

THE RT. HON. GEORGE THOMSON

ADDRESS TO THE REGIONAL AUTHORITIES CONFERENCE

PARIS, TUESDAY 7 DECEMBER 1976

It is with great pleasure that I accepted President Faure's invitation to speak at the opening of your Conference.

The organisations behind the initiative of this Conference, the Council of European Municipalities and the IULA, are no strangers to me. I have had various opportunities of meeting them with other local and regional authorities, notably at the Council of Europe conference.

Thanks to this I was able in July 1975 to discuss with members of these organisations the decisions which the Council had taken to create the first two instruments of regional policy, that is to say the European Regional Development Fund and the Regional Policy Committee. In March 1976 I was able to report on the setting-up of these two instruments.

Meanwhile I sent to the local and regional authorities, as soon as the Commission adopted it, the First Annual Report on the Fund.

The time seems to have come to discuss with you where matters now stand. You know that we are, within the Commission, considering the proposals for Community regional policy which we have to present to the Council next year. So I am happy to have this opportunity, before today's large audience, to sketch out for you the way in which I personally would like to see Community regional policy develop from now on.

Before turning to the future, I would however like to give you, in broad outline, a report on the activities of the ERDF and the RPC. In doing so I want to make clear the role that these two instruments should play in the Community's regional policy as I see it.

I. The Implementation of Community Regional Policy

The European Regional Development Fund, as you know, was eventually set up last year. Its initial endowment, for the three years 1975 to 1977, was set at 1300 million units of account, which is 7220 million French francs. This total is divided into national entitlements for each member state based on the comparative magnitudes of their regional problems: thus 40% of the Fund is available for Italy, 28% for the UK, 6½% for Ireland; and for France 15%, or 1083 million French francs.

The Fund is used to make non-repayable grants to eligible investment projects, in association with the national regional aid systems of Member States and the infrastructure expenditure programmes of national public authorities. It can make grants equivalent to up to half the national aid for industrial and some service investments in areas benefitting from national regional aids; and it can contribute up to 30% of the cost of infrastructure works in the same areas that are directly linked with the development of industrial activities.

Applications are submitted to the Commission by Member Governments and our decisions are given normally two or three months later. The first commitments of grant from the Fund were made by the Commission in October 1975. Nine months later, of the 1300 million units of account available for the full three year period, 569 million had already been committed, in favour of 2115 projects. Within a few days when the Commission

takes its decisions on the final batch of grants for 1976, the Fund will have committed its full appropriation for 1976 - 800 million units of account (300 m.u.a. in 1975 and 500 m.u.a. in 1976). The total number of projects allocated grant will then be about 2000, involving investments of about 7200 million units of account.

Perhaps I might now remind you of two points which are made in the First Annual Report and which I feel are fundamental.

Firstly - and we underlined this in the very first sentence of the report - the RDF should not be confused with Community regional policy. By itself it will never be able to bring about the necessary structural changes to reduce regional disparities within the Community to acceptable levels.

However large the regional Fund may become in the future - and here I am already anticipating the second part of my talk - it ought in my view to constitute only a part of the Community's concern with the balanced regional development of the European economy and our contribution to it. Most obviously, the Fund needs to be coordinated very closely with the work of all the other Community funds. The other funds can, if used correctly, play a substantial part in regional development. It is a point which you have all made frequently to us.

I see a danger against which the Community needs to be on its guard. The danger is the assumption that, simply by virtue of the Regional Fund's having been set up, other policies can take their course without regard to their impact on the regions suffering from severe structural problems. This assumption is easily made. But it can lead to the Community adopting policies which, at a stroke, can nullify the positive work being done in the field of regional development.

This aspect of regional policy seems to me to need more careful consideration than it has so far received. Indeed it is the promotion of this view of Community regional policy to which the Commission is giving priority in its preparation of proposals for next year. A first small step in the right direction has been taken by the creation in the Commission of an inter-departmental group designed to improve coordination

between the operations of the Community's different financial instruments. The scope of the activity of the inter-departmental group could be considerably increased. Going further, there is a case for instituting arrangements in the Community for helping to make sure that regional policy really becomes what it ought to be: the geographically-based element in a comprehensive economic structural policy. This means arrangements to ensure that more systematic account is taken of the regional effects of proposed new policies and, in particular, of expenditures of Community money.

In the Commission this might be done by having regional assessments of the impact of general policy proposals submitted to the Commission, as an element in its decision-taking procedure, as routinely as cost assessments by the Budget Commissioner already are. I would call this a 'regional impact assessment' required for policy proposals in other fields. In other words we must make sure that every action taken by the Community contributes towards its goal of promoting convergence between the economies of our various states and regions, and above all does not help to perpetuate their present divergence.

Further study should be made on the important issues raised by the possibility of Community 'decongestion' measures, for example, to relieve the social and economic problems of crowded areas. To help prepare for this and other future developments, it may be appropriate to review in 1977 the mandate of the Regional Policy Committee of senior national officials, which was set up simultaneously with the Fund. The Committee needs to become increasingly effective in operational terms, without in any way detracting from the Commission's right of initiative. Indeed one might envisage the adoption of a timetable for various future Commission proposals in the field of Community regional policy.

Secondly, another point raised in the report, but which I would like to be more explicit about here, is the traces that will be left on the regional scene by the present economic crisis. We say in the report that

the Fund started up in 1975 during a grave economic crisis, - at a time when investment was very low generally and when unemployment and inflation reached levels unknown for a generation.

At the end of 1975, more than 5 million people were unemployed. In 1976 unemployment still remains at about 5 million. Every Community region has suffered; the less favoured regions as well as the more prosperous.

The crisis has obviously had implications for the activities of the Fund. One result has been that as much as 60% of its grants in 1975 were for infrastructure projects; and in 1976 this proportion will probably reach 75%. An even more significant result is that during the last few years the nature of the Community regional problem has become more diverse. The situation as I see it is twofold. The well-known, long-standing extremes of inequality between Europe's richest and poorest regions have tended, if anything, to grow even wider. At the same time new regional problems have arisen in the aftermath of the economic and industrial upheaval of the last few years.

For we have seen not merely conjunctural problems arise in previously prosperous industrial regions, but new structural problems, too, for regions dependent on industries that have lost their old competitiveness. This point is important, for it is weaknesses in the underlying economic structure, rather than any passing crises, which are the business of regional policy, certainly of a Community regional policy. We are concerned with promoting an underlying economic structure in the problem regions which will facilitate the economic integration of the Community. We now have to attempt this task against the background of a new situation, one in which, while the traditional regional problems remain almost undiminished in scale - and there is increasing uncertainty about the possibilities of tackling them - we are also confronted with new difficulties, some of them in the hardest hit parts of Europe. This situation seems among other things to call for a Community policy better able to take preventative action

to stop yet further regional problems arising in the future.

II. The Future of Community Regional Policy and the Fund in Particular

As you know, the Commission must present next year the appropriate proposals for the Community's regional policy and for aid from the Fund as from January 1978. I have already underlined the need for coordination of Community policies and financial instruments, and the need to adapt these instruments to meet altered circumstances. So now I will speak particularly about the future of the Fund.

The resources allocated to the R.D.F. for its initial three-year period have indeed been more modest than would have been ideal. They have been insufficient to make it possible to point, especially after barely a year of the Fund's full operation, to the achievement of particular results; this would have in any event been difficult during a period of exceptional general economic difficulties and, notably, low investment even in the most prosperous parts of the Community. Nevertheless, it has been possible for the Commission to launch the R.D.F. in a meaningful way, and its impact on public opinion in certain regions has been remarkable. In virtually every Member State there is now strong grass roots support for its continued operation and indeed expansion.

As an alternative to a substantial increase in the size of the Fund, some countries seem to favour limiting its grants to the three present net recipient countries. While this prospect presents certain superficial attractions, as representing a concentration of limited resources on the regions with the gravest structural problems, a 'three-country Fund' would in my view be likely to be seriously inimical to the development of a more comprehensive Community approach to regional policy as I have described it. It might also herald a new and potentially divisive political attitude to the nature of the Community partnership, in regional policy and more generally. Besides, why should such a principle be applied to the Regional Fund alone, when no-one suggests the same for the Social or Agricultural Guidance Funds?

My view on the size and shape of the Fund is as follows. On the one

hand, the long-standing extremes of inequality between Europe's richest and poorest regions are tending, if anything, to grow even wider. On the other, new regional problems have arisen in the aftermath of the economic and industrial upheaval of the last few years. My conclusion is that the Community needs more money to devote to these fundamental economic and moral challenges than the Regional Fund now has. But more money can be justified only by demonstrating that it will be used to maximum effect. This requires concentrating on considered priorities, and, in particular, on the priority items in properly worked-out regional development programmes.

Many of you will know that the Regional Policy Committee has already reached agreement on the shape and content of the regional development programmes which, under the existing Fund regulation, have to be submitted to the Commission for all Fund-aided regions, by the national governments, before the end of 1977. Uniformity of policies is unthinkable when regional problems differ so widely in their nature across the Community. What is possible, and necessary, is to reach agreement on what form the Community's contribution to each regional problem or type of problem should best take, in the interest of the Community. We therefore attach great importance to these regional development programmes as the means by which the Community can influence national regional policies and ensure that the Regional Fund is spent in what the Community as a whole judges the most effective manner. But since very few of the programmes have yet been finalised and presented to us it is not easy to forecast very exactly how soon we shall be able to use them as a reliable instrument for planning and monitoring the Community's contribution to regional development.

I would now like to mention a number of concrete points that I shall recommend to my successor to consider in the context of the review: - a 9-point programme:

- (i) how best to ensure that the R.D.F. provides an effective Community financial bonus to enable priority infrastructure development and renewal to proceed faster than constraints on national public expenditure would otherwise allow;

- (ii) finding means to make the Fund act more directly as a trigger and a multiplier for the transfer of direct investments to the regions with surplus resources. For example, we are exploring the possibility of encouraging access to the European Investment Bank by small and medium sized businesses;
- (iii) how far the percentage rates of Fund contribution to projects should be increased or modulated, so as to increase the Community's impact on investment decisions, especially in the regions of greatest need;
- (iv) whether there is any political prospect of being able to bring in a 'quota-free' section of the Fund, or alternatively of modifying or making less rigid the present 'quotas'; for instance whether such a part of the Fund might be used to provide risk capital to national development finance companies, or to assist with the costs incurred in prospecting and publicising investment opportunities.
- (v) whether the Fund should continue to deal with applications for individual projects, even within the framework of regional development programmes, or whether a more overall approach to the Fund's financial contributions might be adopted, at least in part;
- (vi) whether there should be new guidelines for the types of industrial investment which the Fund should concentrate on assisting (e.g. foreign investment in aided regions, investments necessary to absorb regional unemployment provoked by sectoral problems of major Community importance or the effects of other Community policies);
- (vii) what new measures can be envisaged to stimulate the expansion of service sector employment in aided regions;
- (viii) whether modifications should be made, or exceptions allowed, to the present geographical coverage of the Fund to take care, in selected cases, of the changed structural problems in the regions of the Community that I have described, and
- (ix) what general financial and administrative reforms are called for.

To sum up, I would say that we need to improve the regional impact of the Fund to meet the reasonable political and economic expectations which the regions have of it. We need to advance towards a more comprehensive approach which takes into account not only the impact of other Community policies but also a better use of the other Community financial instruments. We can further recall that the need for these instruments to have a regional impact was specifically mentioned in several places in the Treaty of Rome. A more comprehensive approach of this kind should yield a more truly Community regional policy. It should also have a more direct impact on the Community's investors and citizens. Last but not least, we need to move in the direction of greater flexibility in the operation and management of the Fund, always taking full account of the different needs and priorities of the different regions. Thus the 1977 Review offers an opportunity for making changes in the Fund's conception and administration, changes designed to work towards regional policy's place as a central element in the Community's economic development.

This then is what I wished to tell you about the setting-up and future of Community regional policy. I much look forward to hearing your own views. I cannot unfortunately be with you this afternoon and tomorrow, but my staff are here to represent me and will report back to me on the results of your discussions. I can assure you that I shall be keenly interested in the report which your rapporteur, President Cravatte, will draw up at the end of your Conference.
