure on sources of minerals, metals and energy, and stocks of fish, timber, water, fertile soils, clean air, biomass and biodiversity.**

It is likely that demand for food and feed will rise by 50% by 2030 depending to a large degree on unsustainable production methods.<sup>79</sup>This trend endangers ecosystems and tests the EU agricultural sector. Europe must accept its share of responsibility at international level, and the Common Agricultural Policy (CAP) needs to overcome the challenge of climate change and the sustainable use of

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<sup>79</sup> Conforti (ed.) 2011. *Looking Ahead in World Food and Agriculture: Perspectives to 2050*, Rome: Food and Agriculture Organization of the United Nations.

natural resources whilst at the same time being more productive to address growing global food demand. In an increasingly competitive global food market spurred by growing trade agreements, maintaining and improving sustainable production capacity to deliver quality, choice and safety, including local products, will be a challenge.<sup>80</sup>

**Adapting agricultural practices, reducing the use of chemical products and increasing biodiversity are key challenges for rural Europe.**

The agricultural sector is a key user of soil, water and biodiversity and a central player in the makeup of European landscapes. Just fewer than 14 million farms manage more than half of European territory. Together with the forestry sector, they represent 80% of the European territory, making it a key player to combat climate change and biodiversity loss. Innovation and investment can diminish the agricultural pressure on the environment with soil depletion, water shortages and pollution, and loss of wildlife habitats and biodiversity. Adapting agricultural practices, reducing the use of chemical products and increasing biodiversity are central to the continuing maintenance of European agriculture and ecosystems with high added value in terms of soil, use of water, carbon sequestration and landscapes.<sup>81</sup>

The sector has already reduced greenhouse gas emission, but further efforts are needed. It is important for the **CAP** to unlock the agricultural sector's potential to mitigate, adapt and make a positive contribution through emission reduction, production efficiency measures including improvements in energy efficiency, biomass and renewable energy production, carbon sequestration, and protection of carbon in soils based on innovation.

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<sup>80</sup> European Commission (2010a) The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future. Brussels.

<sup>81</sup> Ibid.,

### **More Resource Efficient Agriculture in Europe**

The challenge for farming and agriculture lies in securing sufficient food supply for future generations and simultaneously increasing resource efficiency to confront the challenges ahead. Examples are the growing use of low pressure irrigation systems throughout the EU and a change of crops that reduce water consumption while maintaining productivity. More comprehensive and successfully tested in, for example, the municipalities of Maglij and Harmanli in Bulgaria are farming training programmes, which show that farming communities are open to training, and this can be replicated throughout Europe. The training programmes on new technologies and good practices highlight the potential for organic farming, the readiness of the local farmers and businesses, the mapping of the territories suitable for organic farming, and identification and transfer of good practices in organic farming. The programmes have resulted in more resource friendly agriculture.

### **Raising the level of energy efficiency, particularly in LRAs, is a major challenge.**

Current estimates project that by 2050 Europe will need a four- to tenfold increase in resource efficiency, with significant improvements needed already by 2020.<sup>82</sup> Many enterprises and consumers do not realise the scale and urgency of the required transformations and the potential of energy efficiency. It serves competitiveness and profitability, and it contributes to the EU's global competitiveness. A changeover towards a high energy efficient economy requires an environment rewarding innovation, resource efficiency, improved security of supply, sustainable management of environmental resources, recycling and substitution of materials. It will be a demanding task for different policy fields to move decisively towards a European green economy **that is resource efficient**, achieves a low carbon economy and makes sustainable use of natural resources.

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<sup>82</sup> European Commission (2011e) Roadmap to a Resource Efficient Europe. Brussels.

#### **4. Growing vulnerability of cities to climate change and a growing need for infrastructure adaptation**

Climate change influences climate conditions (temperature, rainfall and the magnitude of extreme weather events). Over the coming years, extreme weather events in LRAs will give an indication of situations projected for later this century. For instance, **droughts and peak summer temperatures will be gradually more common in the Mediterranean regions. Winter floods and summer droughts will increasingly become more frequent in continental Europe while storms, heavy rainfalls and mild winters alter biophysical conditions in Western Europe.**

The impact of these climate conditions is asymmetrical and regions are [differently] affected. Regions also differ in adaptive capacity; therefore, the impact on regional growth potential, environmental sustainability and equity will be asymmetric as well. It is expected that the Mediterranean regions will suffer the most from worsening conditions, with sectoral challenges predominantly in agriculture, fisheries, forestry, energy and the tourism industry.<sup>83</sup>

**Significant investment will be required to face drought, heat waves, forest fires, coastal erosion and flooding.**

In particular, urban life will have to adapt to more extreme weather conditions, which is likely **to put strain on existing infrastructure** in areas such as water supply, drainage, health, energy and public transport. Regions will have to mitigate the impact on a long term horizon, and investment choices in infrastructure will greatly influence the ability of regions to react to the impact of climate change policy, which will make it felt through increasing carbon prices. **The policy mitigation challenges the common agricultural policy, the cohesion policy and the common fisheries policy, infrastructure policy, and in particular the insurance and financial sector for resilient investment and business decisions.**<sup>84</sup>

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<sup>83</sup> European Environmental Agency (05 Jun 2013) Climate change evident across Europe, confirming urgent need for adaptation. s.l.

<sup>84</sup> Council of the European Union (18 June 2013) Council Conclusions on an EU strategy on adaptation to climate change. Brussels.

**Identified challenges with respect to ‘Sustainable Growth and Resource Efficiency’:**

- Growing scale and urgency of global warming to prevent warming of more than 2C, which is dangerous.
- Energy security and dependence will grow in the EU.
- Rising consumption of raw materials, water, land and food.
- Mounting vulnerability of cities to climate change and growing need for infrastructure adaptation.

**Key Questions 1:**

How will LRAs reduce greenhouse gas emissions whilst maintaining security of energy supply and affordability to individual and industrial consumers?

**Options and Suggestions:**

- Study, explore and develop shale gas where possible because gas-based electricity production emits less greenhouse gases relative to coal.
- Progressively ban and replace coal-burning furnaces to clear the air of smoke and possibly provide financial incentives to achieve that goal.
- Contribute to a truly European integrated energy market and grid (i.e. electricity mobility) that transports excess, cheaper and greener energy in a timely fashion to those LRAs with higher demand and prices – every one gains.

Increase renewable energy portfolio with solar, wind, geothermal, biofuels, biomass and energy generated from waste.

- Reduce overall energy consumption by: making *all* public building carbon neutral; increasing the efficiency of the public transport systems; building smart public lighting grids including LED technology; and encourage cycling in cities through the extension of separate and safer cycling lanes. Lower the tax rate on renewable energy fuels because a similar tax rate as fossil fuels results in a relative higher burden compared to fossil fuels.

Set up an information office providing credits for private investors in renewables and city planning that considers low energy housing.

**Key Question 2:**

How can the CoR and LRAs reduce obstacles towards the completion of the EU internal energy market increasing energy efficiency and reducing energy dependency?

**Options and Suggestions:**

- Encourage the ironing out of Member States' differences on a single European energy market by influencing Member States' domestic energy policy and set up cross-border partnerships with neighbours.
- Encourage the energy interconnection of power lines, gas and oil pipes between Member States and that of neighbouring countries. For instance, the Baltic States, Ireland and Malta are within the EU energy islands.
- Encourage (EU) harmonisation of energy sector laws and regulations and influence domestic energy policies, set up cross-border partnerships and ask for benchmarking among the LRAs with the CoR as coordinating/central institution.
- Request more diversification of EU oil and gas imports and build liquefied natural gas terminals.



**Key question 3:**

How can LRAs prepare for their growing vulnerability to climate change need for infrastructure adaptation?

**Options and Suggestions:**

If not done already:

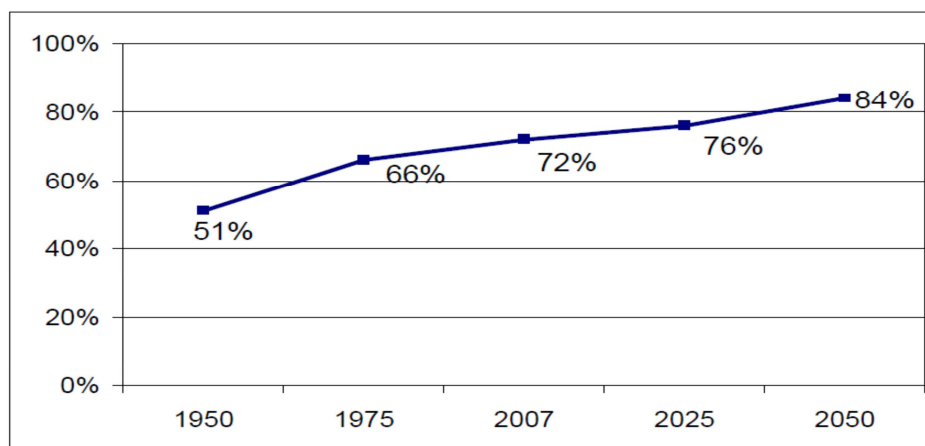
- Set up a planning commission to prepare coasts, land, dams, rivers, mountains and sewage systems for heavy rainfall, floods, storms, droughts and heat waves.
- Urgently set up and complete urban risk assessments on climate change and global warming impact.
- Develop, revise and update adaptation plans.
- Develop programmes with local farmers and businesses to react to climate change.
- Introduce measures to increase public awareness of likely climate change/global warming impacts and engage all stakeholders in identifying problems and solutions.
- Strengthen key infrastructure in view of climate change.
- Test emergency preparedness and make all the information public.  
Set up partnerships with neighbouring LRAs, and identify and exchange best practices through benchmarking with the CoR as coordinator.

## 5.4 Territorial Governance and Urbanisation

### 1. The uneven trend of global and EU urbanisation will continue with Europe as one of the most urbanised regions in the world.

In 1950 only one in three people in the world lived in urban areas. By 2007 every other person lived in an urban environment. The projected urban share of global population is estimated to rise further to 60% in 2030. The figure in Europe is higher still, with more than 2/3<sup>rds</sup> of the European population living in urban areas (see graph), and this share continues to grow with nearly **80% living in urban areas by 2030**.<sup>85</sup> While the situation varies throughout the EU, there are **big contrasts between rural and urban communities**.

Graph: Projected Urbanisation in Europe (number of people living in urban areas)



**The impact of urbanisation is uneven. Cities grow but also stagnate and shrink. Urban shrinkage is fast becoming one of the main challenges for policy and practice and has risen to the top of the policy agenda.**

The level of urbanisation varies across the EU and creates different patterns of urbanisation. Over the coming decades, **in several EU countries the proportion of Europeans living in urban areas is estimated to be 90 % or more**, with London and Paris standing out as mega cities. Urbanisation of the European coastal areas has also been growing rapidly.<sup>86</sup> Urbanisation is the result of various factors

<sup>85</sup> United Nations (2012b) World Urbanization Prospects. New York. see <http://esa.un.org/unup>

<sup>86</sup> European environmental Agency (20/09/2008) Urbanisation in Europe: limits to spatial growth: Key note speech by Mr Ronan Uhel, Head of Spatial Analysis, European Environment Agency. *44th International Planning Congress*. Dalian, China.

such as **immigration, accounting for 1/3<sup>rd</sup> of urban growth, migrant circulation and social restructuring**. Particularly, new immigrants in the EU have tended to flock to urban areas altering the composition of large cities.

In contrast, **some cities in Europe stagnate, shrink and de-populate**. Urban shrinkage happens when urban development is affected by economic, demographic and political processes in ways which lead to a reduction in the local population. **Shrinking cities usually face de-industrialisation, dwindling revenues, rising unemployment, emigration of the active labour force, vacant property and land, and oversized physical infrastructure**. These problems are compounded by the ongoing European demographic trends.

### **Shrinking Cities in Europe**

Detroit in the United States is probably the most well know global example of a shrinking city. Its bankruptcy in 2013 can in part be traced to rising unemployment and the loss of more than a million residents. In Europe, cities like Schwedt and Dresden in eastern Germany and the suburban decline in Glasgow and Paris are also cases in point. Shrinking cities are often small and medium size, such as Altena in the German Ruhrgebiet, surrounded by many large and successful industrial cities. It lost nearly half of its jobs and population starting in the 1970s. The city anticipates that the number of residents will stabilise at around 15,000 or half of what it was built for. A set of policies arrested the decline of the city and set in motion a process of regeneration. Firstly, the focus was on adjustment of services. Subsequently, the city initiated a research and consultation process that resulted in an integrated development concept with ten strategic priorities and 300 actions.

The focus was on economic growth and on the improvement of the quality of life in a sustainable and financially viable manner. Key in the regeneration plan was the refurbishment of the riverside walkway and the market square. Most importantly, the city encouraged Altenas' citizens to take matters in their own hands through voluntarism. It resulted in the founding of a retail cooperative and in citizens taking responsibility for locations to provide social care and cultural initiatives.

In every EU Member State there are cities that are contracting. Estimates suggest that around 40% of all European cities with more than 200,000 inhabitants have lost significant parts of their population in recent years. Smaller towns and cities are also affected.<sup>87</sup> As urbanisation in the EU continues its impact is highly uneven. As one expert put it **‘in Europe we are dealing with islands of growth in a sea of shrinkage’**.<sup>88</sup> Policymakers need to prepare for targeted action because many local and regional governments are unlikely to gain control over the socio-economic and physical decline of an ever-increasing number of urban settlements. The current economic crisis, coupled with falling populations in eight of the EU's 27 member states raises the prospect of an acceleration of these ongoing trends and patterns.<sup>89</sup>

**2. Urbanisation has given way to a trend of urban sprawl and urban-rural synergies in areas such as recycling, food and renewable energy production.**

With continuing growth of urbanisation, **urban-rural relations are rapidly changing. Foremost, Europe will continue to witness an ever wider urban sprawl.** Over the past 50 years, on average, cities have expanded by 78%, whereas the population has grown by only 33%. The historical **compact city** model has been replaced by free standing housing, more than doubling of the space consumed per inhabitant. As a result, low density suburban development in the periphery of Europe's cities has become the norm. The urban sprawl is a major common and cross-cutting challenge facing Europe and pressuring the territorial balance. The EU is increasingly using previously wild areas for agriculture, forestry, roads and settlements.<sup>90</sup> Roads, buildings and other artificial surfaces are spreading and almost half of this spread has been on farmland. The fastest land use change happened in Finland, Hungary, Ireland, Portugal and Sweden. In contrast, the most stable landscape structure is found in the Alps, the Pyrenees, the Romanian part of the Carpathians and in the Scandinavian mountains. Most conversions to forests occurred in Finland, while most agricultural land conversions took place in Spain.

**With urbanisation and the urban sprawl comes a growing demand for land, nature for food, raw materials and waste absorption, together with higher consumption rates per individual.**

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<sup>87</sup> Hans Schlappa and William J V Neill (May 2013) *Cities of Tomorrow – Action Today*. URBACT II Capitalisation. From crisis to choice: re-imagining the future in shrinking cities. Saint-Denis, France.

<sup>88</sup> Wiechman (2012) *Europe: Islands of growth in a sea of shrinkage*, in: Annegret Haase, Gert-Jan Hospers, Simone P ekelsma and Dieter Rink (eds.) *Shrinking Areas: Front runners in innovative citizen participation*, The Hague: EUKN.

<sup>89</sup> Andrew Gardner (04/04/2012) *Shrinking cities*. *European Voice*.

<sup>90</sup> European Environmental Agency (10/06/2013) *Analysis of changes in European land cover from 2000 to 2006*.

The amount of municipal waste in Europe is expected to grow by a quarter. Approximately 70% of all CO<sub>2</sub> emissions come from cities. Urban Europe does not only rely on its own country side resources but also on other regions in the world. Currently, the footprint of the EU is larger than its bio-capacity. Urbanisation and sprawl creates severe environmental, social and economic impacts for both the cities and the countryside of Europe. **Over the coming decades, policymakers need to continue to secure access to clean water and air, to healthy food, to mobility and to decent housing, while limiting noise, air, land and water pollution.**

### **Urbanisation and the urban sprawl challenge Europe's territorial balance with a need for compact and green cities**

Regardless of European city dwellers' lower footprint compared to the rural population, there are environmental challenges abound. According to one study, 30% of city residents drive to work, adding to rising CO<sub>2</sub> emissions and general air pollution.<sup>91</sup> The average consumption of renewable energy is just over 7% and a long way short of the EU's stated goal of increasing the share of renewable energy usage to 20% by 2020. Almost one out of four litres water consumed in cities is lost through leakage and less than one fifth of overall waste is recycled. Also, changing human behaviour towards more environmentally friendly habits is far from easy, and there are only limited means to encourage citizens particularly knowing that many green technologies help to reduce costs only in the long run.

#### **The Most Sustainable EU Town**

Copenhagen, the capital city of Denmark with 1.2 million inhabitants is one of the world's and EU's most sustainable towns. **The city aims to become the world's first carbon neutral capital by 2025.** In Copenhagen, a green roof policy is compulsory; new buildings need to incorporate some vegetation and pocket parks about half the size of a soccer field are set up throughout the city allowing 90% of all inhabitants to walk to a green space within a short distance. The city draws much of its energy from the largest wind turbine industry in the world, supplying just under 20% of Denmark's needs. Copenhagen has a green

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<sup>91</sup> Economist Intelligence Unit (2009) European Green City Index: Assessing the environmental impact of Europe's major cities. Munich.

traffic policy that expands bicycle lanes, encourages the use of bikes and pedal power, which is also positive for the inhabitants' health. The green traffic policy increases the city's mobility and enhances opportunities for businesses in the capital. Over 1/3<sup>rd</sup> of the citizens use the bicycle as their most preferred means of transport to work on over 250 km of dedicated bike lanes. An estimated 35.000 cyclists make their way through the city on rush hour and on a daily basis one million kilometres are cycled across Copenhagen. By 2015, the city wants half of the population on a bicycle, closing down a number of major roads to cars, increasing safety and creating an extra 68 km of bike lanes. Also, bicycle tourism is rising in the city.

But there are some encouraging trends. Compared to other regions of the world, citizen awareness of the importance of protecting the environment and of green objectives has markedly increased in recent years and so has that of LRAs through **urban innovation platforms**. The challenge remains to increase the level of **compact cities in the EU**. Compact cities are characterised by dense and proximate development patterns linked to public transport systems and accessibility to local services and jobs. They have shorter intra-urban distances and less automobile dependency reducing CO<sub>2</sub> emissions. They conserve biodiversity and farmland directly adjacent to cities. Most importantly, compact cities contribute to the territorial balance with opportunities for urban-rural linkages, encouraging local food consumption, reducing the distance that food travels and limiting greenhouse gas emissions. Compact cities also increase efficiency of infrastructure investment and costs of maintenance. They generate new green needs that promote technological development and innovation. **Most European governments have elements of compact policies in place, but no single comprehensive compact city model is applicable to all LRAs. Each must take local situations in to account.**<sup>92</sup>

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<sup>92</sup> Organisation For Economic Cooperation and Development (2012a) Compact City Policies: A Comparative Assessment. *OECD Green Growth Studies*. Paris.

### **Grenoble and Montpellier: compact city policies in Europe**

The idea of a compact city aims to improve urban sustainability in reaction to sprawling cities. Compact cities limit the spread of urban areas, make land use more efficient to protect the countryside and ecological diversity, and improve public transport as well as social cohesion. Grenoble developed a compact and green environment at the heart of the city. It redeveloped a former military facility with army barracks into a green, open space surrounded by dense buildings. Today the area is a neighbourhood with low energy-consumption buildings such as housing, recreation, offices and shops planned around a central park. The Montpellier Agglomeration plan wants to preserve the environment and the attractiveness of the countryside that is under pressure of urban sprawl. Moreover, Montpellier wants to develop an accessible city where mobility is conducive to cohesion and social and territorial solidarity. Central to reach this objective is to preserve space. To that end the city imposed minimum density norms and promoted integrated development and construction with retail activity along new tramway lines. Around 50% of new constructions lie at least within 500 meters of the tramways and within existing urban areas.

The growing awareness of sustainable growth and the need for compact city is a challenge for rural areas. It is essential to maintain the capacity for agriculture as an essential driver of the rural economy. The vitality and potential of many rural areas remains closely linked to the presence of a **competitive and dynamic farming sector**, representing around 5% of value added and 16% of employment. In the newer Member States, it is important to consolidate the recent gains in productivity and fulfil the full potential of agriculture.

**3. Growing urbanisation and urban sprawl are putting more pressure on European land with growing stress and damage to vulnerable ecosystems and habitats.**

As cities expand into the countryside, the habitats of many animals and plants are reduced. Roads and other infrastructure are carving valuable habitats dividing wildlife populations into increasingly smaller groups. This has serious consequences for some of Europe's most endangered species.

The addressing the urbanisation challenge is gaining **momentum** today within the **EU institutions**. **DG Regio** of the Commission and the **EP Urban Intergroup** are very active. In this domain, **the CoR and LRAs are challenged to develop their capacity further and to strengthen cooperation** with both the Commission and the EP.

**4. Declining EU Cohesion Funds and infrastructure investments requires the LRAs to do more with less and/or set up inventive policies over the coming years.**

The Structural Funds and the Cohesion Funds are the financial instruments of EU regional policy intended to narrow the development disparities among regions and EU Member States. Together with agriculture, they are the biggest spending blocs. Both agriculture and cohesion policies suffered hefty decreases for the upcoming budgetary cycle (2014-2020). It follows an ongoing trend in the EU budget away from agriculture and cohesion policy allocations. **Nevertheless, the smaller budgets, the new macro-conditionality and categories against the background of the financial and economic crisis, and daunting territorial challenges mean that over the coming years policymakers in LRAs will have to do more with less. Noteworthy in this context is the performance reserve released for the performance of the Member States' economy as a whole and not the financial discipline of the regional governments.** Given the daunting long term territorial challenges and growing disparities in the EU, these trends might need to be reversed for the 2021-2027 EU budgetary cycle.



**For the coming years LRAs face the challenge of smarter local investments, more cooperation between territorial units sharing costs and profits, and regional specialisation strategies.**

With declining revenues and investment, LRAs will need to invest smarter in the coming decades to remain and become globally competitive. The key challenge is to concentrate on knowledge resources and to link them to a limited number of priority economic activities. This **smart specialisation** allows regions to take advantage of scale, scope and spill-overs in knowledge production, combining innovation with specific strengths of the LRAs economy. Smart specialisation is about generating unique assets and capabilities based on the region's distinctive industry structures and knowledge bases.<sup>93</sup> It is a means to deliver a more targeted Structural Fund support and a strategic and integrated approach to harness the potential for smart growth and the knowledge economy in all regions. Smart specialisation is a key element for place based innovation policies.

Smarter local investment focuses on cooperation between territorial units, sharing the costs and profits and encourages regions to specialise in what they do best. **It will be a challenge for LRAs to focus policy support and investments on key national/regional priorities and to identify the each region's strengths, competitive advantages and potential for excellence.** Moreover, LRAs will need to **mobilise and stimulate private sector investment**, have all stakeholders fully on board and encourage innovation and experimentation. Most importantly, LRAs will have to monitor and demonstrate progress. This approach is part of a broader regional and local challenge which is to generate smart, sustainable and inclusive growth.

This matters for the future of Europe because the development of an economy based on knowledge and innovation remains a fundamental challenge for the EU as a whole. Moreover, such cooperation relates to sustainable growth, and considerable investment is required to shift towards a resource-efficient and low carbon economy. The LRAs smart specialisation also contributes to inclusive growth between and within regions by strengthening territorial cohesion and by managing structural change, creating economic opportunity and investing in skills development, better jobs and social innovation.<sup>94</sup>

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<sup>93</sup> European Commission (6/10/2010) Regional Policy contributing to smart growth in Europe 2020. Brussels.

<sup>94</sup> Council of the European Union (26 November 2010) 3049th COMPETITIVENESS (Internal Market, Industry, Research and Space) Council meeting: Conclusions on Innovation Union for Europe. Brussels.

**It will be a challenge for LRAs to improve their necessary performance over the coming decades. Smart specialisation is a strategic and central part of the EU Cohesion Policy 2014-2020 as a key vehicle for ensuring Cohesion Policy's contribution to the Europe 2020 jobs and growth agenda.**

**Identified challenges with respect to ‘Territorial Governance and Urbanisation’:**

- The uneven trend of continued global and EU urbanisation with Europe as one of the most urbanised regions in the world.
- The continuation of urban sprawl but also the emergence of urban-rural synergies in areas such as recycling, food and renewable energy production.
- Growing urbanisation and urban sprawl put more pressure on European land with growing stress and damage to vulnerable ecosystems and habitats.
- Declining EU Cohesion Funds and infrastructure investments require the LRAs to do more with less and/or set up inventive policies over the coming years.

**Key Question 1:**

How can LRAs address the main challenges coming from continuing urbanisation and urban sprawl?

**Options and Suggestions:**

- Encourage rural-urban synergies in areas such as recycling (re-use locally), food (buy locally) and energy production (produce locally).
- Set up committees/meetings with hinterland communities for common planning and public service provisions.
- Develop long term compact city plans imposing density norms, putting public transport at the centre of new constructions permits for dense and low energy consuming buildings.
- Preserve the country side while maintaining social cohesion between urban areas and country side through public transport.

**Key Question 2:**

How can the LRAs counteract shrinking cities in Europe?

**Options and Suggestions:**

- Let go of the idea that bigger is better and accept that (for now) smaller can be beautiful and better.
- Initiate a research and consultation process that results in an integrated re-development concept with strategic priorities and actions.
- Demolish neglected buildings and, sell the land cheap to an interested neighbouring family, school, business, etc. upon which they may build a playground, expand their business and/or create green space.
- Entice the right jobs which are geared towards services, local economy and innovative sectors.
- Incite voluntarism among citizens to help regenerate the city.

## 5.5 Technology, ICT and Communication

1. **The coming decades will witness the growing availability of big data, giving way to a data deluge.**

**Data in the world is doubling every 18 months and has become the ‘21st Century’s new raw material’.**<sup>95</sup> The overall trend is that the world is becoming more and more **interconnected by globally and continuously available data**. This data comes from a variety of sources. In 2010 more than 4bn people, or 60% of the global population, were using mobile phones. Smartphones’ penetration is growing at more than 20% annually. Over 30mn networked sensor nodes are present in transportation, automotive, industrial, utilities, and retail sectors. The amount of these sensors rises annually with more than 30%. Other big data generators are store point-of-sale terminals and bank ATMs. In more recent years this has also included the gusher of data coming out of social media sites such as Facebook posts and YouTube videos. Even larger amounts of data will be generated in the future when the **internet of things** becomes a reality referring to the use of sensors, actuators, and data communications technology built into all sorts of physical objects and products. These objects will be able to communicate and be controlled across the internet. It is projected that the number of connected devices in 2050 will be around 50 billion.<sup>96</sup>

**To harness the opportunities of data availability is a challenge for the economy and all levels of government.**

‘Big data’, sometimes also called the data deluge<sup>97</sup>, is the term used to describe these large volumes of data. The challenge for big data does not lie with the quantity of new information, but with how it is dealt with. **A lot of data is useless unless one is able to analyse, process and use it to make better decisions.** Companies and public services have been doing this for many years at the level of structured data. The explosion of **unstructured big data** promises huge insights. However, **the public availability of data flows from different sources in any form need to be ingested, combined and analysed to yield new insights.** The sophisticated tools for analysis and discovering hidden patterns, trends or other understandings to better tailor products and services to customers and citizens and

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<sup>95</sup> Maude Francis (18/04/2012 ) Data is ‘the new raw material of the 21st century’. *The Guardian*.

<sup>96</sup> James Manyika, Michael Chui, Brad Brown, Jacques Bughin, Richard Dobbs, Charles Roxburgh and Angela Hung Byers (June 2011) Big data: The next frontier for innovation, competition, and productivity.

<sup>97</sup> Ibid.,

anticipate demand or improve performance has become **one of the keys to this big data science**.<sup>98</sup>

The soaring online activity, the falling costs for collecting and processing information, and technology infrastructure designed to make it easier to combine and analyse different streams of information have pushed the practice into more industries and many different forms of decision-making.<sup>99</sup> Everywhere from **medical professions, healthcare policy, insurance policy, agricultural policy, retail to policing and security policy** at the level of LRAs, the vast quantities of information accumulating in the cloud can be intelligently reused and become a foundation of innovation and new services.

### **Precision Agriculture**

In **agriculture**, the move towards '**precision agriculture**', also called satellite farming or site specific crop management technology, could increase the yield on any farm by around 10% relative to the average global annual crop yield rise of about 1%. Farmers generate vast data and remote sensing and cloud based data collections on numerous variables from nutrient levels and moisture to weather patterns, details of soil types and seeds that have been planted can improve modern farming.<sup>1</sup> Precision agriculture aims to match farming practices more closely to crop needs (e.g. fertilizer inputs), reduce environmental risks and the ecological footprint of farming and increase competitiveness through more efficient practices.

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<sup>98</sup> Richard Waters (10/12/2012) Push to exploit an ocean of information. *Financial Times*.

<sup>99</sup> *Ibid.*,

Analysing a range of data such as transactions, browsing, purchasing patterns and television viewing habits allows for the construction of individual profiles and **redrawing the relationships between retailers and consumers.**<sup>100</sup> Big data analytics allow for a better match between products and consumer needs, lower prices due to price transparency and allow for better transport and storage of goods. **Healthcare data analytics** allows for specialised tailored health treatments reducing costs for both diagnosis and treatment.

**It is a challenge for the LRAs to accelerate the making of well informed choices and decisions on the basis of big data over the coming decades.**

### **The Global City Indicators Facility (GCIF)**

The GCIF Aggregation Tool is set up to generate knowledge on regions and metropolitan areas. It accumulates large data on performance and quality of life from municipalities. The tool is designed to assist policymakers with information and take well informed decisions for regional planning in the areas of infrastructure, transportation, land-use, environment, economic development and competitiveness.

A pilot exercise has been set up in Canada in the Toronto Urban Region and facilitates the aggregation of municipal data. The creation of the initial pilot followed discussions in a working group with the GCIF member municipalities in the province of Ontario, the Ontario Ministry of Municipal Affairs and Housing, the so-called Growth Secretariat and the GCIF. The working group identified 31 municipalities for the pilot exercise. The aggregation tool will be operational in 2014 and serve as an example for other cities globally.

**Big data analytics is aimed at making governments and companies more effective.** The rejuvenation of public services should continue through the rapid implementation of services such as **e-government, e-health, e-invoicing and e-procurement.** This will lead to more and better digital services for citizens and enterprises across the EU and free resources in the public sector for innovative use. Open public data is an untapped resource with a huge potential for building stronger, more interconnected societies that better meet that better meet the needs of citizens in the 21<sup>st</sup> century. EU legislation should be designed to facilitate digital

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<sup>100</sup> Jopson (11/12/2012) Caught between loyalty and a bargain. Ibid.

interaction between citizens and businesses and the public authorities.<sup>101</sup> Interoperability and the re-use of public sector information should be promoted actively.

### **What is a Smart City: Two Perspectives**

Smart cities have various names ranging from wired, cyber, digital, intelligent and sentient cities. They are cities that use ICT as a development strategy and insert digital infrastructure into their urban fabric for entrepreneurial and regulatory effect. More specifically, a smart city means urban places composed of ‘everyware’ which is the pervasive and omnipresent computing and digitally instrumented devices built into the very fabric of a city. These devices can be fixed and wireless telecoms networks, digitally controlled utility services and transport infrastructure, sensor and camera networks that monitor, manage and regulate city flows and processes and mobile computing like smart phones used by many urban citizens to engage with and navigate the city and which themselves produce data about their users such as location and activity. This is **the technocratic and technological perspective.**

Crucially, a ‘smart city’ also refers to the development of a knowledge economy within a city-region driven by smart people, innovation and entrepreneurship. ICT is regarded as the central platform for generating ideas and innovations. From that angle, the implanting of ICT in urban infrastructure is not seen to make a city smart.

Rather, ICT in conjunction with human and social capital and wider economic policy is a lever for economic growth and management of the urban development. This is **the human capital, education, economic development and governance perspective** with ICT as enabling technology. In this context ICT Infrastructures are enabling technologies that facilitate social, environmental, economic, and cultural development.

These two perspectives on smart cities have different implications for citizens of smart cities.

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<sup>101</sup> European Council (24-25 October 2013) European Council Conclusions. Brussels.

2. **Against this background, there will be a growing pressure on LRAs to better understand society, provide higher-quality civic engagement with government, use big data to improved health outcomes and realise e-health and e-education.**

At the level of LRAs, big data analytics can provide an important source of near real-time information, whereby citizens can be actively involved in the entire decision making process in a manner that was not possible before. **Big data, ICT and technology address a series of urban challenges and exploit the full potential of information and communication technology for better health care, a cleaner environment and easier access to public services, the development of innovation partnerships for smarter and cleaner urban mobility.**<sup>102</sup>

For instance, smart energy networks with smart grids, allowing renewable generation, electric vehicles charging, and grid balancing. Smart metering and energy management systems and appliances allow for lower energy consumption and the use of more renewable resources. Data analytics also allow for more sustainable mobility and low carbon public transport and individual transport systems, including smart applications for ticketing, intelligent traffic management and congestion avoidance and freight distribution. Another case in point is ensuring greater public safety in LRAs on the basis of growing real time data that will allow police officers to monitor potential criminal behaviour constantly and prevent crimes.

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<sup>102</sup> European Commission (2011a) Cities of tomorrow Challenges, visions, ways forward. Brussels.



### **One-stop data hub: New York, London Dashboard, Dublinked and SmartSantanderRA**

Many city governments use big data and real-time data analytics to manage aspects of the functioning and regulation of a city. The foremost example is the transportation network. A central hub harvests data from a network of cameras and other sources to monitor the flow of traffic. Another example is the collation of environmental city data on air and water pollution, weather or seismic activity. These examples concern isolated systems dealing with a single issue and are controlled by a single agency. Most cities have such system(s) in place but do not centralise all these types of data and analytics into a single hub, supplemented by broader public and open data analytics. Some attempts do exist, however.

The Office of Policy and Strategic Planning of **New York City** has created a one-stop data analytic hub with data coming from different city agencies in an attempt to govern, regulate and plan the city more efficiently and effectively. Several terabytes of data are harvested on a daily basis in the office enabling analysts to spot patterns and identify and solve city problems. **Most importantly, New York City makes some of the data freely available in machine readable format.** This allows citizens and developers to build apps that cut, mash and repackage the data for city dwellers. Likewise, the **Dublinked** network connects the Dublin region's four local authorities with universities, companies and entrepreneurs and offers harvested data in an open machine readable format. Using live city data to develop new products and services, Dublinked brings people together to test new ideas.

An example of a free app using open machine readable data is **SmartSantanderRA**. The app provides information about 2700 places in the city of Santander divided in a number of categories such as beaches, parks, gardens, monuments, shops, museums, libraries, public transport, etc.

The city of London communicates live feeds of data to citizens that can find instant information about public transport delays, the weather, air pollution, river levels, electricity demand, the stock market, city twitter trends, traffic camera feeds. These data are complemented with **London Dashboard**, which follows the performance of the city with respect to jobs and economy, transport, environment, policing and crime, fire and rescue, communities, housing, health, and tourism. The site allows non-expert users and citizens to monitor the city for themselves and for their own ends.

In short, this phenomenon represents both a challenge in making sense of the data available to companies and governments and an opportunity for those seeking to enhance their effectiveness. **It means harnessing advanced techniques and technologies to capture, store, distribute, manage and analyse big data.**<sup>103</sup> **It is therefore critical to understand big data and exploit its potential. Therefore, in the EU, there is challenge for a big push to exploit the ocean of information and promotion of key enabling technologies.**

Many European citizens, enterprises and LRAs currently do not use ICT technology and communication to its full potential. One consequence is the growing difficulty in filling digital jobs with numerous sectoral vacancies, which could rapidly grow over the coming years.<sup>104</sup> The **skills mismatch** is detrimental to the EU economic and social policy objectives and to allow the EU to fully harness the power of big data, **it is therefore essential that a framework is put in place that not only encourages the use, free-flow and analysis of data, but also builds trust and provides the incentives to train the skilled personnel and to deliver the knowledge base needed to mine it.**

The EU needs to develop a set of rules that maximise the value and minimise the cost of data. **Data needs to be freely available for re-use across Europe without compromising on fairness, transparency or user control.** Data analytics require interoperability, standardisation and, where possible, harmonised formats for ease of access. These open data standards are part of the **Horizon 2020 activities**. Most importantly, the EU needs to **invest in new types of computing infrastructures, big data research, cloud computing and innovation that allow software start-ups companies to flourish.** Central to the innovation drive in this field is open access to scientific results and data to boost the science, products and services, and to enable new techniques and collaborations between disciplines.<sup>105</sup> **The Digital Agenda for Europe** helps to harness the potential of big data and is part of the EU's strategy to deliver **smart, sustainable and inclusive growth**. It focuses on **new public digital service infrastructures digital skills** and jobs, property rights, accelerated cloud computing through public sector buying power and a new electronics industrial strategy. It is projected that this agenda would increase European GDP by 5% over eight years.<sup>106</sup>

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<sup>103</sup> Commission (2012) Demystifying Big Data: A Practical Guide To Transforming The Business of Government.

<sup>104</sup> European Council (24-25 October 2013) European Council Conclusions. Brussels.

<sup>105</sup> Kroes (23/05/2013 ) The Economic and social benefits of big data. Brussels.

<sup>106</sup> European Commission (26/8/2010) A Digital Agenda for Europe. Brussels.

### **3. The EU is confronted with a fragmentation of regulatory approaches to ICT and big data.**

**Despite the potential of big data and cloud computing, fragmented regulatory environments in the EU and a lack of adopted interoperability approaches and standards pose significant barriers.** The lack of clear guidance in this field causes regulatory uncertainty on how to apply the relevant provisions from the existing EU regulatory framework. Member States have started to adopt different approaches, creating a risk of fragmentation of the digital single market and deterring EU wide investment and innovation. Different interpretations of existing rules mean 28 different ways of enforcing. Therefore working across borders can be a costly enterprise in a highly connected EU. It is a challenge for the EU to create a new, stable and predictable broadband regulatory environment.

**The challenge to create a single framework for a single market for big data and cloud computing and promote high standards for secure, high-quality and reliable cloud services is of strategic importance.**

The EU needs investment to accelerate the roll-out of infrastructure capable of achieving higher broadband speed targets, reducing the cost and accelerating the deployment of new technologies such as 4G. The so-called connected continent package and the advent of a telecom single market is crucial and needs to be delivered on. **Today's market fragmentation hampers the release of the digital economy's full potential. This requires a comprehensive approach fostering innovation and competition in digital services.** The EU risks lagging behind. It is noteworthy that in May 2013 the US president gave an executive order to make all public data **'open and machine readable as the new default for government information'**. The order was given to strengthen **US democracy, the delivery of efficient and effective services to the public and contribute to economic growth.**<sup>107</sup>

### **4. The trend towards a fragmenting digital single market goes hand in hand with the challenge to guarantee the privacy of data in the EU just at a time that public and private actors have growing knowledge about citizens' choices and preferences and the dawn of Internet of Things.**

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<sup>107</sup> The White House (09/05/2013) Executive Order -- Making Open and Machine Readable the New Default for Government Information. Washington.

While big data has many promises, the next challenge is how to best use that data while respecting the **privacy concerns of European citizens**. The most valuable big data information is about people going online and the digital trail that they leave behind. By making connections between different snippets of information, big data can reveal far more than ever intended. **Inevitably that means the collection and use of big data is central to the debate on privacy and the use of personal data**. The EU needs a data protection framework that builds that confidence and permits that digital innovation.

In some senses the privacy genie is already out of the bottle. **The challenges posed by big data run the risk are of being underestimated, misunderstood and misrepresented. The absence of a clear policy framework challenges citizens' trust in the data-driven economy**. The so-called 'Snowden effect' has given way to a more realistic assessment of what the accumulation of large data is good for and who benefits. Today European citizens, EU institutions, LRAs and the market pay much more attention to the internet giants who sit on vast deposits of private data. **To protect these data, the EU is challenged to conclude the long stalled EU's data protection reform, touching upon** data sharing with other regions in the world, cloud computing, secure, high quality and reliable cloud services and setting up review networks of national digital co-ordinators to cooperate on cloud and data issues.

Most worryingly is the feeble state of cyber security in general. As the Oxford Martin Commission for Future Generations notes: 'The potential for cybercrime and cyber aggression within the digital world is relatively unconstrained by jurisdictional boundaries and virtually unregulated by government agencies or frameworks'.<sup>108</sup> There is a growing worry about the reach of state surveillance tools<sup>109</sup> to monitor cyber interactions and the vulnerability of critical infrastructure to cyber-attacks. 'These are considered one of the most serious economic and national security challenges states will face this century'.<sup>110</sup>

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<sup>108</sup> Pascal Lamy (15/10/2013) It's time to face up to the crises that are yet to come. *Financial Times*.  
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<sup>110</sup> Oxford Martin Commission for Future Generations (October 2013) Now for the Long Term: The Report of the Oxford Martin Commission for Future Generations. Oxford.

**It is important to foster the trust of citizens and businesses in the digital economy, and the EU is globally challenged for a strong general data protection framework to counteract the cyber-security threat in the context of the completion of a single digital market.**

**5. Communicating the EU will remain an important task regarding the representation of the EU in the various European public spheres for the foreseeable future.**

The Communication strategy needs to inform citizens of the EU about the EU's added-value and its functioning and decisions which impact upon the daily life of each of its citizens.<sup>111</sup> **Informing citizens about the complex EU multi-governance system and to engage citizens' awareness and active engagement in this system is challenging.**

Communicating the EU, however, does not only fall into the hands of European institutions. Neither are public communicators only situated on a national level; also, **local and regional levels are important facilitators of communicating the EU**<sup>112</sup>. For public authorities on all European levels, the objective is to communicate on the EU by giving information to citizens and to foster participation of citizens. Moreover, public authorities, including the EU institutions, the national, regional and local authorities have **to enter into dialogues with citizens.**<sup>113</sup> To this end, it becomes evident that there is a need for EU institutions to work on such public communication together with other public institutions **in order to reach out to many public spheres on the various levels of European governance.**

Adopting a decentralized strategy in communicating the EU **the CoR is an essential communication facilitator. The CoR gives a priority to function as a catalyst between the EU Institutions and the local and regional authorities to strengthen the efforts to communicate the EU.** A communication of the EU will be best suited if EU Institutions convince national, regional and local communicators to communicate on the EU and if they provide them with

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<sup>111</sup> Raube, K., Marx, A., Van Aken, W., Soares Junior, J. (2013). *Going local - The communication potential of local and regional authorities*, 73 pp. Brussels: European Union, 34-35.

<sup>112</sup> Niederhafner (2010) Städte im EU-Mehrebenensystem 2030 : Anmerkungen zu den Potenzialen einer besser integrierten lokalen Ebene - Cities in the EU multi-level system in 2030 : comments on the potential of a better integrated local level., in: Abels, Eppler and Knodt (eds.) *Die EU-Reflexionsgruppe 'Horizon 2020-2030': Herausforderungen und Reformoptionen für das Mehrebenensystem*, Baden-Baden: Nomos Verlag.

<sup>113</sup> *Ibid.*, 24

assistance. **At the same time, public communicators need to show to their local, regional and national audience** that the EU is of added-value by using specific example of where and how the EU make a difference. These narratives may well look different from one public sphere to another.

**Identified challenges with respect to ‘Technology, ICT and Communication’:**

- A growing availability of big data giving way to a data deluge.
- A growing pressure on LRAs to better understand society, provide higher-quality civic engagement with government and use big data to improve health outcomes, realise e-health and e-education.
- A fragmentation of regulatory approaches to ICT and big data.
- A challenge to guarantee the privacy of data in the EU at a time that public and private actors have growing knowledge about citizens’ choices and preferences.
- Communicating the EU will remain an important task regarding the representation of the EU in the various European public spheres for the foreseeable future.

**Key Question 1:**

How will the CoR and LRAs reconcile privacy and use for public benefit of big data?

**Options and Suggestions:**

- Organise workshops and conferences to study, analyse and contribute to the debate on societal and policy uses of big data that opens a range of scientific, technological, social, ethical, and policy challenges.
- Invite experts that explain the scientific, technological, social, ethical, and policy challenges of big data.
- Set up a data security unit in the administration of the LRA that protects citizens’ privacy.
- Install servers.
- Encourage more and better ICT training in education systems.

**Key Question 2:**

How can the CoR and LRAs use the benefits of big data to spur innovation and productivity growth and deliver more effective public services?

**Options and Suggestions:**

- Harvest and centralise all data collected by the different agencies in individual LRAs to analyse and inform policy making and decisions.
- Analyse the LRA data and take well informed decisions, including the provision of tailored services for citizens and achieve greater effectiveness, efficiency and citizen satisfaction. Anonymise all the data gathered by/in the LRA and make them freely open and machine readable to all citizens, businesses, software developers that wish to be creative, innovative, develop software and apps and contribute to the governance of the LRAs.
- Provide cheap land and infrastructure to companies and start-ups active and doing research in the ICT sector in order to encourage innovation and the creation of know-how and ICT clusters.
- If not done already support G4 transmission and fibre optic cable systems to increase data mobility for citizens.

**Key Question 3:**

How can LRAs enable big data and the Internet of Things to help improve energy efficiency, ensure greater public safety in the cities and more inclusion of citizens in policy making?

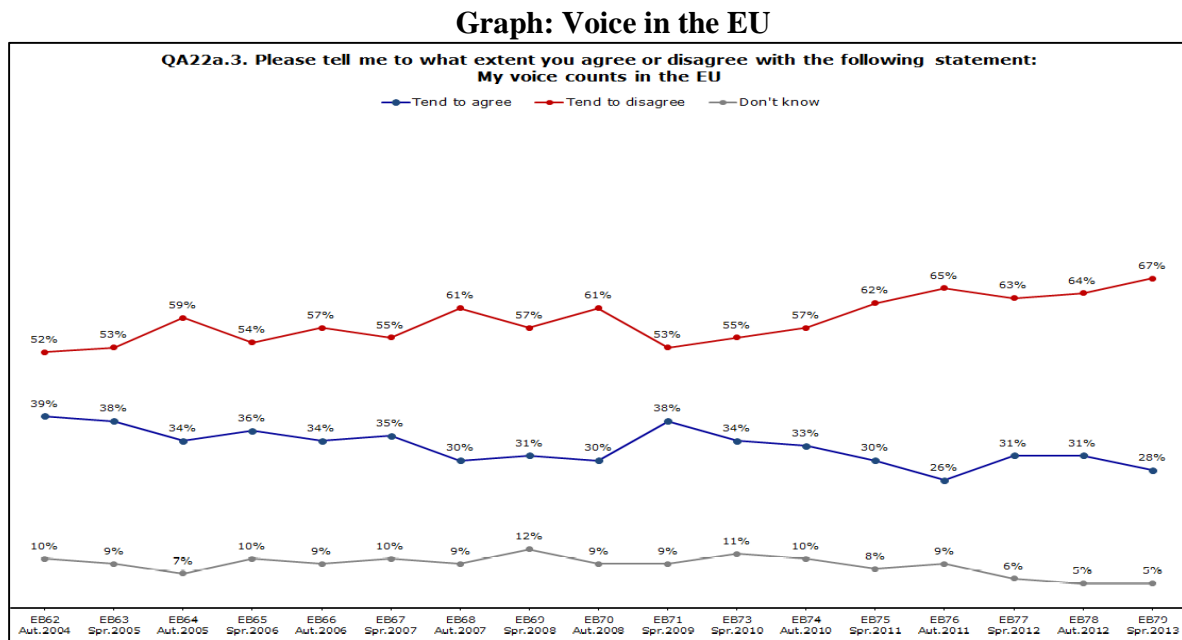
**Options and Suggestions:**

- Organise a competition putting forward a number of real LRA problems/questions that encourage innovative thinking on the basis of the data cities harvest in real-time. The winners receives a price and public visibility encouraging further innovation.
- Encourage awareness and the possibilities of big data and big data analytics through organising information sessions and communication campaigns.
- Buy off-the-shelf products from companies with big data analytics experience and install as well as apply the new products in the LRAs.
- Encourage ICT, big data analytics and cyber security literacy in the LRA's education programmes.

## 5.6 Political Governance and Democratisation

1. The EU democracy and also national democracies are seriously challenged to restore citizens' perceptions about voice, trust, legitimacy and more effective decision-making in the EU over the coming decades<sup>114</sup>.

EU citizens have increasingly grown discontented about the functioning of the EU as a political system. When asked whether their voice matters in the EU a record 67% of the electorate thinks it does not (see graph).



Source: European Commission (Spring 2013) Standard Eurobarometer.

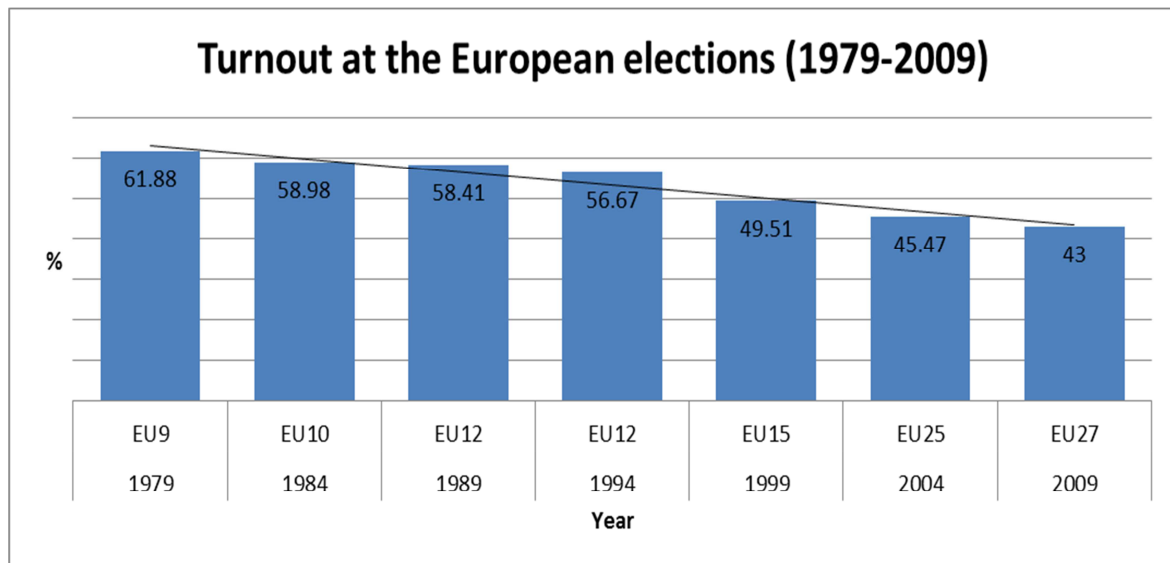
A variety of trends in opinion polls make for uncomfortable reading<sup>115</sup>. In the first half of 2013, less than one in three (30%) held a positive view about the EU, an absolute low. Less than one in three trust the EU and national

<sup>114</sup> For the relationship of the EU institutions and the local level authorities see: Niederhafner (2010) Städte im EU-Mehrebenensystem 2030 : Anmerkungen zu den Potenzialen einer besser integrierten lokalen Ebene - Cities in the EU multi-level system in 2030 : comments on the potential of a better integrated local level., in: Abels, Eppler and Knodt (eds.) *Die EU-Reflexionsgruppe 'Horizon 2020-2030': Herausforderungen und Reformoptionen für das Mehrebenensystem*, Baden-Baden: Nomos Verlag.

<sup>115</sup> Since September 2012 a majority of Europeans have a neutral image of the EU (39%, =), and the proportion of respondents for whom it conjures up a positive image continues to be just higher than the proportion for whom it is negative (30% positive, unchanged; 29% negative, unchanged). See European Commission (Spring 2013) Standard Eurobarometer. s.l.



**institutions.** Moreover, electoral participation is volatile<sup>116</sup> and participation in **the European elections** has been consistently lower than the turnout in national elections **with voter turnout falling** (see graph). This legitimacy crisis varies significantly across institutions and Member States. The most extreme manifestation can be found in the UK, where calls are mounting to leave the EU all together.



Source: European Parliament.

**There is no doubt that the financial and economic crisis has fanned the flames of discontent among EU citizens, putting pressure on the achievements of EU integration carefully crafted over the last decades.**

The economic and financial crisis has put pressure on the political fabric of EU integration. Anti-establishment and populist parties on the far left and far right are emerging throughout the EU. Exploiting the public sense of economic insecurity and fractured national identity, these parties blame the EU for job losses, public spending cuts and rising immigration. They share a voice that advocates reforms, resulting in a looser, nimbler EU bloc that questions EU accomplishments such as free trade, open borders, free movement of persons, and diversity and innovation that comes with it. Polling data suggest there could be fertile ground for such messages across Europe over the coming years. A Gallup survey in 2013 found that **just over 40% of respondents believed things were headed in the wrong**

<sup>116</sup> International Institute for Democracy and Electoral Assistance (2004) Voter turnout in Western Europe since 1945. Stockholm.

**direction in the EU against only 26 per cent who were more optimistic<sup>117</sup>. Majorities in 16 of the bloc's 28 Member States said powers should be reclaimed from Brussels.**

**2. If resentment continues to grow Eurosceptic political movements are the likely beneficiaries with knock on effects for the 2014 European Parliamentary elections and the composition of the European Parliament.**

Provided eurosceptic parties' support grows during the 2014 parliamentary elections, the makeup of the European Parliament will be different until at least 2019. The effect could mean **a more difficult EU decision-making environment**, posing problems for both the Commission and the EU Council. Changes in the political composition of the European Parliament will result in shifting trends of the EU legislation. The dynamic is such that for each legislative proposal the Parliament consults a wide array of stakeholders and needs to build political coalitions to turn them into law.

The effect of varying coalitions might be more pronounced in areas related to free movement of persons and labour, border management, immigration and environment—issues where eurosceptic parties prefer tighter controls<sup>118</sup>.

To counter or prevent such trends, José Manuel Barroso, the European Commission president, made an urgent **plea for pro-integrationists to stand up** to the assault of those who 'say Europe is to blame for the crisis and the hardship'<sup>119</sup>. A number of initiatives are underway. There is an effort on behalf of the European political parties to better connect their preferences with those of the electorate. A case in point is the **personalisation of EU elections** with EU-level political parties entering the 2014 campaign with their **candidates for the post of Commission President. The Parliament is also setting up a clear EU wide communication campaign adaptable to the local and regional context<sup>120</sup>.**

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<sup>117</sup> Joshua Chaffin (16 October 2013.) United by hostility. *Financial Times*,.

<sup>118</sup> EurActiv (02/09/2013) Report authors fear eurosceptic ripple in 2014 EU elections. Brussels.

<sup>119</sup> Barroso (2013) State of the Union. Strassbourg.

<sup>120</sup> Kolja Raube, Axel Marx, Wim Van Aken and Jadir Soares (2013) Going local: The communication potential of local and regional authorities. Brussels.p. 175, Heinelt and Niederhafner (2008) Cities and organized interest intermediation in the EU multi-level system, *European Urban and Regional Studies*, 15, 173-187.

### **An EU Wide Communication Campaign Adaptable to the LRAs**

In view of the 2014 European elections the European Parliament has set up an awareness and information campaign. To improve the communication of the campaign, the Parliament set up a Download Centre, which is an online platform with all communication materials developed for campaign purposes. LRAs can download information and material to tailor the EU issues that are most relevant to its citizens, city and region. These materials include logos, grids, templates, visuals for campaigns and events, photos, videos for campaign events and banners. The campaign focusses on substantive issues such as economy, quality of life, Europe in the world, money and jobs. For the first time, European political parties propose candidates for the post of Commission President ahead of the European elections.

- 3. Other challenges include ways for the EU to function more effectively and aggregate citizens' voice more effectively in order to react to their concerns and build trust at every level of governance<sup>121</sup>. This is by all means the foremost important challenge the EU is facing over the coming decades.**

It is expected that **instead of a major and bold leap forward** the EU integration project is likely to be characterised by **tangible governance projects. Such projects are likely to set in motion varying trends** that influence democracy and EU governance over the coming decades. One such notable initiative is the European Energy Community proposal from Jerzy Buzek and Jacques Delors.<sup>122</sup> The proposal suggests that the European Project should make strides forward by means of an **initial core group of dedicated Member States**. They suggest that **enhanced cooperation** is one way forward in areas 'where the EU cannot afford to wait indefinitely, if its citizens are to continue to believe in the European ideal'.<sup>123</sup> In a similar vein, the wider initiative on **multi-tier governance** in the EU argues for governance models on the basis of **differentiated integration**.<sup>124</sup> It fulfils a

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<sup>121</sup> Niederhafner (2010) Städte im EU-Mehrebenensystem 2030 : Anmerkungen zu den Potenzialen einer besser integrierten lokalen Ebene - Cities in the EU multi-level system in 2030 : comments on the potential of a better integrated local level., in: Abels, Eppler and Knodt (eds.) *Die EU-Reflexionsgruppe 'Horizon 2020-2030': Herausforderungen und Reformoptionen für das Mehrebenensystem*, Baden-Baden: Nomos Verlag.

<sup>122</sup> Jerzy Buzek and Jacques Delors (05/05/2010) Towards a new European Energy Community. Brussels.

<sup>123</sup> Ibid.,

<sup>124</sup> European Parliament (2012) Draft Report on constitutional problems of a multi-tier governance in the European Union: multi-tier governance in the European Union. Brussels.

forerunner function for deepening European integration started by a subgroup of Member States but remaining open to all Member States.

Other initiatives to bring the EU closer to the citizens are **efforts to strengthen the involvement of national and regional parliaments in EU governance**. The EU needs to further develop a European system of governance in **partnership**, reaching out to all parliaments **in areas** where they are responsible, i.e. **where subsidiarity and multi-level governance are essential elements**. The **Treaty of Lisbon** acknowledges the increasing importance of national and regional parliaments in the EU integration process. It provides new tools to safeguard the respect for subsidiarity principle. **The challenge is to make the best use of these instruments over the coming decades and translate the Treaty into reality**. This means developing a common understanding among all the stakeholders to address the lack of democratic legitimacy, respecting subsidiarity and multilevel governance.

Tangible proposals in the area of **economic governance concern involving local and regional partners in preparing and implementing Europe 2020 National Reform Programmes and counteracting the dramatic de-parliamentarisation of economic and budgetary policies**<sup>125</sup>. The economic governance reforms contained in the Six-Pack, Two-Pack, Fiscal Compact, the European Stability Mechanism and the enhanced powers of the European Central Bank (ECB) have **strengthened the EU centre, but not necessarily the democratic control over it, the accountability and legitimacy of its institutions**. A case in point are the limited powers national parliaments have over the Commission on matters of economic governance or the role of the deeply affected LRAs in the European budgetary framework. This **opens the EU to criticism of being a largely technocratic polity**.

**Parliaments, on the regional, national or European level, are challenged to bring democratic legitimacy to the coordination of economic policies** and the new European economic governance framework. Against this background, the **CoRs' challenging mission is to 'make EU decision-makers aware of the reality in LRAs and their specific needs'**.<sup>126</sup> In the words of Commission President José-Manuel Barroso: 'One priority for the post-2010 period will

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<sup>125</sup>Stahl (6/11/2012) The growing role and responsibility of national and regional parliaments in the European integration process. Eisenstadt, Austria.

<sup>126</sup>Ibid.,

certainly be to increase the involvement of local and regional authorities in decision-making'.<sup>127</sup>

Other initiatives on the table are a greater use of the right of **own initiative by the EP, EU law simplification and** the affirmation of the relevance of the community method. The most symbolic measure to bring the EU closer to the citizens' is the **citizens' initiative of the Lisbon Treaty**. Under the citizens' initiative, citizens have the right to directly participate in or influence the EU decision-making process. One million EU citizens from different Member States may take the initiative of inviting the Commission to submit a proposal on matters where citizens consider that action is required.

**Over the coming decades the challenge for the CoR is to foster** encouraging elected representatives at the level of the LRAs to become involved in the European process. **This raises the challenge of a growing need for more effective decision-making,** partnership aimed at drawing up and implementing EU policies, **strengthening of the CoR's and LRAs' cooperation with the Council, and deepening the cooperation with the Commission and the European Parliament.** The CoR's and LRAs' complementary role pertains to assess already in the pre-legislative phase **the impact of EU proposals on EU territories** and ensure their correct implementation and to avoid undesired effects. Moreover, **given the pervasiveness of EU legislations in the LRAs, the CoR is challenged to contribute to better law making,** effectively ensuring the respect of the **subsidiarity principle,** and to justify that the EU's actions are important to citizens. European citizens are becoming increasingly aware that European law concerns them in their everyday life. They want to know the legislative process and have ready access to legislative texts.

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<sup>127</sup> José Manuel Barroso (06/03/2009) Regions and Cities of Europe, Engines for Recovery. Prague.

## **The Strategy of Danube Region**

The EU Strategy for the Danube Region is a macro-regional strategy with the Danube Region countries and stakeholders participating to address common challenges. The strategy is based on policies and investments in the Danube region via the EU Cohesion Policy with an impact on the livelihoods of 20 million citizens. It is tailored to the region and targets a coherent policy with ecological, transport and socio-economic objectives. The Strategy for the Danube Region pursues better prospects of higher education, employment and prosperity by 2020. To that end, the strategy underlines an integrated approach for sustainable development by identifying and developing green technology, a better alignment of various policies and funding and overcoming fragmentation.

**Most importantly, LRAs and CoR are challenged to strengthen local and EU democracy, contributing to internal cohesion and making the European process more democratic and more inclusive<sup>128</sup>.** The responses to these challenges depend on openness, participation, responsibility, effectiveness and coherence on the basis of multilevel governance. The influences behind the development of multilevel governance are, for instance, the reinforcement of supra-national governance, the need for discussed policies to manage rising interdependence, pooling and sharing resources. Throughout Europe, there are numerous examples of such approaches such as the Covenant of Mayors, the EU cohesion policy and the strategy of the Baltic Sea and Danube regions.

### **Identified challenges with respect to ‘Political Governance and Democratisation’:**

- EU democracy but also national democracies are seriously challenged to restore citizens’ perceptions about voice, trust, legitimacy and more effective decision-making in the EU.
- The financial and economic crisis has fanned the flames of discontent among EU citizens putting pressure on the achievements of EU integration.
- Finding ways for the EU to function more effectively and aggregate citizens’ voice more effectively to react to their concerns and build trust at every level of governance.

<sup>128</sup> Niederhafner (2010) Städte im EU-Mehrebenensystem 2030 : Anmerkungen zu den Potenzialen einer besser integrierten lokalen Ebene - Cities in the EU multi-level system in 2030 : comments on the potential of a better integrated local level., in: Abels, Eppler and Knodt (eds.) *Die EU-Reflexionsgruppe 'Horizon 2020-2030': Herausforderungen und Reformoptionen für das Mehrebenensystem*, Baden-Baden: Nomos Verlag.

**Key Question 1:**

How can the CoR and LRAs counteract growing dissatisfaction of the European electorate with the EU?

**Options and Suggestions:**

- Organise an EU awareness communication campaign tailored to the different target audiences in the LRA and enter into a conversation with the citizens about the EU and the European elections.
- Seek financial and material support from the EU to better communicate the EU to citizens.
- Invite local MEPs and national politicians to explain in the LRAs what the EU actually does and why it is important to have a well-functioning EU.
- Mobilise representation in Brussels on improving EU governance.
- Organise an awareness and information campaign with EU citizens and invite CoR representatives to explain why the CoR is an essential building block of the EU and how it can bring the EU closer to the citizens.
- Organise workshops and seminars on improving EU democracy for EU citizens.
- Raise the game for preparing discussions, providing information and communicate better the EU activities.
- Adjust education programmes to explain EU democracy to young people.

## **Key Question 2**

How can the CoR and LRAs aggregate citizens' voice more effectively and re-build trust at every level of governance and make the European decision-making process more democratic and inclusive?

### **Options and Suggestions:**

- Experiment with e-voting and e-elections at more levels within LRAs.
- Make more use of e-portals with online forms, feedback and make citizens engage and do x, y, z online.
- Use big data and big data analytics to directly involve citizens in the governance of LRAs. On the basis of big data analytics one can:
  - built citizens profiles about when and how they use the LRAs services;
  - tailor public services;
  - set up satisfaction surveys about the services provided and deduce solutions on how to improve them;
  - involve citizens in real-time and contribute to governance.
- Increase transparency of LRA decision-making by providing citizens free access to anonymised data, government documents, finances, procurement, contracts and procedures.
- Explain and simplify decision-making procedures in LRAs and the CoR.
- Invite and involve citizens, schools, universities to creatively find solutions to governance problems via competitions, awards, grants and co-operation and make all new governance ideas projects freely available.
- As the CoR set up a knowledge network involving stakeholders and members that inform best practices and benchmarking on local governance in the EU.



## 5.7 Globalisation and International Issues: the Global role of Europe

1. Today, the trend from a bipolar and a unipolar world towards global multipolarity continues to characterise the growing interdependence on unprecedented scale.

Over the past decades, the world has moved from a bipolar to a multipolar and multi-actor world order with various power centres and a less certain global security situation. There is no reason to believe that multi-polarisation will not continue. Multipolarity means that there **are fewer super states and more middle powers in world affairs** due to the rapid economic growth of emerging economies, their increasing role on global markets and the share in foreign investments. **Brazil, Russia, India and China** together with **South Korea, Turkey, Iran, Mexico and Nigeria** are the emerging powers of today and tomorrow that make their voices heard on the global geopolitical scene.<sup>129</sup>

### Megacities

In 2025, over 20 of the world's 50 most powerful economic cities will be located in Asia. Half of the European cities will no longer be included on that list. Shanghai and Beijing will be higher on the list than London and Paris and Mumbai and Doha will overtake Munich. Today, the world counts 21 megacities representing 9% (or 324 million people) of the world's urban population. The number of megacities is anticipated to rise to 29 in 2025 with an additional five in Asia (Shenzhen, Chongqing, Guangzhou, Jakarta and Lahore). The rise of the megacity will help drive economic growth and open up new consumer markets in developing economies as new middle classes emerge. With the EU and the LRAs having already experienced these evolutions, they can share their experience and knowledge with rising middle classes in the developing world.

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<sup>129</sup> Schinas (2012) The EU in 2030: a long-term view of Europe in a changing world: keeping the values, changing the attitudes, *European View*, 11, 267-275.

The EU has fared well in such an environment with **new markets, growing foreign direct investment and trade flows.**<sup>130</sup> Simultaneously, in **such competitive environment, the EU is challenged to play a global role following its economic interests, principles and values.** If the EU wants to retain its interests in the new global order, it needs increased integration in other central political fields such as an **integrated approach of trade policy, development policy, enlargement and neighbourhood policy, common energy policy, climate policy** and the development of a **common migration and visa policy, and external border policy.** One could call this **the externalisation of the Single Market** on a global scale.<sup>131</sup>

## **2. Over the coming decades the world will witness rising middle classes in the developing world.**

Economic globalisation and growth in the emerging economies has lifted millions into the middle classes. It is projected that more than 70 million people are crossing the threshold to the middle class each year in almost all emerging economies. By 2020, roughly 40% of the world's population will have achieved middle-class status by global standards—up from less than 20 % in 2010. This creates **major opportunities for investment and prosperity and exports to emerging markets.** It also helps, for example, China, India and Brazil to self-confidently assert themselves, generate patterns of interdependence of cultural values, and contribute to a sense of global citizenship.<sup>132</sup> With the EU and the LRAs having already experienced these evolutions, they can share their experience and knowledge with **rising middle classes in the developing world.**

**It means the EU needs to come to grips with the challenge of boosting the EU External Action Services and a truly single diplomatic corps.**<sup>133</sup> **This also challenges the EU to come to grips with careful coordination and reform of global institutions.**<sup>134</sup>

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<sup>130</sup> CSG Strategic Planning Team (2012) *The European Parliament 2025: Preparing for Complexity*. Brussels.

<sup>131</sup> Westerwelle (ed.) 17 September 2012. *Final Report of the Future of Europe Group of Foreign Ministers of Austria, Belgium, Denmark, France, Italy, Germany, Luxembourg, the Netherlands, Poland, Portugal and Spain*, s.l.

<sup>132</sup> Schinas (2012) *The EU in 2030: a long-term view of Europe in a changing world: keeping the values, changing the attitudes*, *European View*, 11, 267-275.

<sup>133</sup> Wouters, Van Vooren, De Baere, Raube, Odermatt, Ramopolous, Tanghe and Van Den Sanden (2013) *The organization and functioning of the European External Action Service – challenges and opportunities*.

<sup>134</sup> Oxford Martin Commission for Future Generations (October 2013) *Now for the Long Term: The Report of the Oxford Martin Commission for Future Generations*. Oxford.

Today too many EU Member States with **too many voices sit at the table** in international fora often **boxing under their combined weight**. This frequently results in declining global standing and presence.<sup>135</sup> With the entry into force of the Lisbon Treaty, the EU is uniquely suited to take on these leadership responsibilities.<sup>136</sup> It must enhance the coherence and political clout of its external action.<sup>137</sup> However, one challenge remains: **the uneven balance and incoherence between the EU's capacities in the areas of common commercial policy, development cooperation and humanitarian aid, enlargement and neighbourhood policy and external environmental policy, and a lack of cooperation, development, and implementation of effective instruments in the area of CFSP/CSDP.**

Over the coming years, it will also be a challenge for the EU to stay open to potential new members from Europe. The EU is challenged to honour its commitments in the coming decade with regard to the current official **candidates**, including Turkey, and carry on with the negotiation process.<sup>138</sup> The EU's power of attraction must also remain the centrepiece to stabilising its immediate surroundings by building on the existing **enlargement policy, neighbourhood policy, Eastern Partnership and the Union for the Mediterranean.**

The **EU enlargement policy** and the **EU neighbourhood policy** have direct relevance for the LRAs and the decentralisation of powers in current and future candidate countries, but also in respect to the EU's security, stability and prosperity. The CoR has developed two platforms in this domain, i.e. **Euro-Mediterranean Regional and Local Assembly (ARLEM)** and the **Conference of Regional and Local Authorities for the Eastern Partnership (CORLEAP)**. ARLEM brings together LRAs from the EU and the Mediterranean partners and ensures the participation of LRAs in the Euro-Mediterranean political debate and the exchange of best practices. CORLEAP fosters relationships with six Eastern European and South Caucasus countries, i.e. Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Through the political forum of LRAs from the EU and the Eastern Partnership countries CORLEAP offers an opportunity to discuss the LRAs contribution in the development of the Eastern Partnership. **There is a general**

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<sup>135</sup> Dominique Moisi (21 July 2009) *One World, One Europe*. Prague.

<sup>136</sup> José Manuel Barroso (16/12/2009) *Europe's Rising Global Role*. Prague.

<sup>137</sup> Westerwelle (ed.) 17 September 2012. *Final Report of the Future of Europe Group of Foreign Ministers of Austria, Belgium, Denmark, France, Italy, Germany, Luxembourg, the Netherlands, Poland, Portugal and Spain*, s.l.

<sup>138</sup> Buckley (09/05/2012) *Currency crisis exacerbates 'enlargement fatigue'* *Financial Times*.

**need to increase cooperation between LRAs in these fields over the coming decades.**

**3. Trade continues to grow but there is a potential for a protectionist backlash.**

Over the last decades, the world has witnessed the broadest and deepest wave of globalisation it has ever seen and levels of trade and foreign direct investment progressed apace. In 2025, the volume of trade is expected to double in comparison to 2005 with most growth coming from Asia. With the economic and financial crisis, these achievements could come under pressure and progress in the negotiations of the Doha Development Agenda of the WTO, essential for the EU prosperity, could be limited. The WTO anchors international trade and a global economy in an open rules-based system based on international law.

**Trade: Mega-Regionalism in Ascendance?**

Mega-regionalism based on trade agreements negotiated by the EU, US and Japan are in ascendance. The potential emergence of the Trans-Pacific Partnership covering a third of global trade and a possible EU-US pact and the other countries are a case in point. The trade zone including the US, Japan, South Korea, Southeast Asia, and Australia might also be on the cards. A third mega-region revolves around China, Japan, South Korea and India. The emergence of such mega-regional and plurilateral trade agreements would focus on trade liberalisation with strategic payoffs. It would herald the mega-regional era.

Meanwhile the EU has embarked on **bilateral trade negotiations** with the **US, Japan, China, India and Canada**. **It will be challenge to conclude those over the coming years.** For instance, an **EU-US free trade pact** would be the biggest bilateral trade deal ever negotiated and could add around 0.5% to the EU's annual economic output. The **EU-Japan free trade agreement** aims at a comprehensive deal on goods, services and investment, eliminating tariffs, non-tariff barriers and covering other trade-related issues, such as public procurement, regulatory issues, competition, and sustainable development. Such an agreement is expected to boost Europe's economy by up to 0.8% of its GDP and create of 400.000 jobs.<sup>139</sup> The potential for a trade deal between the EU and Canada is also progressing well, creating sizeable new market access opportunities in services and investment.

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<sup>139</sup> European Commission (25/03/2013 ) A Free Trade Agreement between the EU and Japan. Brussels.

#### **4. Growing competition and rise of emerging powers and the relative decline of the ‘West’ calls for the redistribution of global power, the EU's role in the international organisations and at the global diplomatic stage.**

By 2030, the economic power will have shifted from the West to the East and the US, the EU and Japan's share of the global economy could shrink significantly—reversing their importance relative to the emerging world. As a result, the calls for rebalancing and more effective global coordination are one of the great challenges of current times. Under such trend, the need for cooperation in the framework of WTO as well as materialisation of a single European voice in multilateral institutions becomes imperative. To deliver on the ambitious 2020 strategy, the EU dares to become a more assertive player on the international scene, developing common international strategies and purposefully advance new rules of global governance.<sup>140</sup>

**A continuing trend in globalisation also comprises increased competition exposing the EU's weaknesses.** Workers in the EU and LRAs fear for their jobs because they feel caught up with economic change. The economic crisis has intensified this perceived downside of globalisation. It is a challenge to build a global economic strategy that takes into account the euro as the world's second reserve currency and deals with the negative impact of global economic imbalances on Europe's competitiveness. The challenges are abound and touch on issues such as **Fair Trade**, the **Global Social Floor** or the **Decent Work Agenda** of the International Labour Organisation as important contributions to **international solidarity**.

**However, positive overall LRAs are unevenly affected by globalisation with profound differences among regions and sectors.** For instance, the economic structure of the new Member States is still concentrated in sectors with high emerging market competition. Many regions in the old Member States also have a high share of employment in traditional sectors, where competitive advantage is based on low cost factors. In this respect, many regions located in the North-West of the EU (Finland, Sweden, Denmark, the UK and Ireland) are expected to be in a rather favourable position. In contrast, many regions located in the Southern and Eastern parts of the Union, stretching from Latvia, Eastern Slovakia, Hungary,

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<sup>140</sup> Reflection Group on the Future of the the EU 2030 (May 2010) Project Europe 2030, Challenges and Opportunities, A report to the European Council by the Reflection Group on the Future of the EU 2030. Luxembourg.

Bulgaria and Romania to Greece, Italy, Spain and Portugal still appear to be much more exposed to the challenge of globalisation in 2020.<sup>141</sup>

**5. Over the last few years the world has continued to witness the presence of instability with new traditional and non-traditional security challenges.**

The security challenges will remain a key issue for the EU over the next two decades. **Structural change in Asia, Latin America, Eurasia, and Africa and particularly the Middle East** with unresolved **religious, sectarian, and ethnic tensions** will continue to generate **armed violence**, including organised crime and terrorism. Transnational criminality also related to people having **no access to education, employment and basic security** will continue to be present. Other issues relate to the dangers of proliferation of weapons of mass destruction, authoritarian regimes, and the threat of extremism. This is particularly the case **just across the European borders of the Southern Mediterranean and Caucasus**. New forms of insecurity also include **soft threats, human trafficking, money laundering, migration, human rights abuse**, financial instability, environmental degradation, and energy dependence and they are more diverse, less visible and less predictable than ever before.

**Owing to their global character and required response, the EU is better suited to address these types of instability challenges.**<sup>142</sup> The EU needs to confront reforms for the **exchange of information, rapid military reaction, border management policy, and asylum and visa policy**. They challenge the need for deeper coordination and cooperation in areas such as defence policy, military procurement and non-duplication or overspending. It challenges the need for a culture of cooperation in judicial cooperation, law enforcement, border control and health, social and civil protection, power expansion of existing agencies, and instruments such as European Police Office (EUROPOL), Eurojust, the Situation Centre, European Agency for the Management of Operational Cooperation at the External Borders (FRONTEX), European Asylum Support Office (EASO), European Defence Agency (EDA) and the Counter-Terrorism Coordinator.<sup>143</sup>

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<sup>141</sup> Marina Mastrostefano, Lewis Dijkstra and Hugo Poelman (January 2009) *Regions 2020 Globalisation Challenges for European Regions*. Brussels.

<sup>142</sup> Reflection Group on the Future of the the EU 2030 (May 2010) *Project Europe 2030, Challenges and Opportunities*, A report to the European Council by the Reflection Group on the Future of the EU 2030. Luxembourg.

<sup>143</sup> *Ibid.*,

### The Challenge of Lampedusa

Perhaps the most urgent illustration that called for a fully integrated EU response to global and regional challenges in the area of immigration policy, asylum and visa policy, border management, development policy, and the fight against human trafficking are the continuing boat migrant tragedies off the Italian island of Lampedusa.

Since 2000, the island has become a major point of entry for migrants coming from Africa looking for a better future in Europe. They make a perilous boat journey, frequently in dreadful circumstances, and strand off the coast of Lampedusa, often with deadly consequences. With fewer than 5000 inhabitants, the small community of Lampedusa makes up the southernmost part of Italy. Given its size and population, the island cannot single-handedly deal with the inflow of migrants and its humanitarian impact. In 2013, over 350 boat migrants perished near Lampedusa looking for a better future in the EU. Lampedusa has become a symbol in the appeals for better EU border and migration policies in order to address today's and tomorrow's challenges.

To come to grips with the global security issues of the 21<sup>st</sup> century require closer and deeper coordination between the EU Member States in policy areas such as **Justice and Home Affairs** and **Common Foreign and Security Policy (CFSP), including its Common Security and Defence Policy (CSDP)**. The EU Member States are already contributing to global security with just under 100,000 combat forces and civilian personnel engaged to consolidate ongoing peace and stability processes in the world's hot spots in cooperation with NATO, the UN and other international organisations. **The EU could do more if it pooled and shared more of its resources and jumped traditional national hurdles that prevent sharing foreign and military policy instruments and tools**, particularly when national defence budgets are seriously tested.<sup>144</sup>

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<sup>144</sup> Ibid.,

**Identified challenges with respect to ‘Globalisation and International Issues: the Global role of Europe’:**

- A trend towards global multipolarity continues to characterise growing interdependence in the world on unprecedented scale.
- The world will witness rising middle classes in the developing world.
- Trade continues to grow but there is a potential for a protectionist backlash.
- Growing competition and rise of emerging powers and the relative decline of the ‘West’ calls for truly EU representation in the international organisations and at the global diplomatic stage.
- The world will continue to witness the presence of instability with new traditional and non-traditional security challenges.

**Key Question 1:**

How can the CoR and LRAs help in building a truly integrated approach of the EU’s CSFP that projects the EU’s internal market on a global scale?

**Options and Suggestions:**

- As a border LRA, cooperate more with the EU neighbourhood (e.g. Eastern Europe and Mediterranean) and raise issues with EU representation from that experience.
- Seek support from the CoR in cooperation with the EU neighbourhood.
- Within the CoR, organise all border LRAs in a knowledge network or group and exchange information, best practices, and benchmarking. Subsequently, coordinate lobbying activities to advance an integrated EU CFSP that addresses LRAs needs.



**Key Question 2:**

How can the LRAs prepare for the continuing trend of globalisation and the rebalancing towards Asia?

**Options and Suggestions:**

- Support investment of highly innovative business from outside the EU with specific regulation/tax discounts and real estate deals.
- Create specific programmes to support citizens to build up businesses with Asian companies.
- Use sister cities relations to promote local producers abroad.
- Support multi-language education in schools.
- Take specific measures to prepare local business for global competition.

**Key Question 3:**

How can the LRAs grasp the opportunities that the rise of the global middle class entails?

**Options and Suggestions:**

- Send commercial and cultural missions to emerging economies to establish contacts, exchange information and seek economic opportunities for companies.
- Share experience with the creation of middle classes with emerging economies.
- Set up twinning programmes with other LRAs and built trust with partners throughout the world.
- Make contact with LRA's citizens that have moved abroad and learn from their experiences.
- Encourage the businesses in LRAs to seek opportunities beyond the EU.



# Annex 1: Five Areas, 25 Challenges, Ranking

The five areas and the 25 challenges have been composed on the basis of a comprehensive review and comparison of similar foresight exercises for EU institutions and global international organisations. Also, a number of speeches by prominent EU officials that set out a vision of the future of the EU have been taken into account.<sup>145</sup>

## Five Areas, 25 Challenges

### 1. Governance

1. Political governance (EU interdependence, EU integration, EU institutional balance).
2. Democratisation (institutions, accountability, legitimacy, effectiveness, e-democracy, radicalisation, subsidiarity and proportionality).
3. EU Policies (EU enlargement, EU neighbourhood, CSFP, EU regulatory harmonisation).
4. Global governance (global interdependence, IMF, WTO, UN, G-8, G-20).
5. Geopolitics (multi-polarity of EU, US, China, India, Brazil, democratisation, rise of Asia).

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<sup>145</sup> While not exhaustive, these are some of the most important studies and documents that were consulted, compared and analysed: CSG EP 2025 Long-term Trends Team (2013) The European Parliament 2025: Preparing for Complexity: The Answers. Brussels, CSG Strategic Planning Team (2012) The European Parliament 2025: Preparing for Complexity. Brussels, European Commission (2009) The World in 2025: Rising Asia and Socio-Ecological Transition. Brussels, European Commission (2011c) Global Europe 2050. Brussels, European Commission (2010c) European Forward Looking Activities: EU Research in Foresight and Forecast. Brussels, Organisation For Economic Cooperation and Development (2012b) Economic Outlook, analysis and forecasts: Looking to 2060: Long-term growth prospects for the world. Paris, Missioli (2013) Strategic foresight - and the EU, Franklin and Andrews (eds.) 2012. *Megachange: The world in 2050*, Worldbank (2013) CHINA 2030: Building a Modern, Harmonious, and Creative Society. Washington DC, Reding (2013a) A powerful vision of the Future, Reding (2013b) A Vision for Post-Crisis Europe: Toward a Political Union, Barroso (2012) State of the Union. Strassbourg, Barroso (2013) State of the Union. Strassbourg.

## **2. Economy and Finance**

1. EU economic governance (EMU, (non-) Euro Area, national, regional, local fiscal and budgetary policies).
2. Jobs, productivity and sustainable economic growth (cohesion and structural policy, transport, maritime affairs, labour market, economic growth stimulation, investment, industrial policy, infrastructure).
3. The financial crisis and stability and recovery (EMU, and financial supervision).
4. The rise of Asia, Africa and Latin America (trade, competition, manufacturing, economic interdependence).
5. The low-carbon economy.
6. Globalisation and economic interdependence (trade, production, EU-US single market, FDI).

## **3. Demography and Society**

1. European societal cohesion and solidarity.
2. European urbanisation (infrastructure, housing, public utilities).
3. Ageing of European societies (shrinking population, healthcare, impact social security).
4. Migration and immigration (legal, economic, cultural diversity, security).
5. Demographic trends (population growth in Asia and Africa, poverty, food shortages).

## **4. Climate Change, Energy and Environment**

1. Use of land and seas (forest, landscape, oceans, seas and river management, bio diversity).
2. Scarcity and security of energy resources (external energy supply, energy efficiency, consumption of (non-) renewables).
3. Pollution and recycling.
4. Global warming and climate change (potential threats and preparation).
5. Consumption of (non-) renewable resources (water, raw materials, food).

## **5. Technological Change and Information Society (IT)**

1. Knowledge based societies (knowledge, information technology, multilingualism).
2. Research, education, skills and innovation.
3. Digitalisation and digitisation shrink time and space (communication, media, economy).
4. Industrial change/revolution (biotechnology, nanotechnology and data processing, energy technology).

## **Ranking of Identified Trends and Challenges**

The identified challenges were subsequently ranked from most relevant to least relevant for the CoR and LRAs depending on their perceived impact on EU integration and the CoR and the European LRAs. The ranking followed discussions with the CoR services. More specifically, in the ranking a distinction is made between **internal and external challenges**, assuming that external challenges have a more or less constant impact on EU integration over the coming decades and are more difficult to influence. In contrast, the impact of the internal challenges depends on the EU's response over the coming decades, which varies across the scenarios. For these challenges, European integration plays a double role. It makes up the general context of the scenarios but also functions as a challenge with an impact on both the trajectory of the CoR as an institution and that of the European LRAs in the medium and long term. The challenges with a constant impact and on which EU integration will have limited direct influence are those with low relevance. Those challenges on which the EU has a direct impact are those with more relevance.

### **1 High Relevance**

1. Political governance (EU interdependence, EU integration, EU institutional balance).
2. Democratisation (institutions, accountability, legitimacy, effectiveness, e-democracy, radicalisation, subsidiarity and proportionality).
3. EU economic governance (EMU, (non-) Euro Area, national, regional, local fiscal and budgetary policies).
4. Jobs, productivity and sustainable economic growth (cohesion and structural policy, transport, maritime affairs, labour market, economic growth stimulation, investment, industrial policy, infrastructure).

5. The financial crisis and stability and recovery (EMU, and financial supervision).
6. European societal cohesion and solidarity.
7. European urbanisation (infrastructure, housing, public utilities).

## **2 Intermediary Relevance**

1. Ageing of European societies (shrinking population, healthcare, impact social security).
2. Migration and immigration (legal, economic, cultural diversity, security).
3. Pollution and recycling.
4. Policies (EU enlargement, EU neighbourhood, CSFP, EU regulatory harmonisation).
5. Use of land and seas (forest, landscape, oceans, seas and river management, bio diversity).
6. Scarcity and security of energy resources (external energy supply, energy efficiency, consumption of (non-) renewables).
7. Knowledge based societies (knowledge, information technology, multilingualism).
8. Research, education, skills and innovation.
9. The low-carbon economy.

## **3 Low Relevance**

1. External demographic trends (population growth in Asia and Africa, poverty, food shortages).
2. Global warming and climate change (potential threats and preparation).
3. Consumption of (non-) renewable resources (water, raw materials, food).
4. Digitalisation and digitisation shrink time and space (communication, media, economy).
5. Industrial change/revolution (biotechnology, nanotechnology and data processing, energy technology).
6. The rise of Asia, Africa and Latin America (trade, competition, manufacturing, economic interdependence).
7. Global governance (global interdependence, IMF, WTO, UN, G-8, G-20).
8. Geopolitics (multi-polarity of EU, US, China, India, Brazil, democratisation, rise of Asia).
9. Globalisation and economic interdependence (trade, production, EU-US single market, FDI).

# Annex 2: The Future Evolution of European Integration: An Overview of Three Key Integration Theories

A necessary first step for the CoR 2025 foresight exercise is a consideration of the European integration literature. The development of EU integration theory explains the past evolution and provides clues about the future of the European integration process and the likely impact it will have on the Committee of the Regions (CoR) and the European local and regional authorities (LRAs) over the coming decades.

## 1. Intergovernmentalism: A Europe of the Nation States

Intergovernmental approaches to European integration are inextricably linked to the first period of stagnation of the European project in the 1960s, the so-called ‘empty chair crisis’ when French President *Charles de Gaulle* refused to attend EU intergovernmental conferences and stalled supranational European integration. The episode confirmed the obstinacy of state power and interests, providing the background against which *Stanley Hoffmann* formulated the intergovernmentalist integration theory.<sup>146</sup> Intergovernmentalism explained the limits of supranational integration emphasising the importance of EU governments as gatekeepers for the transfer of Member States’ power to the new international centre. Moreover, intergovernmentalism was seen as inherent to the European project because it rescued the nation state in the post-World War II period, an age characterised by growing internationalisation.<sup>147</sup> The modern version of the intergovernmentalist school is dominated by *Andrew Moravcsik*’s liberal intergovernmentalism that carries on the state-centric tradition of EU integration theory. Liberal intergovernmentalism strengthens the dynamic component of EU integration and explains the successes of European integration in the 1980s and 1990s.<sup>148</sup> Today, liberal intergovernmentalism continues to be a parsimonious baseline theory against which other theories are often compared.

### 1.1 Central Tenets

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<sup>146</sup> Hoffmann (1966) *Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe*, *Daedalus*, 95, 862-915.

<sup>147</sup> Milward (1984) *The reconstruction of Western Europe 1945-51*, London: Methuen, Milward, Brennan and Romero (1992) *The European rescue of the nation-state*, London: Routledge.

<sup>148</sup> Moravcsik (1999) *The choice for Europe: social purpose and state power from Messina to Maastricht*, London: UCL Press.

The nation state is the point of departure for intergovernmentalist approaches to European integration. Intergovernmentalism derives the initial and ongoing primacy of the nation state (as opposed to transnational or supranational actors) from international relations theory such as realism and neo-realism. States behave as utility-maximising rational actors and operate in an anarchical international system with emphasis on self-help, power and relative gains.<sup>149</sup> On the basis of these tenets, (neo-)realists were pessimistic and unenthusiastic about the future of European integration and the role of the EU in the world. Neoliberalism builds upon realism but crucially pays more attention to absolute gains and the role of international institutions. It is through this combination of the role of the state and liberal thinking concerning international institutions that Andrew Moravcsik develops the three-step liberal intergovernmentalist approach to European integration.

First, The EU Member States are the overriding actors in the European integration process that model European integration according to national goals and interests. These national interests reflect the specific economics, parties and institutions of the individual EU Member States. They influence the Member States' preferences about EU integration on the basis of domestic political and economic interest informed by EU market integration, national sovereignty and identities.

In a second step, the Member States bring these preferences to the negotiating table. The outcome of the hard bargaining between the Member States reflects their relative power, package deals and side payments for smaller states. International institutions such as the European Commission (EC or the Commission) have only a limited impact on the most important EU decisions (the high politics of the EU).

Finally, liberal intergovernmentalists hold the view that EU Member States pool sovereignty in particular institutions to increase the credibility of their mutual commitments and promises. They approach institutions such as the Commission and the CJEU from the perspective of international organisations. These institutions prevent the Member States from going back on their promises, monitor compliance and fill in the blanks of the EU treaties. The EU seen from the perspective of a regulatory actor complements the third step whereby Member States 'delegate regulatory tasks to supranational authorities with powers of monitoring and of imposing sanctions'.<sup>150</sup>

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<sup>149</sup> Waltz (1979) *Theory of international politics*, Boston, Mass: McGraw-Hill.

<sup>150</sup> Majone (2005) *Dilemmas of European integration: the ambiguities and pitfalls of integration by stealth*, Oxford: Oxford University Press.



As a result of the three steps, the milestones on the road of EU integration are a reflection of the convergence among the most powerful EU Member States' preferences that are mirrored in the grand EU bargains with side payments for the smaller Member States. The EU Member States are the 'masters of the treaty' that continue to enjoy pre-eminent decision-making power and political legitimacy. The EU institutions are compliant agents of the EU Member States and only have limited and clearly delineated powers.<sup>151</sup> They lack expertise, resources and popular support to expand their power at the expense of the Member States.<sup>152</sup> Moreover, according to liberal intergovernmentalists, European integration mostly occurs at the level of the market while the core functions of the nation state such as foreign policy state remain at the national level.

A number of more recent works have continued to approach the EU from the viewpoint of the EU Member States as lying at the heart of today's EU and EU policy making with the most recent approach explaining the transformation of nation states to EU Member States as a result of EU integration.<sup>153</sup>

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<sup>151</sup> Pollack (2012) Realist, Intergovernmentalist, and Institutionalist Approaches in: Menon, Jones and Weatherill (eds.) *The Oxford Handbook of the European Union*, Oxford: Oxford University Press. Moravcsik and Schimmelfennig (2009) liberal intergovernmentalism, in: Wiener and Diez (eds.) *European integration theory*, Oxford: Oxford University Press.

<sup>152</sup> Leuffen, Rittberger and Schimmelfennig (2013) *Differentiated integration : explaining variation in the European Union*, Basingstoke: Basingstoke: Palgrave Macmillan, 2013, pp. 40-41.

<sup>153</sup> Bickerton (2012) *European integration : from nation-states to member states*, Oxford: Oxford university press, 2012.

## 2. Neofunctionalism - Supranational Governance: Federations d'Etats Nations

Neofunctionalism was the first theoretical explanation for the appearance and integration of the EU. For neofunctionalists, the emergence of the EU provided fertile ground to formulate a counter theory against dominant state-centred approaches to explain international relations. Instead of an international system characterised by wars, recurring insecurity and the dominance of the great powers, they held that institutionalisation processes had given way to a rule-governed system. Despite the famous declaration on *the Obsolescence of Regional Integration Theory* by one of its main proponents and its presumed death in the 1970s and 1980s, the theory was reborn and modified in the 1990s in the form of supranational governance approaches. Today neofunctional and supranational approaches to EU integration are witnessing a revival. Particularly in the context of the financial crisis, the theory generates useful empirical hypotheses about the EU's current and future development.

### 2.1 Central Tenets

*Haas, Lindberg, Schmitter* and *Nye* were the early proponents of neofunctionalism.<sup>154</sup> Drawing on the writings of the EU's founding fathers, neofunctionalists argued that the state was not the sole actor on the international stage. Supranational organisations and transnational societies are important actors and once they are created, they gain sufficient impetus to expand their functional scope, level of centralisation, and territorial expansion beyond the level national governments had originally intended. Consequently, the EU has the transformative potential that allows for it to develop out of the area of international relations into a different type of polity.<sup>155</sup> Central to the theory is the definition of integration and spillover processes defined as 'process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new larger centre, whose institutions possess or demand jurisdiction over pre-existing national states'.<sup>156</sup>

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<sup>154</sup> Haas (2004) *The uniting of Europe: political, social, and economic forces, 1950-1957*, Notre Dame, Ind: University of Notre Dame Press, Lindberg (1963) *The political dynamics of European economic integration*, Stanford: Stanford University Press, Schmitter (1970) *A revised theory of regional integration*, Berkeley: University of California, Schmitter (1969) *Three neo-functional hypotheses about international integration*, Berkeley: University of California, Nye (1971) *Peace in parts : integration and conflict in regional organisations*, Boston: Little Brown and Company.

<sup>155</sup> Leuffen, Rittberger and Schimmelfennig (2013) *Differentiated integration : explaining variation in the European Union*, Basingstoke: Basingstoke: Palgrave Macmillan, 2013., pp. 62.

<sup>156</sup> Haas (2004) *The uniting of Europe: political, social, and economic forces, 1950-1957*, Notre Dame, Ind: University of Notre Dame Press, pp. 366-7., pp. 366-7.

*Sandholz, Stone Sweet and Fligstein* updated and refined the early neofunctionalism in the late 1980s in the form of supranational institutionalism. In contrast to the earlier theory, they are not as much interested in explaining the path EU integration would follow towards the *finalité* of the project. Their energy was concentrated on the study of ‘the processes and outcomes of the institutionalisation of the EU, the appearance and development of supranational rules, the capacity of transnational and supranational actors to shape and interpret these rules, and the effect of such rule-governed activity on cross-border transactions and the reshaping of the EU authority structure’.<sup>157</sup> The new focus broadened their research area from the spillover processes in the economic realm to the expansion of EU integration in new policy domains and the shift towards increased centralisation.

More specifically, on the basis of institutional approaches to politics, supranational governance theory comprises three elements: (a) *a transnational society* composed of actors and groups with transnational goals and interests; (b) *supranational organisations* with independent capacity to resolve disputes and build rules, and; (c) *a rule based system* (or normative structure) that defines the polity.<sup>158</sup> Instead of assuming that political actors would shift their loyalties as early neofunctionalists had assumed, supranationalists insist that supranational expansion can occur without that ultimate shift of loyalties.

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<sup>157</sup> Sandholtz and Stone Sweet (1998) *European integration and supranational governance*, New York: Oxford University Press, pp. 16-20, Stone Sweet, Sandholtz and Fligstein (2001) *The institutionalization of Europe*, Oxford: Oxford University Press, p. 3.

<sup>158</sup> Sandholtz and Stone Sweet (2012) Neo-Functionalism and Supranational Governance, in: menon, Jones and Weatherill (eds.) *The Oxford Handbook of the European Union*, Oxford: Oxford University Press.

### 3. Multilevel Governance

Gary Marks<sup>159</sup> coined the term multilevel governance in 1988 to conceptualise the evolving EU structural policy after the Southern EU enlargement.<sup>160</sup> Traditional integration theories such as liberal intergovernmentalism could not account for the size and implementation of the structural funds. Their governance involved partnerships between national, regional, local and supranational actors with their proper communication channels. Once created, the Member States could not easily control these new networks between subnational, supranational and transnational actors. The networks operated independently and had diverging preferences from those of the Member States.<sup>161</sup> From these modest beginnings, multilevel governance theory was born and it quickly became a full-fledged approach for analysing the EU.

Multilevel governance regards the EU as a political system and draws on comparative politics but eschews state-centric comparative politics conceptualisations because they fail to capture a *sui generis* EU. Instead, multilevel governance theory draws attention to negotiations and networks, the role of satellite organisations, and institutional relationships.<sup>162</sup>

#### 3.1 Central Tenets

Similar to neofunctionalism, multilevel Governance theory questions state-centrism and holds that the operation of supranational institutions and agents in the EU integration process can only be imperfectly controlled by the EU Member States. On the spectrum of traditional integration theory between state-centric theories and supranational theories, multilevel governance theory is located closer to the neofunctionalism/supranationalism side than that of intergovernmentalism. However, in contrast to the dynamic baseline theories of European integration, multilevel governance is less of a macro theory. For instance, it does not explain the occurrence and progress of EU integration. Instead, it is a middle range, meso-level theoretical approach that accounts for the day-to-day workings of the EU and European integration. The multilevel governance approach views the EU ‘through the lens of comparative politics as

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<sup>159</sup> Gary Marks was a student of Martin Lipset and draws on insights from comparative politics and the federalist tradition with respect to questions of competing jurisdiction, competence and shared sovereignty. See Michael Burgess in Wiener and Diez (2009) *European integration theory*, Oxford: Oxford University Press, 25-45.

<sup>160</sup> Marks (1991) *Structural Policy in the European Community*, in: Sbragia (ed.) *Euro-politics: institutions and policymaking in the new European community*, Washington D.C: Brookings Institution.

<sup>161</sup> Pagoulatos and Tsoukalis (2012) *Multilevel Governance*, in: Menon, Jones and Weatherill (eds.) *The Oxford handbook of the European Union*, Oxford: Oxford University Press, pp. 62-63.

<sup>162</sup> Peters and Pierre (2004) *Multi-Level Governance and Democracy: A Faustian Bargain?*, in: Bache and Flinders (eds.) *Multi-level governance*, Oxford: Oxford University Press, p. 77

a political system<sup>163</sup> rather than as an international organisation undergoing a process of integration'.<sup>164</sup>

Multilevel governance theory assumes that the EU is polycentric and composed of non-unitary states with fragmented national governments that have lost control to other actors at sub-national, national-EU and supranational level. European-level policy-making is no longer the sole result of aggregated domestic interest represented at the international level because decision-making competences are shared by different actors at different levels. These actors represent a plurality of collective interests that form alliances across national borders potentially promoting an agenda of other supranational actors such as the Commission, the European Parliament and the CJEU.

While multilevel governance theory continues to see the role of the EU Member States as one of the most important actors that contribute to European integration, 'one must analyse the independent role of European-level actors to explain European policy-making'.<sup>165</sup> This view is based on the rejection of the separation between the national and international level. Two arguments underline this proposition. First, multilevel governance theory contradicts the lowest common denominator outcomes of the state centric view of European integration which only apply to the scope of EU integration. Instead, EU regulations governing the Single Market are zero-sum and involve losses for individual Member States. Second, EU policy-making is informed and fashioned by interconnected political arenas with subnational actors engaging in both national and international levels contributing to the formation and activity of transnational associations in the process. In short, national actors are no longer the gate keepers to the EU and share control over various activities that take place in their own territories.

Central to multilevel governance approaches is the role of supranational institutions, especially the European Parliament, the European Commission, the CJEU and the European Central Bank (ECB), with independent influence on policy making that cannot be derived from their role as agents of national executives. More specifically, the individual sovereignty of individual states is diluted both by collective decision-making among governments and by the autonomous roles of the EU institutions that produce rules and policies beyond the preferences of the Member States. This has particularly been underlined by the change from a *permissive consensus* to a *constraining dissensus* on

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<sup>163</sup> Hix and Høyland (2011) *The political system of the European Union*, Basingstoke: Palgrave Macmillan.

<sup>164</sup> Pagoulatos and Tsoukalis (2012) Multilevel Governance, in: Menon, Jones and Weatherill (eds.) *The Oxford handbook of the European Union*, Oxford: Oxford University Press, p. 63

<sup>165</sup> Hooghe and Marks (2001) *Multi-level governance and European integration*, Lanham, MD: Rowman & Littlefield Publishers, p. 3

European integration. Against this background, *Hooghe* and *Marks* proposed a post-functionalist research agenda accounting for the varying degrees of politicisation of the EU across countries driven by identity instead of economic interests.<sup>166</sup>

Multilevel governance focuses much more on content, process, context and bargaining as well as supranational functional councils, advisory groups and technical committees. It concentrates on the practice of EU policy and governance as a process through multiple, overlapping jurisdictions where authority is distributed across different territorial levels and shared between government and non-state actors). Multilevel governance approaches categorise EU policy-making in four different chronological steps: initiation, decision-making, implementation and adjudication.<sup>167</sup> It is in the last step that multilevel governance approaches are most present when different actors are in close contact. At this stage, Comitology, which is supposed to monitor the Commission, ended up promoting the participation of regions and LRAs. Over all the stages the EU Member States are being ‘melded into a multi-level polity by their leaders and the actions of numerous subnational and supranational actors’.<sup>168</sup>

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<sup>166</sup> Hooghe and Marks (2009) A Postfunctionalist Theory of European Integration: From Permissive Consensus to Constraining Dissensus, *British Journal of Political Science*, 39, 1-23.

<sup>167</sup> Hooghe and Marks (2001) *Multi-level governance and European integration*, Lanham, MD: Rowman & Littlefield Publishers.

<sup>168</sup> *Ibid.*, p. 27.

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