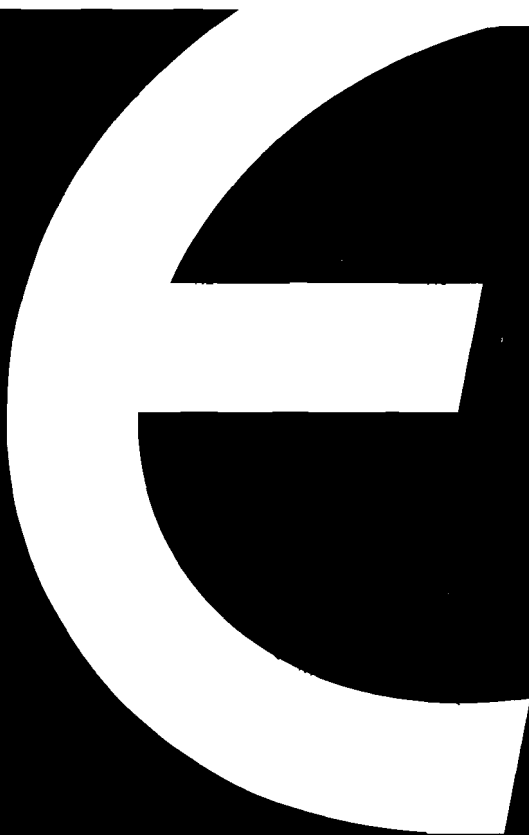


European regional policy



European File

In all countries of the European Community there are disparities between the level of development and wealth of different regions. These disparities, caused by an unequal distribution of economic activity, are even more stark when the Community is taken as a whole. The gulf between the poorest and most prosperous regions, measured in terms of employment and production, ranges from 1 to 1.4 in Germany, from 1 to 2.4 in France, from 1 to 3.1 in the United Kingdom, from 1 to 3.8 in Italy and from 1 to 5.1 in the Community at large.¹

The regions with the most severe difficulties are frequently found on the periphery of the Community. Taken together, they have more than 50 million inhabitants, almost one fifth of the total population of the Community. They can be divided into two principal groups:

- The first consists of under-developed rural areas, whose economy depends for the most part on agriculture. These regions have low levels of income, high levels of unemployment and, frequently, poorly developed infrastructure. They are to be found in Greece, the Italian Mezzogiorno, Ireland, Northern Ireland, Corsica and the French overseas departments.
- The second group comprises areas whose former prosperity was founded on industries which are now in decline, such as coal, steel, shipbuilding and textiles. They were in the forefront of the first industrial revolution but now have ageing plant and services and high unemployment. There are many such areas in the United Kingdom and also in France and Belgium.

In recent years the recession has compounded the traditional regional problems in rich and poor areas alike. Unemployment has increased throughout the Community. The lesser advantaged areas have scarcely improved their position. The decline of the older industrial areas has accelerated.

When the Community is enlarged to include Spain and Portugal, regional disparities will be even greater. There will then be about 100 million people living in areas classified as under-developed.

A European regional policy is indispensable

For many years national governments have operated regional policies which aim to stimulate the economic development of struggling regions by:

- Providing financial incentives (grants, loans, tax exemptions, etc.) to businesses to encourage them to settle in these areas and create new jobs;
- Developing infrastructures to improve the quality of life in these areas and attract investors. Improvements have been made to water and electricity

¹ This file updates and replaces our No 18/83. For the situation in the regions, see *European File*, No 15/84: 'The regions of Europe'.

supplies, telecommunications and transport and social services. Industrial estates have been set up.

Alongside these efforts by the national authorities, the European Community has its own role to play in the struggle to reduce regional disparities.

- In the preamble to the Treaty of Rome, which set up the European Community, the Member States committed themselves to unifying their economics and ensuring harmonious economic development by narrowing the gulf between different regions and promoting the development of the least favoured areas. Regional policy within Member States aims to reduce the inequalities in levels of development within one country. These policies are too often conducted in isolation and in a spirit of rivalry. They are frequently costly and not always effective. On the other hand, the Community's task is to promote a greater convergence between the economics of Member States and to ensure a better spread of economic activity throughout its territory. Lesser favoured areas are, in this way, to be given opportunities for more rapid development. The more prosperous areas will reap the benefit of a larger market for their goods.
- A growing number of political decisions, affecting trade, agriculture, industry and other sectors, are now taken at European level and not individually by member governments. The common policies and economic coordination instituted by the Treaty of Rome inevitably collide, from time to time, with the differences between economic structure in the Member States. Community-wide decisions cannot always have positive consequences for all regions. The Community clearly has a responsibility to deal with the problems caused in this way.
- Finally, coordination is obviously needed in the provision of public infrastructure (roads and canals for instance) and investment aids for regions straddling the Community's internal frontiers.

The three dimensions of European regional policy

The Community's policy for the regions has three principal dimensions. Firstly, ensuring that regional problems are taken into consideration in other Community policies. Secondly, attempting to coordinate the regional policies of the Member States. Finally, providing a broad range of financial support for the development of the Community's poorer regions.

In order to act effectively in each of these areas, the institutions of the Community must be able to judge the relative gravity of regional problems in Europe. A region considered poor by a prosperous country might be wealthy in comparison with poorer countries. Community-wide criteria must be established to permit effective value judgements and to allow priorities for action to be worked out. To this end, the European Commission draws up regular reports on the economic and social

conditions of all regions of the Community and recommends future priorities and policy principles to the Council of Ministers.

Taking account of the regional impact of other Community policies

Community policies in a range of sectors - agriculture, energy, industry, world trade, research etc - can have repercussions on the regions. Regional policy must seek to ensure that struggling regions benefit from the positive effects of these policies. It must also ensure that side-effects of these policies do not impede the development of the regions. The regional consequences, past and future, of all Community policies are now being studied systematically. Benefits have already been felt from the gradual adoption of this principle in the operation of aspects of the Community's Social and Agriculture Funds and the launching of regional programmes which back up other Community policies.

Coordinating the regional policy of Member States

It would not be sensible to attempt to impose a uniform pattern on the regional development policies of Member States. But a degree of coordination of national policies is necessary to ensure that they are compatible, with one another, and with the wider objectives of the Community. The overall aim of this coordination should be to ensure that resources are directed where they are most needed and most effective in order progressively to spread more evenly the economic activity and prosperity of the Community.

The coordination of state aids to investment is clearly necessary. Governments are often tempted to indulge in the ultimately destructive practice of out-bidding one another by increasing the level of aid. Common rules allow the Community to avoid wasting scarce resources and to ensure a more coherent overall pattern of regional development. The European Commission has fixed upper limits on the state aids which can be offered to would-be investors in the under-developed regions. These limits range from 10 % to 100 % of the cost of the investment, on a sliding scale according to the gravity of the problems in particular regions.

One of the most useful methods of coordinating national regional policies is the regional development programme. National governments draw up programmes on the basis of common criteria for each of the regions aided by the European Regional Development Fund (ERDF). This allows a truer comparison and better coordination of national spending on regional development. The programmes also provide a framework for the allocation of ERDF resources and the granting of loans for regional development by the European Investment Bank.

Financial aid to the regions

The European Community's most tangible contribution to regional development is the range of financial aids it provides, in the form of both loans and grants:

- In coal and steel areas the *European Coal and Steel Community (ECSC)* has, since 1954, given loans totalling nearly 12 billion ECU¹ – including nearly 800 million ECU in 1984 - for the modernization of the coal and steel industries and to attract new job-creating industries.
- The *European Investment Bank (EIB)* has loaned, since 1958, from its own resources, about 29 800 million ECU for development projects in the Community, including 20 600 million ECU for the regions. In 1984 almost 3 100 million ECU, 62% of its loans from own resources, went to the regions in the form of long-term, non-profitmaking loans to public and private investors.
- Loans through the *New Community Instrument*, made by the EIB since 1979 in conjunction with the European Commission (which arranges the financing) have largely been directed towards infrastructure and energy developments and small and medium-sized enterprises. A total of 4 300 million ECU has been paid out, including 1 200 million ECU in 1984. Almost half has been allocated to projects in struggling regions.
- As part of the agreement reached on a *European Monetary System* interest rate subsidies worth 1 000 million ECU were given from 1979 to 1983 to projects in Ireland and Italy. These two countries were therefore able to take out soft loans worth a total of 5 000 million ECU.
- Since their inception the *European Social Fund* and the *ECSC* have given aids worth a total of 10 400 million ECU (including 2 000 million ECU in 1984) for the training, re-training and hiring of workers. A large proportion of this money has been spent in the regions already benefitting from the ERDF. Some 40% of the Social Fund is reserved for priority regions: the Mezzogiorno, Greece, Ireland, Northern Ireland and the French overseas departments.
- The 'Guidance' section of the *European Agricultural Fund (EAGGF)* has given, since 1964, aid worth about 7 200 million ECU (including 800 million in 1984) for the modernization of farm and food marketing structures.
- Finally, the *ERDF* has given 11 700 million ECU since its creation in 1975 (including more than 2 300 million ECU in 1984) for the promotion of economic activity and the improvement of infrastructures in regions which qualify for Community aid. These regions have nearly 95 million inhabitants, about 35% of the total population of the Community.

To improve the coherence of Community and national aid, the Commission has been experimenting for a number of years with a new integrated approach to regional development. This involves a constant dialogue between local, regional,

¹ One ECU (European Currency Unit) = about £ 0.61, Ir£ 0.71 or US \$ 0.65 (at exchange rates current on 7 March 1985).

national and Community authorities to concentrate and coordinate all finances available to a given area in order to achieve a better return for the cash available. Two integrated operations are already under way, in Belfast and in Naples. Several others are being prepared. In addition, a series of integrated Mediterranean programmes are foreseen to modernize areas of Greece, the Italian Mezzogiorno and Southern France which will face increased competition when the Community is enlarged.

The ERDF: specific instrument of Community regional policy

The specific and exclusive role of the ERDF is to help to correct the most serious regional imbalances in the Community. The ERDF makes a contribution to the development and structural adjustment of under-developed regions and the restructuring of declining industrial areas.

ERDF funding can either be used in addition to national aids or reimburse national authorities for part of what they have already spent. In the latter case, national governments take account of the Community funding when fixing the amount of aid in the first place.

1975-84: ten years of regional aid

In the first 10 years of the ERDF from 1975 to 1984 its finances increased eight-fold. By 1984 the annual budget of the ERDF reached 2 140 million ECU, 7.8% of the budget of the Community.

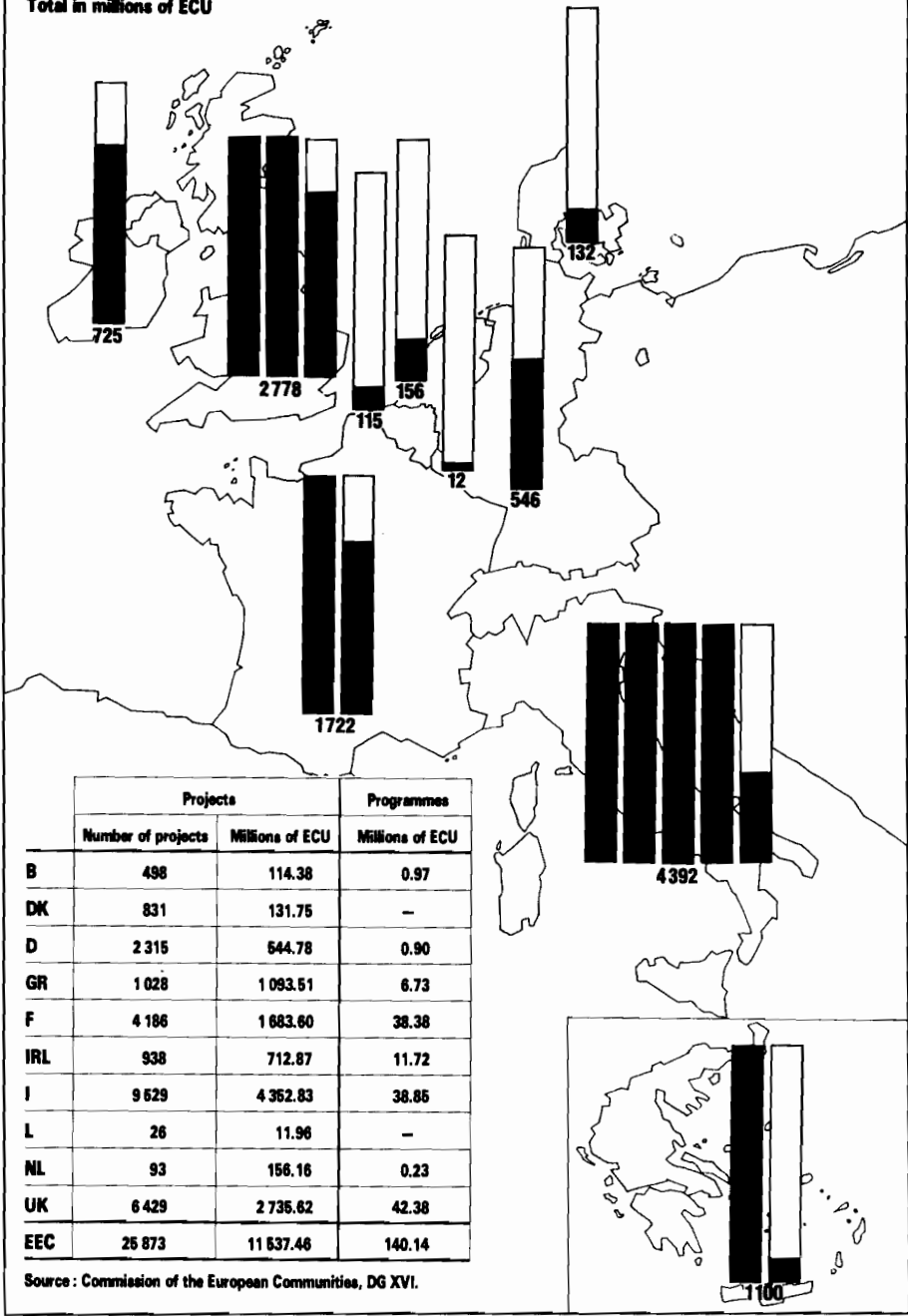
The spread of ERDF spending reveals a considerable degree of concentration on a handful of Member States as a result of the quota system in force up to 1984. In the first decade, more than 91% of ERDF spending went to five countries: Italy, the United Kingdom, France, Greece and Ireland. In terms of ERDF spending per head Ireland gained most, followed by Greece, despite having joined the Community only in 1981; Italy comes in third place. Half of all ERDF grants were spent in the priority regions: the Mezzogiorno, Greece (except Athens), Ireland, Northern Ireland, Greenland and the French overseas departments.

Since it began the ERDF has co-financed, with national governments, more than 25 000 projects worth 50 000 ECU each or more. They include:

- *Investments creating or maintaining jobs* in industry or services. Some 6 500 projects were co-financed and nearly 650 000 jobs created or maintained, according to the Member States' own estimates. In a case where jobs are being maintained, the ERDF grant must form part of a conversion or restructuring plan to improve the competitiveness of the benefiting company. The share of industrial or service schemes aided by the ERDF has gradually declined because of a regrettable shortage of projects put forward by Member States.

**Ten years of European Regional Development Fund aid
(1975-84, Member State by Member State)**

Total in millions of ECU



	Projects		Programmes
	Number of projects	Millions of ECU	Millions of ECU
B	498	114.38	0.97
DK	831	131.75	—
D	2 315	544.78	0.90
GR	1 028	1 093.51	6.73
F	4 186	1 683.60	38.38
IRL	938	712.87	11.72
I	9 629	4 362.83	38.85
L	26	11.96	—
NL	93	156.16	0.23
UK	6 429	2 735.62	42.38
EEC	25 873	11 537.46	140.14

Source : Commission of the European Communities, DG XVI.

- *Infrastructure improvements* which contribute to regional development: roads, ports, industrial estates, power stations etc. Since 1975, 19 000 projects of this kind have been co-financed. One example has been the building of a natural gas pipeline network in the Mezzogiorno.

From 1980 onwards a number of *specific Community regional development projects* have been initiated. These have been in the form of programmes and have therefore foreshadowed some of the new approaches embodied in the new ERDF. These projects aim to soften the adverse effects of the enlargement of the Community in some regions or to complement Community policy in sectors such as steel, shipbuilding, textiles and clothing and alternative forms of energy.

1985: a new ERDF

As a result of a new Community regulation which came into force on 1 January 1985, the rules governing the ERDF have changed radically. The principal modifications are: a division of funds between Member States by ranges instead of fixed quotas; an increasing share devoted to co-financing of programmes, instead of projects; renewed importance to be attached to promoting the indigenous development potential of regions.

- In the new ERDF, the finance available will be allocated according to a percentage range, laid down for each country:

Belgium	0.90 to 1.20%	Ireland	5.64 to 6.83%
Denmark	0.51 to 0.67%	Italy	31.94 to 42.59%
Germany	3.76 to 4.81%	Luxembourg	0.06 to 0.08%
Greece	12.35 to 15.74%	Netherlands	1.01 to 1.34%
France	11.05 to 14.74%	United Kingdom	21.42 to 28.56%

The lower figure in the range represents the minimum of each year's ERDF budget guaranteed to each Member State, always assuming that a sufficient volume of eligible applications for aid are sent to the Commission. The variation each year in allocations within the range will depend on the extent to which projects presented by Member States are considered to be significant in Community terms.

The ERDF contribution to projects will generally be 50 to 55% of public expenditure, including the Community grant.

- The share of ERDF spending allocated to *programmes* will be increased steadily to reach, if possible, a level of 20% of all resources by the end of 1987. Programmes may consist, either jointly or separately, of infrastructure developments, grants to industry, crafts or services, or measures to exploit the potential for internally generated development of the regions themselves. Two types of programmes are involved:

- *Community programmes* are undertaken at the initiative of the European Commission. They aim to help to solve serious social and economic difficulties in one or more regions. They consist of coherent groupings of projects, spread over a number of years, aimed specifically at Community objectives and the implementation of Community policies. In general, Community programmes will affect several Member States with their agreement. Eligible regions and areas will be decided case by case.
- *National programmes of Community interest* are proposed to the Commission by the National authorities and pursue national objectives while contributing to the achievement of Community policy goals. The ERDF can only finance programmes of this kind in areas or regions designated by Member States for the purpose of their regional aid systems.

□ Within the programme framework, the ERDF will promote measures to exploit the *indigenous development potential of regions*. The Community hopes, in this way, to point regional policy in a new direction. Traditionally regional development has consisted of importing investment into struggling areas. The new approach will attempt to mobilize the local resources of the regions themselves. Such a switch in policy is all the more important in the aftermath of the recession. It is becoming more and more difficult to attract investment from the more wealthy regions into the poorer ones. To generate increased investment in the productive sector, the Community is particularly keen to encourage measures to help small and medium-sized enterprises, whether in the form of easier access to financial markets or the provision of facilities to enable them to extend their business or make use of new technologies. The ERDF can, for instance, co-finance market studies, transfers of technology or tourist promotions. It can also contribute to providing local or national authorities with the technical assistance needed to implement co-financed projects.

At the same time, the ERDF will continue to co-finance *individual industrial and infrastructure projects*. Applications for aid are presented by Member State governments. As with the national programmes of Community interest, these projects must be situated in areas covered by national regional aid programmes, or, in exceptional circumstances, in adjoining areas.

The ERDF can also contribute to the carrying out of *studies*. At the request of or in agreement with the Member States concerned, it can help to finance studies closely linked to its operations. It can also pay, partly or wholly, for studies on issues of special importance for the efficient use of its own funds.



The Community's regional policy is comparatively new. Launched in 1975, it is making steady progress. Its impact should increase with the introduction of new

forms of financing in the regulation which came into force on 1 January 1985. By acting together in regional development, the Community and its Member States are making a contribution to the enormous efforts which are, and will long remain, necessary to reduce to reasonable proportions the disparities between the wealthy and poor regions of the Community. In the present climate of slow economic growth, common action is more necessary than ever before. A more equal spread of economic activity is one of the pre-conditions for moving forward with the construction of the Community. It also stands as a tangible symbol of European solidarity ■

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