

Territorial review of Öresund, 2003

Summary

The Öresund project which is intended to develop jointly Skåne (Malmö) in Sweden and Zealand (Copenhagen) in Denmark is a major endeavour for the Danish and Swedish governments, given the potential economic growth that can be derived from the integration of one of the most highly populated and productive regions on the Baltic Sea. The significance of the project is reflected not only in the regional policy focus given to Öresund in both countries but also in the EU's support, notably through INTERREG, which considers Öresund a flagship programme. While progress has been achieved to better link the two regional economies, much remains to be done to remove barriers to integration and to define the strategic positioning of the area for the future. Four key policy challenges need to be addressed. First, regarding physical accessibility, the pricing policy for the crossing of the new bridge can be made more efficient and secondary infrastructure optimised to fully exploit the opportunities brought about by the fixed link. A cross-border committee could be created to allow integrated spatial planning. Second, labour mobility should be increased by removing bureaucratic and legislative obstacles through a new package of active labour market policies. Third, networking and co-operation between firms and educational institutions should be enhanced. Fourth, asymmetries of the two fiscal systems will need to be tackled by a new tax agreement. Most important is the governance framework of the region. While there are numerous common Danish/Swedish regional institutions and rightfully the creation of a heavily bureaucratic governing body has been avoided, the potential for public/private partnerships is far from tapped. Furthermore, the system in place does not provide an appropriate framework for the private sector to fully involve all relevant actors. These conditions will need to be fulfilled and forms of "light institutionalisation" of cross-border relations developed in order to trigger a new dynamism in the integration process. ■

What are the objectives of the Öresund project?

How is this project received by global firms and organisations?

Is Öresund a target within Danish and Swedish regional policies?

Why and how to design a comprehensive strategy for the integration of the Danish and Swedish part of Öresund?

To what extent is the effort to improve infrastructure successful and how to strengthen its impact?

What can be done to make the Öresund labour market more seamless?

To what extent could networking between the two banks of the strait further the integration process?

What are the focus and characteristics of co-operative endeavours across the strait?

How to enhance innovative activities?

What steps could be taken to remove fiscal barriers to labour mobility and integration?

How to improve the cross border institutional background in Öresund?

Does the "governance without government" approach work in the Öresund region?

For further reading

Where to contact us?

What are the objectives of the Öresund project?

The goal of the Öresund cross-border project is not only to increase trade between the two significant regions of Zealand and Skåne but also to create and consolidate a functional area of 3.5 million inhabitants, considerably bigger than Stockholm, Oslo or Helsinki. Co-operation between Copenhagen and Malmö should further enhance productivity and exploit comparative advantages. In the region, there is a concentration of firms in adjacent sectors, research laboratories and universities. Zealand and Skåne are well-endowed with a wide spectrum of knowledge-based industries; the former is strong in a number of pharmaceuticals, as well as food processing, software, design and environment technologies, and the latter shows increasingly good performance in IT, telecommunications, biotechnology and research. At the same time, the Öresund Region nurtures a specialised labour force by hosting 20 universities and 130 000 students. Promoting business networks and co-operation between firms and universities may further enhance specialisation and capacity to innovate. Moreover, supporting partnerships among a broader set of civil organisations and public authorities could improve local services. In parallel, the bridge and a number of other public infrastructure investments, totalling about EUR 8.5 billion, have facilitated accessibility within and to the region, designating it as a Scandinavian hub and gateway to the Baltic with a potential market of around 100 million people. ■

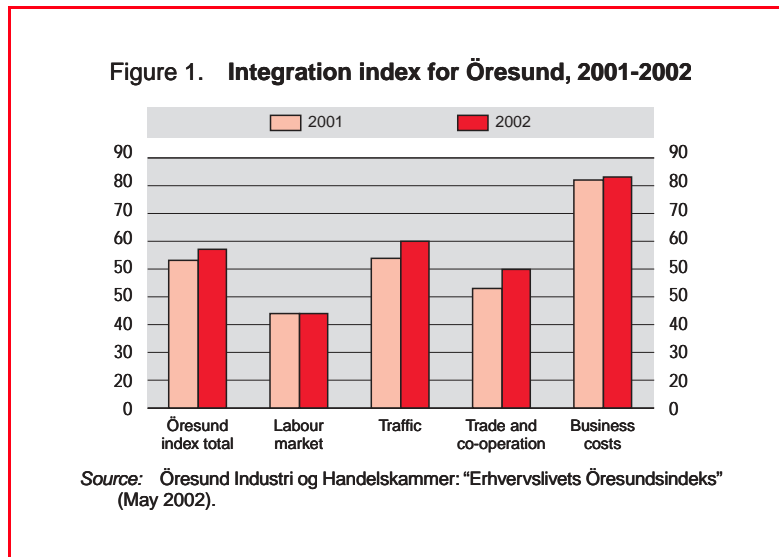
How is this project received by global firms and organisations?

Foreign direct investors are already investing in Öresund, contributing to the regional concentration of economic activity and holding an increasing share of the regional R&D spending. From 1998–2000, a major share of direct investments in Denmark and Sweden has been directed to Öresund. The European Union is another key player in the Öresund. European regional policies are being gradually overhauled to valorise each region's potential and to focus less on the immediate, systematic reduction of income and unemployment disparities among regions. In parallel, various com-

munity programmes in rural, urban and territorial development are gaining strength. Notably, the INTERREG programme, which has an overall budget double with regard to the previous period, will contribute EUR 30 million to the Öresund Region for 2000–2006. Given its focus on market integration, its innovative governance system and numerous cross-border institutions, the Öresund project is a particularly interesting test bench for the processes of regional integration within the European Union. ■

Is Öresund a target within Danish and Swedish regional policies?

The national governments recognise that the project is significant and consistent with their different regional policies. In Denmark, the degree of territorial disparity is among the lowest in Europe, even though politicians in rural areas remain sensitive to territorial cohesion issues. From 1991, most regional policies were discontinued, except for limited ad hoc interventions aimed at attracting foreign capital or creating enterprise zones. The bulk of territorial policies are now related to European Structural Funds. Assistance to Öresund's less developed areas (Objective 2), notably the counties of Storstrom and the island of Bornholm, helps to rebalance the development within the entire region. Given that the remaining part of the Structural Funds goes to regions in Jutland and Funen, the government maintains an equilibrated redistribution of funds. In Sweden, the Öresund project is coherent with the overall policy objective of linking the country more strongly to the heart of Europe. Swedish policy evolved from focusing exclusively on the north to a more balanced approach toward socio-economic and environmental issues throughout the country. However, transfers to southern Sweden remain modest and poised to cover part of the local authorities' operating costs. Within the framework of the Regional Growth Agreement introduced in 1998, increased co-ordinating responsibilities are being passed to County Administrative Boards, although they are not coupled with additional financial means. Experimental decentralisation is being pursued and new regional self-governing bodies have been established, notably in Skåne (a pilot region). This region's building proc-



ess and the greater autonomy presently granted to Skåne are a leap forward for Öresund. ■

Why and how to design a comprehensive strategy for the integration of the Danish and Swedish part of Öresund?

In the last decade, the two governments have developed a common vision for the region, but so far, they have neither formally evaluated the degree of integration, nor drawn a roadmap orienting a strategy for the future of the region. In fact, despite several remarkable results, borders remain an obstacle (Figure 1). Building infrastructure and improving accessibility are clearly the initial steps of a longer process to create a functionally integrated cross-border region. Trade between trans-border centres amounts to less than 25% of the potential of centres located in the same country. In Öresund, although the number of commuters rose from 1 950 in 1994 to 3 200 in 2001, labour mobility between the two sides of the strait could be higher (there are 70 000 daily commuters between Malmö and its suburbs and 225 000 commuters within Greater Copenhagen). On the whole, the Öresund share of the two countries' GDP has remained fairly stable and GDP per capita in Zealand continues to be significantly more important than in Skåne, where despite greater job creation, unemployment remains high. Moreover, parts of regulation and fiscal differences generate contin-

gent rents rather than a better allocation of resources. Finally, effective governance and enhanced networking among firms require additional action. In short, further integration in Öresund remains a major challenge together with the development of a widely shared coherent strategy for the future of the region. Four key policy areas should be targeted for action and included in the strategic planning for the region: 1) infrastructure and spatial planning; 2) labour market; 3) networking and knowledge diffusion; and 4) taxation. ■

To what extent is the effort to improve infrastructure successful and how to strengthen its impact?

Assessing the long-term consequences of the bridge and toll policy is a prerequisite for the trans-border strategy. It underlines numerous positive results but also calls for a reconsideration of the tolls. Increased accessibility has raised the profiles of smaller cities, especially in Sweden. Malmö's autonomy has increased with regard to the rest of Sweden as well as Skåne in general, while Copenhagen has enlarged its catchment area by roughly 50%. Urban development has been impressive on the Danish side, notably with the planning process put in place by the Ørestad Development Corporation in the southern districts of Copenhagen. Opportunities provided by the

fixed link have also led to ambitious restructuring of Malmö's old city centre, harbour and industrial areas. However, many of the expected impacts of the fixed link have neither materialised nor been forecasted. While railway traffic has been significantly above *ex ante* forecasts, passenger and freight traffic on the road have been on the whole below expectations. Although the under-use of the bridge is sometimes ascribed to changes in business cycles and increases in fuel price, the high toll of the crossing appears to be the main discouraging element. While an animated debate has been going on regarding the possibility of lowering the toll, both countries agreed to avoid market distortions and to protect other means of transport. Lowering the tolls could considerably stretch the repayment period for the fixed link, making it difficult for the bridge to be self-financed and thus, necessitating financial support from public funds. Considering these factors, the long-term toll elasticity should be appraised to eventually revise the pricing policy. A related course of action could be reducing subsidies currently oriented towards the train system by the Danish government. Rather than invest in new infrastructure, Danish and Swedish governments should promote further inter-modal integration to increase accessibility, prioritising improvement in transport services, notably in hinterland areas, and better train service. For ongoing infrastructure plans, careful monitoring of movements across the strait and co-ordinated spatial planning should tackle congestion problems in the two cities and achieve environmental sustainability. Creating a cross-border planning committee would serve to overcome the limits of informal bilateral discussions and to insure a framework for constant dialogue on strategic issues of integrated spatial planning. ■

What can be done to make the Öresund labour market more seamless?

A harmonised labour market will be difficult to achieve in the near future. More immediate action should address administrative practices that hinder the transferring of jobs from one side to the other of the sound, commuting and working part-time on both sides. Institutions could better disseminate

information regarding working conditions and legal dispositions on commuting and clarify responsibility for welfare benefits that remain unclear despite the agreements signed among Nordic countries on taxes and social contributions. A similar action could be undertaken regarding mutual skill recognition, which remains ambiguous because of the different evaluation systems, despite the EU's established common standards. Promoting cross-border hiring in the public sector as well as reinforcing co-operation in the development of active labour market policies on the two sides of the strait is also advisable. Students and researchers exchanges could also be further developed. ■

To what extent could networking between the two banks of the strait further the integration process?

Establishing and strengthening networks that stimulate innovation and the better use of skills and knowledge are crucial steps in increasing competitiveness and prosperity within the region. Strengthened relationships among firms, institutions and government agencies can improve division of labour and extend further economies of scale as well as help increase the range of products produced locally. Although facilitated by new information technologies, inter-firm relationships are often space-based, helping to explain the development of clusters in many regions over the last decades. In this respect, a more integrated Öresund could expand inter-firm co-operation and exploit untapped development opportunities, given the existing concentration of independent firms within the same or adjacent industrial sectors. Despite improved accessibility, the Danish and Swedish parts of the Öresund Region are relatively insulated from each other and face similar difficulties as before the construction of the bridge. It will take a long time before the full potential of cross-border synergy materialises. Many people, businesses and organisations may remain locked in their national and linguistic context. Without active channels for transaction and communication, even a critical mass of close firms may under-exploit the large potential. ■

What are the focus and characteristics of co-operative endeavours across the strait?

Encouragingly, there are promising initiatives and new cross-border institutions that are rapidly developing. They include extensive co-operation in the research and education fields as well as the development of networking associations in key, driving industry clusters in the region. One of the central goals of networking is less about promoting new research in critical areas of technological development, than it is about ensuring that research products and by-products are translated into new business opportunities. Several actors, and particularly local universities, have created networking forums in the major high-tech clusters (medical/pharmaceuticals, information technology, food production and environment) as well as an umbrella organisation to build links across the clusters. This approach appears promising. Rather than trying to dictate technological developments, local leaders are building “communities of practice” over time, i.e. the organisational infrastructure to promote information sharing and knowledge development within clusters. While there is no guarantee of success – many network initiatives in the world have not been successful – the approach can be quite effective when it focuses on specific business needs and opens up new markets rather than frames development goals around abstract discussions of regional integration. ■

How to enhance innovative activities?

In many cases, connecting firms (particularly small firms) to research is not an easy task. Among other reasons, small firms do not often express a solvable demand for services because they lack knowledge. At the same time, the total number of SMEs on one side of the strait alone is too small to justify the cost of starting up a new service. In this context, instead of spreading financial subsidies or reducing the costs of interest for loans, effort should be made to organise stakeholder groups to develop joint research strategies as well as to foster the supply of services in the region. The supply of services and the development of innovation strategies should not concern only the high-tech sector but should also cover the variety of other

economic activities that make up the Öresund economy. There are significant initiatives in many sectors (transportation, tourism, traditional manufacturing, and retail/wholesale distribution) to foster the quality of businesses, but they lack constant attention to networking across the strait, information sharing and institution building. Again, the key role for the public action is not to pick “winning” industries or firms but to facilitate relations among actors, within a sector and among related sectors and to supply information and services. Particularly promising are ties between cultural industries and some of the new media and information technology sectors in the region. The establishment of an innovation centre that provides specialised services and promotes training in small businesses should be considered. Its mandate should cover the whole Öresund Region. Apart from services to existing enterprises, efforts should be made also to promote venture capital firms that specialise in providing capital and expertise to start-ups, allowing inventors to focus on technological development, and making the business creation process as seamless as possible. ■

What steps could be taken to remove fiscal barriers to labour mobility and integration?

Although power and spending capacities are more significant for Danish local and regional authorities, both countries are largely decentralised and endowed with similar local resources. Frictions between institutions are limited and a quasi community level playing field seems to characterise Öresund. More serious problems arise in the field of cross-border taxation. The fiscal systems in both countries exhibit some differences that can distort location decisions and the free movement of labour and capital across the border. Two aspects are of particular importance. First, there are incentives to work in Denmark and to live in Sweden. Differences in the fiscal architecture therefore exacerbate a spatial trend that is already visible within the Öresund metropolitan area and that is influenced more generally by higher Danish salaries and by lower housing and living expenses in Sweden. Second, the administrative complexities and opacity of the whole system create numerous disincentives to set up businesses and subsidiaries or to share working

time between both countries. Both tax asymmetries and tax administration work against harmonious integration. In the short term, regional and national authorities should reduce the administrative burden vested in the fiscal system. In the long run, factors in the fiscal system that distort locational decisions of people and businesses should be eliminated.

The current agreement on the distribution of cross-border tax revenue, based on the OECD Tax Convention signed in 1997, establishes the principle of workplace-based taxation. It replaces the previous system that was strongly in favour of residence-based taxation. Since there are significantly more people commuting from Sweden to Denmark than the reverse, there is a considerable amount of resources remaining in Denmark. In other terms, the current fiscal arrangements involve a net decrease of resources for the Swedish municipalities. At the same time, these commuters continue to use local facilities and benefit from public services where they live, i.e. mainly in Sweden. Although the Swedish government compensates for most of the fiscal imbalance, actors at both the regional and national levels have insisted on a re-negotiation of the tax agreement. Since both governments have not yet come to an agreement to solve this problem, they could look for tax sharing agreements found in other cross-border regions with similar imbalances. Sweden and Denmark could either follow the approach adopted between Germany, Belgium and the Netherlands – who apply the Tax Convention but send a part of the tax revenue to the country of residence – or the German-Swiss model – where the workplace country taxes wages at a reduced rate, and the country of residence deducts those taxes from the tax bill. These models could serve as a pragmatic compromise for the interests of Swedish and Danish national and regional governments. ■

How to improve the cross border institutional background in Öresund?

In the Öresund Region, no single common body has the explicit legal or administrative authority to co-ordinate and implement joint development strategies in the region. The strategic question is whether or not the current governance structure is

adequate to tackle the problems of the new functional area and whether an umbrella body should take a strong lead in the definition and implementation of cross-border projects. In particular, the current cross-border co-operation structure should be re-evaluated to address areas of weakness. For instance, the Öresund Committee should include actors from the private sector (despite their representation in the Management Committee of the INTERREG Öresund). These actors could instil more proactive views and help to overcome defensive and partisan attitudes that can lock in discussions within the Committee. Whether there is a need to offer a number of seats to non-public members is therefore a strategic issue. If the private sector is included, potential problems may arise with respect to possible distortions in the public decision-making process. In that case, it will be appropriate to clearly separate consultation and decision making. Decision making would be left to a public administration-based Committee structure and thus, would require several modifications to the structure. The increasing number of cross-border activities also raises the question of democratic accountability and legitimacy of public action. Bodies that have been created through horizontal agreements across the border, not by the respective local or national governments, are making more of the decisions. While this may enhance the speed and efficiency of public integration, it may create some problems with respect to the democratic control of such bodies. With time, a non-transparent entanglement of special bodies with different legal backgrounds and territorial coverage may leave citizens with little influence on local and regional public services and local development programmes. Therefore, the governments must seek a cross-border governance framework that improves the managerial efficiency of cross-border activities while complying with the principles of democratic accountability and transparency. Moreover, in order to increase participation among citizens, and to work on the development of an “Öresund identity” and an “Öresund brand”, the present communication strategy should be further emphasised and strengthened. In particular, the Öresund Committee’s activities could be better understood through the medium of an appointed spokesperson. ■

Does the “governance without government” approach work in the Öresund region?

So far the different levels of government have refrained from establishing bureaucratic institutions to govern the new region. The present governance framework could in fact be described as “governance without government”. This generic approach works well in the Öresund Region. A new transborder political unit that could make autonomous political decisions seems neither feasible nor desirable in the long run. The institutional similarities of both countries result in low transaction costs and render collaboration relatively easy. Nevertheless, Öresund is facing the risk of fragmentation and lack of consistency among cross-border activities. In particular, the custom of informal bilateral consultations on specific issues might hinder the design and implementation of a coherent strategy for the region. In order to avoid these risks, among the wide array of solutions possible, ranging from the present status quo to the creation of a cross-border regional authority, forms of “light institutionalisation” of cross-border relations should be considered. In particular, a system of incentives and contracts could help to re-frame cross-border co-operation while avoiding the creation of new institutions. ■

For further reading

- Other analysis on metropolitan governance and competitiveness within the thematic review series:

■ OECD Territorial Reviews: Bergamo, Italy, 2001 - ISBN: 9264195289, 45 euros, 224 p.

■ OECD Territorial Reviews: Helsinki, Finland, *Forthcoming*
ISBN: 92-64-19961-6, 35euros, 148p.

■ OECD Territorial Reviews: Vienna/Bratislava, *forthcoming*.

■ OECD Territorial Reviews: Montréal, Canada, *Forthcoming*

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