

## POLICY ARTICLE

### Negotiating with the Commission: the debates on the 'housing element' of the Structural Funds

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In May 2004 the biggest-ever enlargement brought ten new member states into the European Union (EU). Upon accession these countries had to accept the rules for the remaining two and half years of the 2004–2006 period of the Structural Funds. However, as members, they became fully fledged partners in the discussion and debate about the rules for the next periods' cohesion policy, i.e. the 2007–2013 Structural Funds.

Very soon, after the euphoria of the enlargement in May 2004, the debate started about the budget of the EU and the future of Cohesion Policy and the Structural Funds. The initial opinions differed greatly. One extreme standpoint was the proposal of the new (and also some old) member states, and many pro-EU institutions, to set the EU budget to 1.24% of EU GNI (Gross National Income), within which 0.45% would be spent on a strong, inclusive cohesion policy. The other extreme was the opinion of the most important net contributor countries to the EU. They argued for a decrease in the EU budget (to 1% or less of EU GNI) and a radical reform of Cohesion Policy, with decreasing financial resources (below 0.40%), renationalisation of its functioning and a clear focus only on the new member states. The European Parliament and the Commission took a position somewhere between these extremes, arguing for around 1.14% and 0.41% respectively. To understand these figures it is worth mentioning that the difference between the 1% and the 1.24% of EU GNI is almost €200 billion, a very substantial amount!

It was clear from the beginning that in this bitter debate about the EU budget and the spending priorities there was no way to reach an easy compromise (in fact, a final agreement was reached only at the last moment, at the very end of the December 2005 Summit). This tense situation, with a real threat for shrinking budget for cohesion policy, was not the best time for handing in new proposals for the Structural Funds, which would open up new areas of expenditure. The new member states, however, wanted changes in the regulation of the Structural Funds that would make this tool better suited to their special needs.

#### **Housing, as a specific problem of the Central and Eastern European member states**

Expert analyses have shown housing, more specifically large post-war housing estates, as *one of the main urban problems confronting the new member states from Central and Eastern Europe*. Around 40% of the urban population (compared with only 3–7% in Western cities) lived in prefabricated buildings, built as part of large peripheral estates on the edge of cities. Despite the fact that these estates had considerable advantages (good public transport, large

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green areas, environment-friendly district heating system), they were usually not well maintained and quite unpopular – many of their residents wanted to move elsewhere. It was clear that without comprehensive interventions – physical renovation, economic and social action – many of the buildings and estates would quickly deteriorate, creating, on the one hand, *ghettoes for the urban poor*, and, on the other hand, a *large demand for (much less environmentally friendly) suburban single-family housing* for outmoving middle-class families.

This problem-priority was in sharp contrast with the fact that ‘housing’ *has never been part of EU policies*. Consequently, according to EU regulations *Structural Funds money could not be spent on the refurbishment of residential buildings*. Although integrated urban development was allowed in the 2000–2006 period (through the well-known URBAN Community Initiative), the housing element was excluded, i.e. the renovation of residential buildings in the URBAN areas had to be financed by the member states themselves.

Even so, by the summer of 2004 there was a strong view among the majority of the new member states that in the next Structural Funds period *there should be more opportunities to use the Structural Funds money for the improvement of residential buildings*. However, in the draft proposals for the Council Regulation on the 2007–2013 Structural Funds regulation (issued 14 July 2004), the mainstream urban dimension of the Structural Funds was articulated only in a very weak form and the *total exclusion of all housing-related measures remained unchanged*.

This was the situation when the debate between the Central and Eastern European member states and the Commission started. The Visegrád, or V4 countries (Czech Republic, Hungary, Poland, Slovakia), who were the ‘vanguard’ in this debate, wanted more freedom within the scope of their Structural Funds allocations to spend the money on issues they considered to be the most important. This meant that they *did not want more money, but more flexibility*. The Commission, on the other hand, was very suspicious about any new proposals that could potentially threaten an increased demand for EU money, and therefore flatly rejected the idea as being contrary to the basic agreements of the Union.

### **The negotiations between the new member states and the Commission**

On the basis of these diametrically opposing views and interests a lengthy period of negotiation started in the summer of 2004 which ended almost two years later, in late spring 2006. The short summary of the main events/episodes of this debate is (in chronological order) as follows:

- August 2004: V4 expert meeting in Prague, followed by the drafting of an initial policy paper on the arguments – why housing refurbishment should be allowed as eligible expenditure from the Structural Funds.
- October 2004: Leiden-Nordwijk EU City Summit. The Commissioner’s (Jacques Barrot) principal argument is that housing should not receive EU funding, but remain a national responsibility. This produced sharp and critical reactions from the audience; the question enunciated was why does the Commission insist on a total ban on housing expenditure, especially if this is a critical issue in some countries and it does not make any difference to the total amount of EU money spent? The Slovak State Secretary formulated in his presentation the common position of the Visegrád countries. Péter Balázs (also Commissioner for Regional Policy) suggested the need to further elaborate the arguments why EU money is needed for housing improvements, demonstrating that this would not only contribute to cohesion but also improve competitiveness.

- December 2004: the V4 countries draft a short 'Non paper on the urban dimension' for the ongoing official Structural Actions Working Party (SAWP) negotiations. The paper argued that housing should be included – to a limited extent – in the list of eligible measures for Structural Funds, because in the majority of the new member states there are serious problems in inner-city areas and large housing estates. They argued that further mishandling of these important parts of the housing stock would lead to serious economic, environmental and social problems in the large cities.
- March 2005: EU Housing Ministers Conference in Prague. The Czech ministerial exposé clearly required that the EU should lift the ban on housing expenditure, otherwise in the new member states large housing estates would deteriorate very quickly with dramatic consequences for segregation, the social and health situation and labour markets. With EU-supported improvements, on the other hand, this could be avoided and in addition new jobs could be created. The response of the Commission was similarly clear: housing is not part of Community policies, no EU money will be spent on residential buildings. The Communiqué adopted by ministers only vaguely refers to the debate about housing. The representatives of the most important net contributor countries to the EU rejected the suggestion that an expert committee on the issue of Structural Funds support for housing be established. The only result was a letter to president Barroso, asking him to allow the issue to be debated.
- April 2005: The 'Declaration on common actions in shaping regional policy', signed by the relevant ministers of the V4 countries, emphasises the need for EU contributions in the field of modernisation of residential buildings. This was a clear political statement in favour of introducing the 'housing element' into the Structural Funds.
- Spring 2005: Danuta Hübner, the new Commissioner for Regional Policy, takes steps to organise, within the Commission, an interservice group on housing with the participation of the relevant directorates.
- Spring-Summer 2005: discussions in the Structural Actions Working Party and especially the debate in the European Parliament leads to significant changes in the earlier very strict position against any possibility of using Structural Funds money for the renewal of residential buildings. The compromise text on the draft regulations mentions the possibility of spending a limited share of the Structural Funds on energy efficiency revitalization of large-panel prefabricated housing estates and on improvements of 'social housing'.
- Early autumn 2005: the new British presidency prepares a 'compromise' suggestion, based on the position of the need to decrease financial support for cohesion policy. All earlier positive initiatives are withdrawn, housing is again totally excluded from EU funding, and all the suggestions and arguments of the V4 countries are put into a single footnote. Parallel to that, Danuta Hübner sent a letter to the V4 ministers (reflecting the position of the new Commission interservice group on housing) arguing that there was no need for new eligibility measures for housing as there are some activities (e.g. demolition) that can receive EU support . . . *At that point the negotiations almost broke down.*
- September 2005: Hungary (the most active of the Visegrád countries in lobbying for housing) organises a V4 housing ministers' meeting in Budapest, also inviting Bulgaria and Romania to attend. The ministers agree to continue the debate, issue a joint political statement and ask for a meeting between the V4 experts and the Commission.
- End of September 2005: a meeting of the V4 countries with the British presidency and with DG Regio. A delegation of 13 officials and experts from the V4 countries

travels to Brussels to give, in two meetings, overarching presentations about the special aspects of the housing problem in the new member states. The meeting with the British presidency concludes with the statement that the presidency understands the problem and puts the housing issue into the basket of undecided questions. This means that no decision will be taken during the 'normal' SAWP discussions but only at the EU Summit. The second meeting, with DG Regio, is a tense and sharp exchange of opposing ideas. No compromise is achieved but also here it becomes clear (and accepted by DG Regio) that the housing issue needed to be referred to a higher-level political decision-making process. This meant that housing became part of the political agenda for the EU Summit, together with other undecided questions, such as problems with reclaiming VAT and the application of the N+2 rule.

- December 2005: EU Summit in Brussels. The 25 heads of state, at the last moment, come to a compromise between the very different expectations of the net payers and the other countries. The resulting lower EU budget (1.045% of EU GNI) is presented to the new member states in the form of a compromise; they have to accept less money than expected for cohesion policy, but in return they will receive greater flexibility over how they spend it. The Hungarian delegation successfully argues for the need for flexibility in spending Structural Funds money on housing (even the dubious restriction that would allow EU money to be spent only on 'social' housing is eliminated).
- January 2006: based on the Summit agreement, DG Regio prepare a compromise text on the European Regional Development Fund (ERDF) regulation, including revised rules for spending Structural Funds money on housing. There are still many unclear points, especially around the issue of how to restrict the use of the money, how to exclude rich families/areas in order to avoid 'speculation' with EU money. Even the argument for restricting expenditure to social housing seems to re-emerge, despite the political decision to abolish it.
- January 2006: an expert meeting of the V4+2 (Bulgaria and Romania) countries refines and strengthens their joint position. This quickly becomes a joint statement of almost all of the new member states.
- February 2006: the SAWP meeting does not discuss the matter of housing; this issue is postponed until the next meeting between officials and experts of the new member states and DG Regio. This demonstrates that even the remaining unsolved problems are quite delicate and their resolution precariously balanced.
- February 2006: the second meeting of the V4+2 countries with the Commission. A delegation of 14 officials and experts from the new member states visit DG Regio in Brussels for a final discussion. DG Regio raises the most important unresolved questions related to the targeting of EU money and the upper ceiling of the housing contribution of the Structural Funds. In their response, the representatives of the new member states are convincingly able to prove during the meeting that there is no significant danger of speculation, therefore no need for complex general regulations to exclude richer families/buildings; this issue could be solved through the specific regulations of the individual countries, which would be developed according to their particular situations. On this basis an agreement is soon reached on the upper limit of the housing money (2% of ERDF contribution), and DG Regio accept the whole package. The negotiations end successfully: this is the first time the Commission has agreed to contribute to handling housing problems! (The new regulation, however, is only valid for the new member states.)

### **Lessons learnt from this debate**

#### *How are decisions taken in the European Union?*

During the two years of intensive negotiations, starting in autumn 2004, the decision-making curve went first upwards, reaching its highest point at the December 2005 EU Summit, when the heads of states decided how much flexibility could be allowed for the new member states to use EU funding for housing purposes. From this point the specificity of the decision-making process declined until the national level received the final EU regulation in summer 2006 and national programming could begin.

The key point in the negotiations with the Commission was to professionally highlight and prove how serious housing problems were in the new member states and to demonstrate their broad consequences for other economic and social sectors. As a result of the joint work of the V4 countries on the professional level (joint expert preparations for the SAWP negotiations), as well as on political level (joint V4 ministerial letters to the Commissioner), the Commission finally accepted these facts. It is clear from this that the problem could not be solved through the 'normal' procedure of discussions (in the SAWP negotiations), as new and old member states had totally opposing opinions over whether or not to spend EU money on housing. Thus the 'housing' issue had to become part of the higher-level political negotiations.

It is well known that in EU decision-making procedures, the unanimous agreement needed for the seven-year budget and spending priorities is reached in two steps. Most of the issues are handled in the working party negotiations. Those issues, however, on which no agreement can be reached, become 'political issues' and are postponed to be decided only during the final EU Summit. Final decisions in the EU Summits usually happen in 'packages', when groups of countries reach agreement to accept each other's requests, balancing totally different things against each other.

In this regard there were two 'tipping points' in the debate over whether or not housing should be supported from the EU budget. The first was when the Commission gave up its efforts to reach a compromise solution in the working party negotiations and allowed the housing question to become a political issue. The second was the moment, at the EU Summit, when the new member states, in return for accepting that the money was less than they expected, were allowed 'flexibility' in spending the money allotted to them (and expenditure on housing was accepted as part of this flexibility). The role of the housing experts, of course, was very important, till the last moment, as they still had to convince their political leaders to include housing on the shortlist of their highest priorities in the final negotiations – along with the other, already decided, items (such as VAT reclaiming, N+3).

#### *What is the role of the Commission?*

In the course of the negotiations there was a clear problem that the new member states had not yet fully established the mechanisms for communicating their needs and opinions to the EU institutions. It took time to find out when and how professional arguments should be delivered to the Commission, and when it was necessary to shift the debate to the political level.

Another problem is that the Commission bureaucracy sometimes has very partial information; it sometimes lacks basic information and prepares decisions on this limited basis. This point can be illustrated with the following arguments, used by the Commission during the most important episodes of the negotiations on housing.

- 'Limiting subsidies only to social housing.' The Commission insisted until the last moment on the need to limit EU housing support to the 'social housing' sector. This view was based on the situation in some of the old member states (e.g. UK, France) where a clearly defined social housing sector existed that covered more or less the poorer strata of society. This is, however, not the case in the Central and Eastern European member states. Even the share of public rental housing is very different across countries (Czech Republic 18%, Hungary 4–5%, Slovakia 4%, Romania 2.2%); nor can public rental housing be identified as social housing – middle-income households might well be public tenants, while there are many poor households among home-owners in the privatized housing stock. In many of these countries there are mixed buildings where poor tenants or home-owners live together with middle-class home-owners. To sum up, the category of 'social housing' makes no sense in these countries. Nevertheless, the task of the experts was to find an alternative way of targeting EU money to the lower half of the society. This leads us to the next question.
- 'Unfair subsidies for home owners.' The Commission argued that EU taxpayers' money should not be spent on housing renewal, as this would lead to increases in the value of flats, thereby making home-owners richer. At one point the idea was raised that any real-estate value increase should be reclaimed, e.g. in the form of introducing shared ownership to the degree that EU subsidy was given for renewal. The experts of the new member states, however, illustrated through concrete examples, that without subsidies no renovation would take place and the long-term problems (physical, sustainability, social) would be much worse. They referred to URBAN and other EU area-based programmes which also led to increases in the value of real estate and where there were no attempts to claim back these increases from the home-owners in the relevant areas. Finally they successfully argued that with the application of the targeted area-based approach of URBAN, this effect had been minimised. If the amount of housing support is limited and strictly targeted to areas in which housing had already undergone substantial decline, low-income areas of cities or areas threatened by rapid decline in the near future (large housing estates), the 'perverse' effect of EU subsidies would remain insignificant.
- 'Distorting peoples' preferences.' The Commission argued, on the basis of the German example, that subsidies send false signals: in Germany the large majority of prefabricated housing estates have been renovated (from domestic financial resources), but today many renewed buildings are empty. Why should prefabricated housing be renovated if some years later it will be demolished anyway, as the German example shows? Instead, the Commission argued, Cohesion Policy should make people richer, increasing their opportunities to choose where they want to live. The final point in this argument was that housing is similar to other consumption goods, and subsidising some specific forms of housing leads to the distortion of peoples' preferences. The Commission does not subsidise car production, so why should it subsidise housing? The experts from the new member states, however, clearly demonstrated that this was a false argument, for several reasons. First of all, housing is not at all similar to simple consumption goods: housing is expensive, with low elasticity in supply and with many externalities. One of the most important externalities of housing is the indirect effect on the life chances of present and future generations; while it is possible to live a decent life without a car it is much more difficult, or even impossible, to live without accommodation. For all these reasons a

given level of public interventions is acceptable even in the most market-oriented societies. On the other hand, to refer to the German case as a universal lesson is very misleading; the German situation was very different from that of the Central and Eastern European member states. In contrast to Germany, where many people have left the eastern Länder for economic reasons, such a level of mobility in the Central and Eastern European member states is impossible; and therefore prefabricated housing will exist, and play an important role, in these countries for many decades to come.

It would be unfair to say, however, that the Commission bureaucracy is closed and does not listen to outside arguments. From the beginning it was clear that the Commission was open to relevant arguments, both in large meetings and in bilateral talks. For the new member states it was very important to recognise that in order to be heard, concerted actions were needed on the part of relevant groups of member states. While one country can rarely (only if being very big) influence decisions, the V-4 group can, especially if supported by the majority of the other new member states, have an impact. Even so, it is also important to convince some of the old member states to become supporters of the idea or at least understand that the idea is not harmful to them. Sometimes this requires the linking of the issue to another one where the other member states need support.

*The need for coordinated lobbying on a national level and among countries of similar interests*

Lobbying in the EU requires good cooperation between the different actors. In Hungary, by 2004, a good relationship had been built up between housing experts and the civil servants of the relevant Ministry. Furthermore, an efficient method has been established of channelling information and arguments into the work of the Prime Minister's Office, who represented Hungary in the SAWP discussions. Finally, the good cooperation between these levels meant that powerful arguments were built in into the final political package prepared for the EU Summit where, at the highest political level, the breakthrough regarding the housing issue could be achieved. Of course, in this 'chain of relationships' many methods were used (the inclusion of expert knowledge on a contract base, the establishment of ad-hoc committees to debate the Hungarian mandate for the upcoming SAWP negotiations, etc.), but this would not have been enough without the enthusiasm of the experts and the ministry officials, who also had good personal relationships with the higher-level decision-makers.

As already mentioned, one country can rarely change the orientation of EU policies by itself. Therefore the cooperation between the Visegrád countries was of crucial importance. This relationship started well before accession, and the exchange of information between the countries was a common practice until the last moments of the accession negotiations. Thus it was not difficult to continue this cooperation over the housing issue, especially as there were very good personal relationships between the housing experts of these countries. Also the cooperation between the ministries could be considered as functioning efficiently and was permanent, if sometimes a little too bureaucratic. During the final stage of the negotiations, the successful attempt to include other new member states in the lobbying efforts, along with the two candidate countries, further strengthened the voice of this group.

In addition to all these efforts the experts and ministry officials had some network relationships with other EU institutions (Parliament, DG Regio) and also to relevant lobby

organizations at the EU level (Cecodhas, Feantsa, Eurocities . . .). These links, however, were more or less on an ad-hoc base and presumably were much less developed than in the case of the old member states.

### **Summary**

The housing debate was a very important process from the perspective of the Central and Eastern European member states. Leaving behind their socialist past (where decisions were very much predetermined from the top, without any possibility of factual, professional or political discussions) and following the period of the accession negotiations, these countries have learnt in this – and in other, similar – negotiations what it means to participate in a real debate, to represent their own interests against stronger parties with different interests, and what practices and methods are needed to win. These negotiations were crucial for the Central and Eastern European countries to understand that they are now really full members of a larger community, and that they can, if they have real arguments, successfully influence common policies.

Now the lessons learnt have to be applied to the domestic scene. The successful end of the negotiations with the Commission does not mean that the story is over. How much of the new opportunities to use Structural Funds for the improvement of run-down (or soon to deteriorate) residential areas will be used in practice, and how many programmes and projects are developed on this basis, depends largely on the approach taken at national level and by the regions and cities. There are already signs of unwillingness at regional and local level to apply the new measures, as these are much more difficult, long-lasting and complex than simply spending EU money on new greenfield investments. Thus the experts and committed civil servants need to continue their cooperation if the potential offered by EU support is to be realised. This is, however, a different story, potentially deserving a separate critical analysis in the future.