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## THE EUROPEAN UNION AND THE CANARY ISLANDS (SPAIN)

### 1. Description of some physical and demographic aspects

The Canary Islands is one of the 17 autonomous regions of Spain. The European Union considers the Canary Islands Region Objective 1 and Ultra Outlying Region which makes them qualify for subsidies from the Structural Funds of the EU.

#### 1.1. Technical Specifications

- Canary Islands, Spain.
- Autonomous Community – 7 Islands located in the Atlantic Ocean Southwest of the Iberian Peninsula.
- 2 Provinces (Santa Cruz de Tenerife y Las Palmas).
- 87 Municipalities.
- 7.243 km<sup>2</sup> (1.4% of Spain and 0.2% of the EU).

Table 1. Basic Statistics

Specifications	EUR 15	SPAIN	CANARY IS.
Surface Area in %	100	15.6	0.2
Population in % (1996)	100	10.5	0.4
GDP ppp <sup>*</sup> in % (1995)	100	8.1	0.3
GDP per inhabitant ppp <sup>*</sup> in % (1995)	100	77.0	75
Demographic density (1995)	116.8	78.0	214.9

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1	2	3	4
Demographic evolution (%1981-1991)**	0.3	0.3	0.8
Population under 25 years old in % (1996)	30.7	32.7	37.1
Population over 65 years old in % (1996)	15.6	15.4	10.7
Labour Market			
Rate of Activity *** (1995)	55.2	48.2	50.8
Male Rate of Activity (1995)	66.2	61.9	65.0
Female Rate of Activity (1995)	45.0	35.4	37.6
Unemployment Rate (1996)	10.9	22.3	21.7
Male Unemployment Rate (1996)	9.7	17.8	17.4
Female Unemployment Rate (1996)	12.5	29.5	28.9
Unemployment Rate under 25 years old (1996)	21.4	41.9	36.3
Employment Structure (1997)			
Agriculture	5.0	8.3	8.4
Industry	29.4	29.9	17.8
Services	65.3	61.8	73.8

\* ppp: purchasing power parity; \*\* EUR12; \*\*\* The relationship between the working population and the total population of working-aged adults.

Source: EUROSTAT. Regiones. Anuario Estadístico (1996) y Regiones, Statistiques en Bref.

## 1.2. The efficiency and competitiveness of Canarian Business is conditioned by

1. The insularity and the distance from the centres of production of raw materials, from suppliers and external markets, generates a greater need to stock commodities, which in turn translates into greater production costs.

2. Inadequate infrastructures.

## 1.3. Demographic Aspects

The Canary Islands have the youngest population structure in Spain. They have a high population density due to demographic growth until the 1980's, which stopped in the 1990's and to immigration flows of the last decade. Population density is particularly accentuated in the two biggest islands. There is some depopulation in the smaller islands, like La Gomera y El Hierro.

## 2. The relevant macroeconomic variables

### Production

2.1. The GDP of the Canary Islands, after Spain entered in the EU in 1986, has grown 47%. Representing in 1997 3.9% of Spanish Production and 0.3% of the total production of the "15 states of the European Union". It is self-evident that the Canary Islands is a small economy.

2.2. The convergence of the output per capita of the Canary Islands, measured by GDP, towards the Spanish average has been going on since 1960, but this process has accelerated thanks to the integration of Spain in the EU. As of today, GDP per capita of the Canary Islands is above the Spanish average. On the other hand, there is still quite a distance to reach the average income of the EU. The Canary Islands finds itself on the threshold of 75% of the EU average, which constitutes the reference point in order to determine the condition of Region Objective I status.

2.3. The Canary Islands has experienced a profound structural transformation in the productive sectors since the 1960s.

2.3.1. The primary sector has yielded to the service sector its preponderance as much as in production as in employment, primarily due to the prominence of tourism, which reaches 75% of the Canary Island economy. This process has also occurred in the national economy but to a lesser extent since it represents 60% of the GDP.

2.3.2. The industrial sector with 11.4% of GDP is much weaker than in Spain as a whole (26.6%). Nevertheless, after the integration into the EU it has corrected its lost rhythm and importance in the economy and has stabilised above the 11% mark.

2.3.3. The weight of the construction sector is somewhat higher in the Canary Islands (8.8%) than for Spain (7.1%); but its evolution, after integration with the EU (1986–1997) has been distinct. In the Canary Islands it has lost ground by (-1.1%), meanwhile on the national level it has gained (0.6%). Since the 1960's it has been observed that there is a close relationship between tourism and construction<sup>1</sup>.

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<sup>1</sup> During the year 2000, there has been some institutional reaction from the Island and the Autonomous Public Administration to stop the expansion of lodgings. Municipalities have promoted the situation. This is due to the foreseeable negative impact construction has on environmental objectives sought.

## Employment

2.4. The labour situation is not so positive as described above for production. Nonetheless, in the period of 1986–1997, there has been considerable growth in employment in the Canary Islands, 38% versus 17% on the national level. Even so, the unemployment rates in the Canary Islands and Spain are more than double that of the EU.

2.5. The favourable evolution of employment during the entire period, has been insufficient until 1993 to absorb the population flow that has been incorporated into the labour market. Thus the unemployment rates in the Canary Islands were permanently above the national level, reaching 28.5% in 1993. Still in the last few years there has been a convergence in the unemployment rates between the Canary Islands and the rest of Spain, as both in 1997 reached 20% and in 1999 around 15%.

2.6. The Canary Islands has a high structural level of unemployment, a high proportion of young people, 36.3% and of women, 28.8%, without work, limited qualifications of the unemployed, a high percentage of temporary contracts, important collectives of long-term unemployed workers and a reduced geographic mobility.

2.7. The migration balance, domestic and international, has been positive during this period. The topic of emigrant population in the Canary Islands is something of the past. The net positive migration has been paradoxically associated with very high unemployment rates that exist.

2.8. The causes of such a high unemployment rate can be found in the structures of the labour market, of products and services, as well as in the institutional structures that combine the public sector (EU, National, Autonomous and Local) and the respective representations of unions and employers. All of these agents have some responsibility in the level of existing unemployment. It is essential to have a reflection and debate over our unemployment problem. Because those that remain outside our market, the unemployed, the excluded and the marginalized, also stay out of the channels of negotiation, and they could resent the base and rationality towards the welfare state that is defended in all of Europe. The problem of unemployment, although it has improved, is very deep. This is due to a deficient productive system in the Canary Islands and for this reason it is very important for the Canary Islands to be considered as an Outlying Region.

## Commercial Relations with the European Union

2.9. The Canary Islands does not have a very big "Exterior Trade Market"<sup>2</sup>, understandably less than the majority of other Spanish regions. If we consider foreign trade, the Canary Islands is much less involved in it, when compared to the national average. The level of exterior trade has averaged 9% in the period of 1988–1996 with the European Union and with a negative variation of 4.4%. Meanwhile in the rest of Spain, it was 20.4% and with a positive trend of 8.1%.

2.10. The absolute volume of commerce is greater with the Peninsula and Baleares than with other countries. Thus the Canary Islands has traditionally had a deficit in commercial trade with the rest of Spain and overseas markets.

2.11. With respect to exports and imports, the EU constitutes the principal client and supplier of the Canary Islands.

2.12. The "trade vocation" of the Canarian Economy is more clearly apparent in the Service Sector, chiefly in tourism and in the merchandise sector.

## Strangleholds and Opportunities

### Strangleholds

2.13. The fragmentation of the territory in seven relatively small islands makes it necessary to have a minimum amount of infrastructures in each island, like electrical plants, airports, ports, hospitals, roads, extraction of water, water treatment plants, telecommunications, housing, education, warehousing,... This translates into greater construction and operation costs per inhabitant and square kilometre. The remoteness of the islands impedes the use of economies of scale and thus affects the conditions of competitiveness of our production.

2.14. Outside of the fact of the fragmentation of the territory and its consequences, the principal strangleholds come from:

– The water problem: the lack of adequate rainfall, the inability to sufficiently take advantage of subterranean water, important deficits between water resources and water demand in the Canary Islands and the general low quality of water, negative environmental impact that favours the process of erosion and desertification.

– Low level of education: This is the principal stranglehold that shows up in the labour market. This being a lack or shortage of qualified labour especially in technical and professional areas, which negatively influences the potential development of future entrepreneurs.

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<sup>2</sup> As measured by the value of exports (X) and Imports (M) with respects to G.D.P. [(X+M)/GDP].

– Low degree of diversification in production: Take the agricultural sector where bananas account for 35% and tomatoes 23% of the final agricultural production or look at the tourism sector where “mass tourism” has an overwhelming dominance. Thus with this, a strong dependency and high vulnerability for the economy.

### **Opportunities**

2.15. The principal strengths in this European Region come from:

- Environmental, topographic and unique climatic conditions.
- Agricultural potential if irrigation is guaranteed and diverse crops are grown.
- Locational rent with the possibility of being a strategic factor in development.
- Young population with 38% under 25 years old, but with an inadequate skill level together with negative population growth.
- Tourist activity during the whole year that brings in more than 10 million tourists from European countries.
- “Captive Market” for certain manufactures and agricultural industrial products, which facilitates import substitution strategies.

## **3. European Funding Towards the Canary Islands**

### **A) European Funding to the Canary Islands from 1986–1993**

3.1. As a result of the economic and social situation of the Canary Islands, it was from the beginning one of the regions benefiting from the priority actions of the European Union. The favourable support in development in the region has been channelled through financial resources based on Objective 1 criteria from the Structural Funds (see Tab. 2).

3.2. The restructuring of the funds and the creation of the “Community Support Framework” (CSF) has made the proceedings more regional, becoming more coherent. This plan has been defined in the “Regional Development Plan”, which was designed for the period 1989–1993 and includes distinct focal points of action:

- Professional Training – is considered a key factor to facilitate the integration of the Canary Islands in the European Market.
- Transportation – the internal articulation of the networks of communication, the communication between the Islands and, of course, the connections with the Peninsula and the rest of Europe is seen as a preliminary step in developing closer ties between the Canary Islands and the European Union.

- The deficiencies in material equipment and supplies (like energy, water, housing, social services, support to businesses, etc.).
- The impact of agriculture on population and wealth generation has conditioned the strategies that up till now have brought to bear on the local development of the Archipelago.

3.3. For the period of 1989–1993 the CSF concentrated its financial resources in investments directed at reducing observed imbalances in the Canary Islands, reducing the deficient infrastructures and professional training. The first CSF also put forth the idea of the characteristic of additional funds, which means co-financing every project, between Spain and the European Union constitutes a potent generation and concentration of resources. Thus the programs represent a continual investment effort, but controlled from distinct administrations and directed at reducing the differences between Spain and the European Union.

#### 3.4. What did they invest in?

– 87% of the European resources destined to the Canary Islands from 1989–1993 has been channelled through FEDER. Through this, it was possible to carry out investments, which were mainly directed towards infrastructures like ports, airports, roads, etc., and the integration and the support structures for economic activities like electricity, water, health, etc.

– In the agricultural area, for example, the Autonomous Community of the Canary Islands received a total of 66 million ecus to improve irrigation and another 6.7 million ecus towards improving the production and commercialisation of agricultural products. In addition, more than 2000 farmers received subsidies to facilitate productive tasks and modernise their activities.

– Throughout the period 1989–1993 the Canary Islands, also received almost 9.5 million ecus destined to improve tourism potential. This allowed actions such as in rural tourism and support for small and medium sized enterprises, as well as general measures related to tourism and development of activities in the Canary Islands.

– In the area of research, diverse institutions in the Canary Islands have participated in 51 contracts with different countries in the European Union and have received up until 1994, subsidies above 3.5 million ecus. Among such institutions we can name the following: Universidades de La Laguna y de Las Palmas de Gran Canaria, el Instituto Nacional de Meteorología, el Instituto de Astrofísica de Canarias, el Instituto Español de Oceanografía, la Consejería de Obras Públicas, Vivienda y Aguas, el Centro de Investigación y Tecnologías Agrarias de la Viceconsejería de Agricultura, o el Instituto Geográfico Nacional.

– Other actions or programs such as ESPRIT, ALTANER, REGIS, LEADER, STRIDE, PRISMA, STAR, VALOREN, ERASMUS, LINGUA o PETRA, have given rise to distinct initiatives in the area of investigation and education.

Table 2. European Union Funds-Payments (millions of current pesetas)

	1986	1987	1988	1989	1990	1991	1992	1993
FEDER	553	2.163	4.132	2.816	4.875	20.669	25.412	17.994
FSE	786	1.807	1.692	3.049	1.615	7.502	5.063	4.005
FEOGA-Orientation*	–	13	268	1.498	918	2.024	3.338	5.382
Total structural funds	1.339	3.983	6.092	7.363	7.408	30.195	33.813	27.381
FEOGA-Guarantee**	–	–	–	–	–	–	–	23.258
Cohesion Funds***	–	–	–	–	–	–	–	309
Total	1.339	3.983	6.092	7.363	7.408	30.195	33.813	50.948

\*And other resources in the agriculture and fishing sectors.

\*\* Provision of Funds made to the Autonomous Community for direct payments with obligation to FEOGA.

\*\*\* Amount Approved.

Source: Bank of Spain, Ministry of Economy and Finance and Ministry of Public Administrations.

## B) European Funding to the Canary Islands 1994–1999

3.5. The CSF for the period of 1994–1999 contemplates the following final objectives for the strategy of development (see Tables 3 and 4):

- The achievement of a growth rate in regional production closer to the national average, the reduction of the unemployment rate and increasing productivity in fundamental economic sectors in order to improve competitiveness.
- To provide for economic infrastructure (mainly in transport and telecommunications, the infrastructure of energy and hydraulics and equipping social sectors like education, health, housing and culture).
- To stimulate the localisation of production activities and development of regional potential in order to attain lasting and permanent results.

3.6. Strategy of development: The strategy plans a profound change in the dynamics of the socio-economic structure of the islands. This change implies an increase in investments of the Public Administration, with respect to infrastructure and equipping social sectors; but also stimulating the creation of private economic activities and a series of accompanying activities to create basic conditions for producing sustainable development.

3.7. How to implement this strategy? Through structural actions that are deployed in a series, we are looking to stimulate the potential and attractiveness of the Canarian Economy:



- A. To improve urbanisation, environment and the creation and improvement of basic infrastructures in Tourism.
- B. To develop education, professional training and the labour market.
- C. To boost new productive and service activities through assistance to businesses, investigation and development and the "Régimen Económico-Fiscal Canario" (REF).
- D. To improve accessibility of the Canary Islands through the development of communications and telecommunications.

3.8. The intervention can be grouped into three priority areas: basic infrastructures, human resources and support of productive activities.

- Basic Infrastructures

The actions in basic infrastructures refer to transportation, telecommunications, energy, hydraulic projects, environmental and conservation of resources, and health.

With respect to transport, we have to distinguish the actions in roads, ports, airports and urban transport.

With respect to telecommunications, the principal actions consist in the expansion of the basic infrastructure, the infrastructure of the Integrated Services Digital Network (ISDN) and the modernisation of the telecommunications network access.

In the area of energy infrastructure, the principal actions, in the first place, are organising, planning, evaluation studies and streamlining the energy sector. Secondly, rationalising the energy sector with an eye towards cushioning the liberalisation of energy prices, improving the infrastructure and the quality of electrical service, streamlining electricity demand and actions to develop gas, promoting energy savings and the implementation of renewable energy. Thirdly, improving and increasing the network of electrical wires, preparing the land, installing of underground cables and other marine projects, substations, connections and improving installations.

In Hydraulic projects the main actions are directed towards conservation and regulation of existing hydraulic systems and to increase the resources by conservation. Equally important is the regulation by means of transfers designed to correct the imbalances in each sector of every island, through transferring surpluses to deficient zones. It is necessary to increase water resources through the use of desalination plants to compensate for the deficiency between natural resources and water demands. Further, it is necessary to improve the storage of water in order to guarantee the supply for urban use in quantity and quality, as well as the improvement (amelioration) of the urban distribution network in order to reduce actual water losses.

Environmental and conservation of resources deals with the elaboration and development of purification and reutilization of waste water residues, through the construction, amplification, conditioning, rehabilitation and improving purification stations, underwater outlets, sanitation networks, networks of reutilization of treated water, etc. Equally, plans have been contemplated for the integral management of solid wastes, as well as the restoration of deteriorated landscape from uncontrollable dumpsites.

Lastly, in the health sector, plans have been contemplated in the development of health services, environmental health and the security of the food supply, as well as control and vigilance of prevailing transmittable illnesses. It is necessary to complete the reform of primary care, giving each zone a "health clinic" where develop assistant services to primary care teams. All of this without reducing the objective of bringing about more resource balanced hospitals, reducing the insufficient number of beds, through the construction or expansion of hospital centres. Finally, it is contemplated to conserve productive capital by construction and maintenance, thereby eliminating obsolete installations.

- Human Resources

The principal actions of FEDER are:

- Aid to infrastructures like libraries, institutes, and University Centres.
- Adequate education at all levels including professional training, continuous occupational training and retraining and constant training for the teaching staff.
- Entering and re-entering of the labour market for the unemployed (assistance in hiring and creation of business activities and accompanying measures like professional orientation, information etc.).
- Integration in the labour market of individuals with special difficulties.

In the area of research and technological development, programs and projects are promoted for centres and institutions in the Autonomous Community, especially in strategic areas for competitiveness and the productive development of the Canary Islands (renewable energy, communications and data transmissions, environmental protection, water treatment, etc.)

In the area of industry, the actions instigated were in the diffusion of incentives towards Research and Development particularly through the Technological Institute of the Canary Islands

In the agricultural sector, research and technological development projects are to be carried out as well as strengthening the position of investigators in Universities and Public Institutions of investigation. All this with an aim to build relationships between public research and the productive sector.

- Support to Productive Activities

Development activities are:

– Organising the industrial sector and aiding small and medium sized enterprises and boosting sectors of special interests: planning, facilitating, financing to implant or relocate industries, reducing financial costs for small and medium sized enterprises, bringing about innovation and education, and facilitating the adoption of environmental standards. Further actions included are propelling industrial design, fashion and craftsmanship, boosting export capacity, encouraging investment in emerging industries and supporting local development by aiding small infrastructure projects and equipment acquisitions.

– In the agricultural and rural development sectors: developing extension services to agricultural structures and rural environments: like infrastructure, equipment, rural housing, irrigation, etc.

– In the fishing sector: actions taken were the adjustment of the fleet to the available resources, the infrastructure of fishing ports, and the improvement of the conditions of commercialisation in origin, adapting, and restructuring the canning industry. Further actions were the promotion of the investigation of new fishing resources and species of aquaculture and the cleaning up of the coastal strip.

– In tourism: actions were designed to improve, diversify and differentiate the supply of products. Additionally, actions were taken towards the improvement of human resources through the construction of Hotel and Restaurant schools and the promotion of education in Tourism. Also included were the modernisation of tourist installations and investments to improve the infrastructure of information, management and commercialisation of tourist products. Additionally, investments were made to boost complementary activities to the traditional sun and beach ones (for example conferences, in tourism, science, etc.). And finally to improve the promotion and commercialisation of the Canary Islands in the traditional European market and to expand to new markets that could be complementary to the actual market.

### **C) European Community Initiatives 1994–1999**

Not all community aid from the Structural Funds has been distributed through the CSF. The European Commission has reserved some funds in order to carry out actions that they consider are of special interest. These are called “Iniciativas Comunitarias” or Community Initiatives that for the period from 1994–1999 constitute 9% of the total aid from the Structural Funds.

The Canary Islands participated in the following Programs of the Community Initiatives:

- **Regis II.** The purpose of this assistance is directed towards remote regions of the European Union, as is the case of the Canary Islands, in order to accelerate the pace of adaptation and integration to the interior market of the European Union. The approved aid is for 34,716.7 million pesetas with a community co-financing of 85%, which implies a global public expense of more than 40,800 million pesetas, and thus converts this program into the second most important one for the Canary Islands behind the "Programa Operativo de Canarias" (FEDER).

- **Urban.** The objective of this plan is to contribute to unfavourable urban zones, for cities of over 100,000 people, in order to have lasting improvements in the standard of living of its inhabitants by encouraging economic activity in these zones. In the Canary Islands, this initiative is included in the REGIS II and with the participation of the city councils from Las Palmas de Gran Canaria and Santa Cruz de Tenerife.

- **Pyme.** (small and medium sized enterprises) The objective is to favour the adaptation to the common market of the small and medium sized enterprises, especially in less developed regions and to improve their international competitiveness. The management at the national level corresponds to the General Direction of the Small and Medium Sized Enterprises. This initiative is also included in the REGIS II.

- **Employment.** This initiative aims to contribute to the development of human resources and improve the functioning of the labour market by boosting growth in employment. This initiative is led by the Social European Fund and has three sections:

1. **Empleo-NOW:** to promote equal opportunities for women.

2. **Empleo-HORIZON:** to improve employment possibilities for handicapped and other disadvantaged groups.

3. **Empleo-YOUTHSTART:** to favour the integration of youths into the labour market and especially those who lack education or basic qualifications.

- **Adapt.** The objective is to contribute to the adaptation of workers to industrial transformations and improve the functioning of the labour market. The Social European Fund also leads this initiative.

- **Leader II.** The fundamental objective of this initiative, which is led by the FEOGA-Orientation, is to contribute to the diversification of the economy in rural areas through innovative actions undertaken by local agents. In the Canary Islands the forecasted aid is for 1,972.8 million of pesetas.

Table 3. Community support framework 1994–1999 (CSF II), Canary Islands (Millions de ECUS)

Canary Islands (Spain) Object N° 1 Region	Total Cost	Total Public Cost	Community Subsidies					National Public Finance	Private Sector
			Total	FEDER	FSE	FEOGA	IFOP		
			1 = 2 + 10	2 = 3 + 8	3 = 4 + 5 + 6 + 7	4	5		
1. Integration and territorial articulation	224.57	224.57	156.00	156.00	0.00	0.00	0.00	68.57	0.00
2. Development of the Economic Fabric	119.89	41.96	31.47	27.30	0.00	4.17	0.00	10.49	77.93
3. Tourism	137.14	48.00	31.20	31.20	0.00	0.00	0.00	16.80	89.14
4. Agriculture/Rural Development	119.18	115.29	86.47	0.90	0.00	82.57	0.00	28.82	3.89
5. Fishing	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6. Infrastructures to Support Economic Activities	156.17	156.17	119.94	109.20	2.74	0.00	0.00	44.23	0.00
7. Evaluation of Human Resources	286.74	286.74	235.93	58.50	177.43	0.00	0.00	50.81	0.00
8. Technical Assistance, Support and Information	8.10	8.10	6.64	3.90	2.74	0.00	0.00	1.46	0.00
Total	1.051.79	880.94	659.65	390.00	182.91	86.74	0.00	221.18	170.96

Source: Comisión Europea, España. "Marco comunitario de apoyo 1994–1999. Objetivo n° 1: desarrollo y ajuste estructural de las regiones menos desarrolladas", 1996.

Table 4. Cofinanced investments by the european structural funds in the canary islands (1994-1999) (Millions of Pesetas)

Programs	Coste				
	Total	Gasto Publico			Private Financing
		Total	UE	Central Admin. & Autonomous	
Community support framework (CSF)					
Regional Operational Programs					
O.P. de Canary Islands(FEDER)	188.170	170.872	110.859	60.014	17.298
O.P. Rural Development (FEOGA-O)	24.699	17.221	12.916	4.305	7.478
O. Programs of the Canary Islands (FSE)	34.428	34.188	29.266	4.921	240
Multi-regional Operating Programs					
O.P. of Local Environment	8.110	8.110	5.686	2.424	0
O.P. Local	5.849	5.849	4.387	1.462	0
O.P. de Infraestructura Científica	6.807	6.807	4.765	2.042	0
O.P. of Fishing	12.402	12.402	9.053	3.348	0
O.P. Multiregional (FSE)	32.199	32.199	27.369	4.830	0
P. Rural Development Zones	2.725	1.907	1.499	408	818
O.P. Industrial Agriculture	4.691	4.691	3.518	1.173	0
Total CSF	320.080	294.246	209.318	84.927	25.834
European community initiatives					
REGIS	61.678	40.843	34.717	6.127	20.835
NOW	489	489	367	122	0
HORIZON	1.855	1.855	1.392	464	0
YOUTHSTART	546	546	409	136	0
ADAPT	1.319	1.319	989	330	0
LEADER II	4.930	2.713	1.973	740	2.217
PESCA	785	629	410	219	156
Total initiatives	71.602	48.394	40.257	8.138	23.208
Total general	391.682	342.640	249.575	93.065	49.042

S o u r c e: Dirección General de Planificación, Presupuesto y Gasto Público.

#### 4. The impact of European Assistance to the Canary Islands from 1994–99

##### Relative aspects to the intermediate evaluation from the Canary Islands Operational Programme (COP FEDER)

4.1. It has already been noted that the “Structural Funds” have been carried out before to the Canary Islands. The fact that the actual COP was preceded by the 1989–1993 plan which gave more emphasis on infrastructures. The interventions from the “Structural Funds” in the period of 1994–1999 are not limited to this “Operative Plan” with 390 million ecus. But also included with the “Community Initiatives” are the “Operational Regional Plans” from the FSE with 182.91 million ecus and from the FEOGA with 86.74 million ecus and various “Multi-Regional Programs”. The quantity of the financial resources given through the MAC during the 1994–1999 period reached 659.65 million ecus (see Table 3) and the total financial resources that the Canary Islands received from the European Union for all the programs will be 249,575 million of pesetas (see Table 4).

4.2. The assigned quantity through the COP (FEDER) is centred basically in the lines 1,6 and 7 that add up to 68% of the 390 million ecus. The FEDER contributes 44.3% of all public expenditures. Of this total 74% corresponds to the European Union subsidies and the rest (26%) is financed by the public administration which includes the Central and Autonomous Governments.

4.3. If we take into account the total cost subject to finance this ascends to 1,051.79 million of ecus, of which 62% proceeds from European Union subsidies, 21% corresponds to national public funds and the rest (17%) comes from the private sector, which is fundamentally centred in lines 2 and 3.

4.4. In the first three years of the period, the COP (FEDER) had programmed 53% of its expenditures; halfway through its application, it has fully reached its financial objectives and the eligible payments made have assumed 105.2% of the total envisioned for the period. This goal has been reached through an elevated rate of accomplishment of the financial objectives from the majority of actions taken as shown in Tab. 5.

The positive deviations in some of the actions compensate for the difficulties that affect some other areas. Perhaps it is convenient to evaluate the reasons for the negative deviations and value the nature of the restrictions that affect them in order to consider the opportunity to proceed to a temporary reprogramming of the resources.

Table 5. Operating Program Of The Canary Islands From 1994–1999 FEDER.  
Intermediate Evaluation 1997

Elements	Index of Financial Completion
1. Integration and territorial articulation.	107
2. Development of the Economic Fabric.	123
3. Tourism.	82
4. Agriculture and rural development.	174
5. Fishing.	138
6. Support Information to economic activities.	93
7. Evaluation of Human Resources.	146
8. Technical Assistance.	78

Source: Own calculation.

4.5. It seems advisable in lieu of the rate of development of the principal actions in each one of the elements, to examine the possibility to assign additional resources to the Program in order to reinforce some of the operations in infrastructures, like airports, roads, ports and health, as well as those destined to the provisions for social purposes like hospitals and education.

4.6. The support that was expected to be obtained with the COP has also reached a good pace and an outstanding part is already operative. The progress of these actions shows up especially in all of the infrastructure operations and to a lesser extent in the areas destined to give incentives for productive activities. It must be noted that already the objectives in the area of new road construction, dikes, general telecommunications and water have been achieved. In the area of equipment, the actions in health care and universities have also surpassed the goals set out at the beginning of the program.

4.7. As a result the OCP, as already seen from the interventions supported in the CSF 1989–1993, has contributed above all to the improvement of the basic infrastructure and to the links with economic activities and greater accessibility of the islands. Now, relevant attention is being paid to other types of support tied to the qualification of human resources and equipment in education and health care.

4.8. Through the “Master Plan of Infrastructure”, it seems that the doubts have dissipated regarding the criteria utilised in the selection of projects of infrastructures, these doubts have fallen around certain realised investments.

4.9. Part of the achieved actions have a direct impact on the improvement of the environment of the islands and in particular, on the operations dedicated to sanitation and water treatment, the cleaning up from electrical production and the organisation of fishing activities. All of these actions have been developed inside the planned forecasts.

4.10. The macroeconomic effects or impacts from the investments contained in the POC have had an influence in the regional economy similar to what was expected, which is around 1% of GDP and 20% of the employment generated.



This repercussion, together with the presence of other factors, has driven the economy of the Canary Islands to a notably more favourable position than that existed before the application of the POC. This being notably to reduce root unemployment from 1994, as already described, and to sustain a rate of growth of effective production and the GAV, to around 4% a year. The income per capita of the Canary Islands has reached the Spanish average and finds itself in the threshold of 75% of the average European income. (See Graph of Convergence).

All of these results have been accompanied by a profound transformation, where the economy of the Canary Islands has integrated clearly in the Spanish and European Economy. Nevertheless with respect to the traffic of goods, our integration has been more notable in the national area than in the European zone.

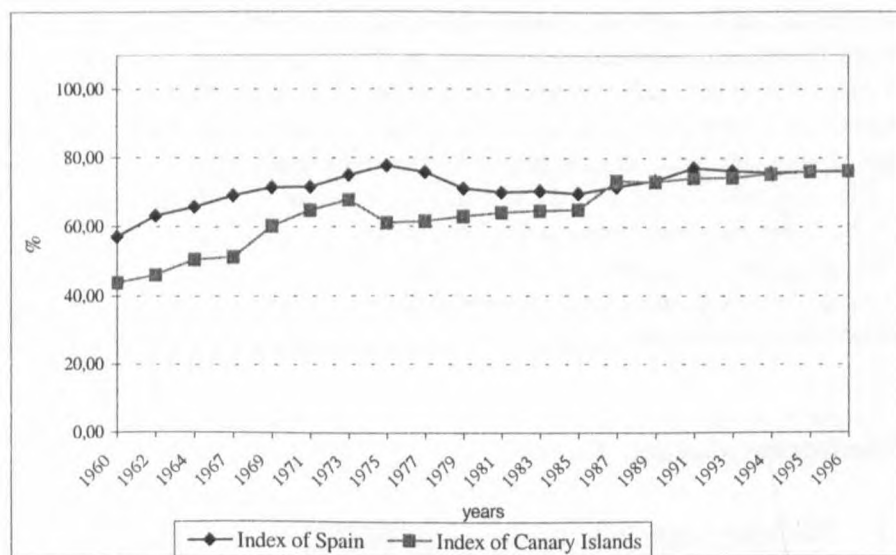


Fig. 1. GDP per capita compared to European Average

4.11. These results do not block the fact that it is advisable to reconsider the direction and, above all, the kinds of actions carried out. In particular, those actions that have been directed towards innovation and modernisation of Canarian businesses, which constitutes a vital objective.

4.12. The synergies of the result and impact of the POC with those that proceeded from other interventions like the Community Initiatives (REGIS II, PYME, URBAN and INTERREG) are very high.

4.13. The management and monitoring of the POC is being carried out with great agility from the understanding and co-ordination between the Minister of

Economy and Autonomous Department of Economy and Tax), as well as with the participation of the corresponding Local Municipalities.

The management of a large part of the operations has not encountered any significant problems to mention, reaching a wide accomplishment of the obligations related to the environment of the projects, the publicity and the open bidding in the case of public contracts. Nevertheless, it is in the area of management and monitoring of the OPC there are great possibilities of improvement, specifically in the following areas:

Perfecting the procedures for selecting and evaluating projects; perfecting the process of control (transfers to the local town councils and in subsidising businesses) and perfecting the system indicators of results and impacts.

4.14. The impact of the European Community support to the economic development of the Canary Islands has been highly positive, not only by the importance of the funds invested, but above all the area in which the aid has been invested in. The efforts made together with the Public Administration have allowed in general, approaching the average European level of infrastructures. Precisely, this level makes it imperative to put an extra effort to improve the efficiency in the use and to take advantage of the new and amplified infrastructures (roads, airports, hospitals, electric plants, water treatment plants, etc.).

4.15. The effectiveness of the community assistance can be judged not only in terms of the increases noted in the regional product and employment, but also by the reduction of the costs of production for local businesses. Thus this has improved the competitiveness of local businesses. On the other hand, it has avoided substantial bottlenecks in the infrastructures and public services.

## 5. The future: Medium Term

5.1. The total funds from the Structural Funds for the Objective 1 (Andalucía, Asturias, Canarias, Castilla y León, Castilla – La Mancha, C. Valenciana, Extrimadura, Galicia, Murcia, Ceuta, and Melilla.) regions of Spain during the period 2000–2006 will reach 6.9 billion pesetas (or 41,269 million euros, which is 28% of all the Structural Funds destined towards the Objective 1 regions), without counting the “efficacy reserve”, of which the Canary Islands will receive 453,397 million pesetas (6.94%). Which translates to an 83% increase with respect to the 249,575 million pesetas that the Canary Islands received from the European Union during the 1994–1999 period (see Tab. 6)<sup>3</sup>.

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<sup>3</sup> As reference to the Gross Added Value (GAV) of 1999 from the Canary Islands was 1,889,258 millions of pesetas and the initial budget for the year 2001 from the Autonomous Community of the Canary Islands is 655,000 millions of pesetas.

Table 6. European Community Financing by elements of intervention 2000–2006 (\*)

Specification	Canary Is.	Spain	%
Ele 1: Improvement in competitiveness	47.073	829.098	5.68
Ele 2: R&D & Telecommunications	34.068	518.748	6.57
Ele 3: Environment and Water Resources	60.727	1.061.300	5.72
Ele 4: Human Resources	70.395	1.230.477	5.72
Ele 5: Urban Development	45.995	667.629	6.89
Ele 6: Transport Networks and Energy	130.937	1.510.645	8.67
Ele 7: Rural Development	21.604	522.993	4.13
Ele 8: Agriculture and Fishery	43.079	207.203	20.79
Ele 9: Technical Assistance	2.519	32.130	7.84
Total	456.397	6.580.223	6.94

\* Millions of current pesetas. Does not incorporate 4.16% of the total used as a form of efficiency reserve by the Commission. The same could be applied after the year 2004 if it is valued as an efficient way of managing of the program through the year 2003.

SOURCE: Own research.

5.2. The co-financing of the distinct administrations and the private sector that supports the “additionality principle” of the resources will imply, on the one hand, 3.2 billion pesetas more for the Spanish Public Administration and on the other, 4.3 billion pesetas more in private investment induced by the public expenditures. This will amount to a total of 14.3 billion pesetas (or 86 475 million euros) for the period of 2000–2006.

5.3. The investments made in Spain with these European funds will permit the creation of an average of 100,000 additional jobs in the next few years. Additionally, these funds will generate an additional economic growth of approximately 1% more each year until 2006.

5.4. In regard to the perspectives for the next few years of programming and execution of the Structural Funds, there will be some aspects that will create uncertainty in the decision making that will affect the public and private domain. These aspects are the following:

- The modifications derived from the integral definition of the REF, fully developed with the coming into effect of the ZEC and the remaining of an economic – fiscal nature.

- The development of the “Permanent Status for the Canary Islands”, under the article of 299.1 of the Treaty, by affirming the status of the region as a remote area. this situation could give the necessary coverage before the foreseeable and desired crossing of the threshold of income per capita, which is situated at 75% of the European average and is a condition for Objective Region 1 status.

- The process of decentralisation in the authority of the islands and local administration will give way to a growing role for the inter-island council and local municipalities in the investment plans in a multitude of areas, but especially in roads and water.

- The growth and necessary liberalisation of the markets as a neutralising strategy of market power, as in product markets as in factors of production, which foreseeable stimulates the creation of employment and the improvement of productive efficiency. In regard to the European Union Commercial Policies, this also will be appreciated for the greater liberalisation with respect to third parties. This could affect the Canarian export products. In this area we should adopt measures of differentiation of products as instruments that will favour the access of our products to other markets.

- The process of consolidation in the Economic Monetary Union (EMU) and, in particular, the effects of the Euro in the real and financial world will generate important benefits for the Canary Island Economy. This will derive from the reduction of transaction costs as a result of the reduction in currency exchanges, the monetary stability of the EURO Zone, which will allow a reduced inflation rate and lower interest rates so as to increase the real economic activity. The benefits obtained as a consequence of the reduction of the risk premium have produced a spectacular reduction in interest rates. This foreseeable will benefit the tourist trade as well as the agricultural sector, especially in the cultivation of exports, given that these products carry a certain level of competitiveness in quality and price in the European Union markets.

- The Canary Islands is a remote region of an outlying State in the European Union, but in a State which gained entrance to the EMU first. The positive effects cited above must be reinforced with measures that will improve the competitiveness in our economic sectors. Do not forget that in this new scenario it will not be possible to utilise changes in currency rates to compensate deviations in relative prices.

- The Agenda 2000 presented by the Commission in July of 1997 put forward reforms in terms of the budget for the Common Agricultural and Regional Policy. In addition, it proposed an increase of financial instruments for their support and a series of reports over the actual budget framework and their reform for the next seven years. The Commission advocated maintaining the maximum ceiling of expenditures to 1.27% of European Union GDP. This is seen as sufficient to finance the reforms of the Agricultural and Regional Policy and at the same time sustain the instruments to improve the conditions of adhesion for the candidates of expansion. With respect to the table of incomes, the debates will turn to the reduction of the contributions from the net contributing States.

- The expansion of the Union to the Countries of Eastern Europe will increase the internal diversity of the European Union, turning the Union towards the North and centralising economically in Central Europe. This will generate

difficulties in justifying an exceptional treatment of the Canary Islands, as it will increase the income per capita with respect to the average expanded European Union. For this, it is necessary for the Canary Islands to utilise "the ultra-remoteness" beyond its definition. Thus, incorporating a catalogue of effects on the economic structure of the Canary Islands that figure as conditions for an ultra-remote region, in a way that does not reflect the level of income as the only indicator. The ultra-remoteness that constitutes the new reference which was properly evaluated and explained, in order for the Canary Islands to be receiving the benefits of the efforts towards cohesion. This, inside the context of the efforts of cohesion, will be reduced in relative terms respect towards other Community policies, in particular the Community Agriculture Policy (APC), and additionally will be directed progressively in favour of the new member States.

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## UNIA EUROPEJSKA I WYSPY KANARYJSKIE (HISZPANIA)

Autorzy podejmują próbę oceny efektów integracji małej gospodarki, jaką są Wyspy Kanaryjskie, z Unią Europejską. Po krótkiej charakterystyce fizycznych i demograficznych warunków badanego regionu opisane zostały ważniejsze wskaźniki makroekonomiczne Wysp Kanaryjskich na tle Hiszpanii jako całości oraz Unii Europejskiej. Ma miejsce próba oceny wpływu funduszy strukturalnych Unii Europejskiej na rozwój ekonomiczny Wysp Kanaryjskich.

