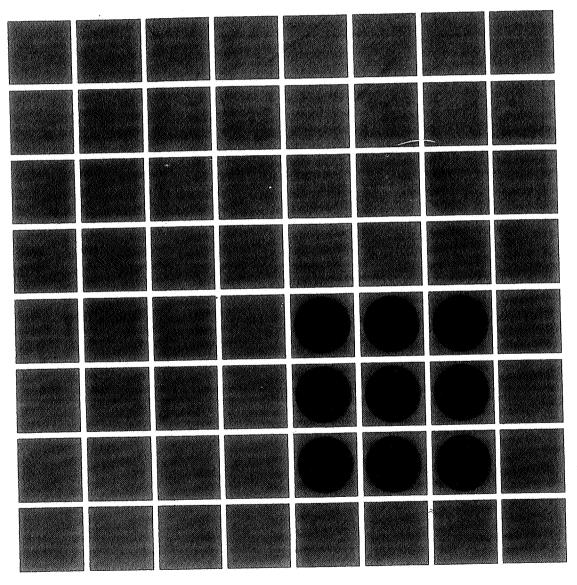
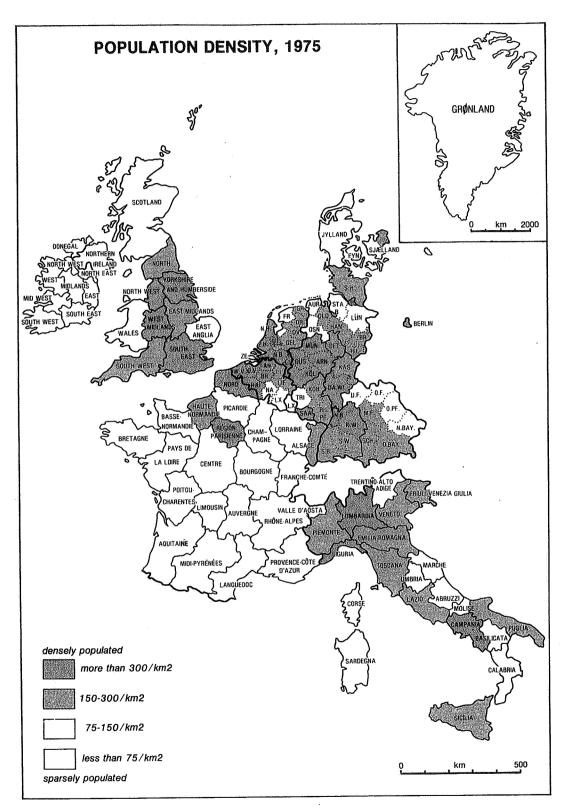
The Community and its regions



EUROPEAN DOCUMENTATION

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The Community and its regions

I - The regions and their problems

1. Europe is rich in regional diversity ...

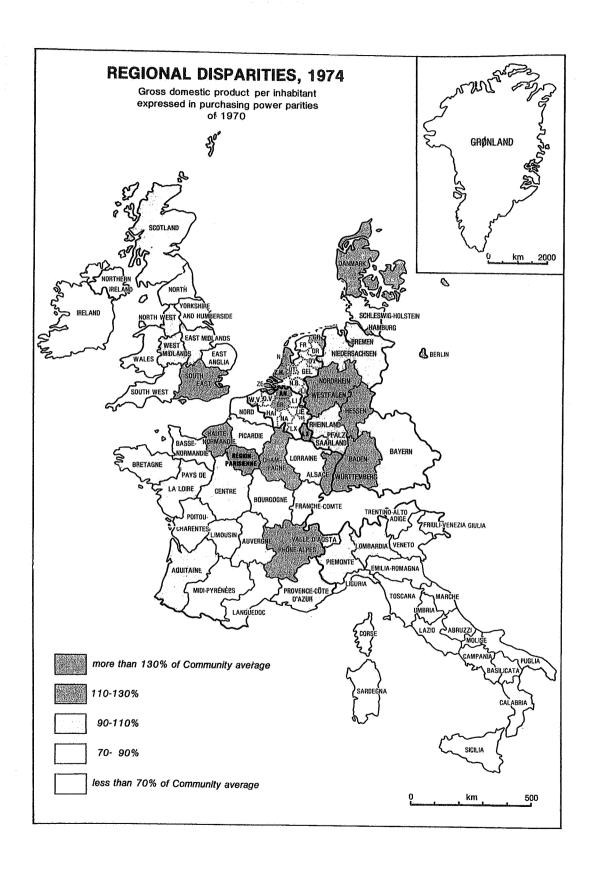
With a surface area of 1.6 million square kilometres (not including Greenland) the European Community is one-sixth of the size of the United States and one-twelfth the size of the Soviet Union. However, its population of 250 million is larger than that of the United States or the Soviet Union. Population density is seven times greater than that of the United States and fifteen times greater than that of the Soviet Union.

On a world scale, the European Community lives within comparatively narrow frontiers; yet it has a wide variety of climate, of landscape of people and of activities. To appreciate these contrasts, the Community should not just be considered in terms of its nine Member States. Its full diversity shows up only at the regional level.

From Scotland to Sicily, from Aquitaine to the islands of Denmark, the Community includes a remarkably varied range of landscapes and ways of life. The broad farming plains of the Beauce or the Po Valley; industrial concentration in the Rhur, the English Midlands or Lombardy; the coalmines of Lorraine, the Saar or Wales; the steel industry of Liguria, the Rhur, Walionia or Yorkshire; the textile areas of Lancashire, Munsterland, Twente, Flanders or the Rhone; the docklands of London, Hamburg, Rotterdam, Antwerp or Marseilles; the fishing regions of Jutland, Ireland, Brittany and Scotland; the tourist regions of the Atlantic and Mediterranean shores and of the Alps; the vast conurbations with four thousand inhabitants per square kilometre; the Alpine regions with 15 inhabitants per square kilometre; Greenland and its frozen wastes. All these regions show a face of the Community which is diverse and changing, and give just as varied an image of European culture.

... and regional problems

By world standards of economic development, the Community appears a relatively homogeneous and prosperous whole. But at regional level its disparities are glaring. Gross domestic product per person—the usual measure of relative prosperity—in the Community's richest regions, Hamburg and Paris, is several times higher than in the poorest regions of Calabria in Italy and Donegal in Ireland. Exchange rate fluctuations make such comparisons difficult, but it is clear that the differences are enormous.



2. Rural underdevelopment

The Community has two main types of problem region: agricultural and industrial. The former are underdeveloped rural areas where employment and prosperity are still largely dependent on farming which provides 20 to 40% of all jobs. They are situated mainly in the south of Italy, the west of Ireland and the west and south-west of France but similar problems exist, though on a lesser scale, in parts of Scotland, Wales and Bavaria.

Much of the farming in such regions is based on tiny holdings far too small and undercapitalized to be economically viable or even to provide really full-time occupation, let alone a reasonable level of income, for even one person. Italy is the extreme case where for the country as a whole the average farm comprises less than 8 hectares of land. In the poorer regions it will be much smaller still. This compares with a Community average of just under 17 hectares, and at the other extreme, around 65 hectares in the United Kingdom.

In the last two decades employment in agriculture inside the Community has fallen by over 50% or more than 10 million workers. This exodus from farming, while necessary if agriculture is to be made economic, brings its problems however. It is always the younger elements who leave the land, with the consequence that the vast majority of those left in farming are fairly old and less likely to accept change and new ideas. (The Commission estimated some years ago that two-thirds of those farming in the six original member countries were aged 55 years or more.) But the need of such regions is not just to modernize farming: equally important is that creating alternative jobs for those who leave.

Because of their poverty these underdeveloped agricultural regions usually suffer also from very inadequate public infrastructure: roads, schools, hospitals, water supply, and so on. In addition some of them suffer from major disadvantages of geography and climate. In Italy in particular, the southern regions are largely mountainous and suffer from chronic shortage of water. And all of them tend to be on the periphery of both the country concerned and the Community as a whole, and distance from the main centres of economic expansion and consumption makes it that much more difficult to attract new, non-agricultural investment.

In short, these regions are characterized by overdependence on farming which is often uneconomic, high levels of emigration, of unemployment and of under-employment, low levels of income, and inadequate infrastructure.

3. Industrial decline

The other type of problem region is characterized by the decline of traditional industrial activities, requiring widespread industrial change and re-equipment. In many cases the decline of traditional industries is due to the exhaustion of raw materials or to competition from other countries or from rival products. the most notable example is perhaps that of the coal industry; in the last two decades its production has fallen by nearly half and its level of employment by 60%—more than one million—in the Community as a whole. But this decline also affects many other branches of industry such as steel, textiles and shipbuilding. The regions which have suffered particularly badly in this respect are mainly in the United Kingdom, in particular in west-central Scotland, South Wales, Northern Ireland and the north and north-west of England. Like many of the underdeveloped agricul-

tural regions, these parts of the United Kingdom tend also to be near the periphery of the Community. Similar regions exist also in southern and eastern Belgium, in the Limburg province of the Netherlands, in parts of the Rhur and the Saar in Germany, and in northern and eastern France.

The problems of this type of region are characterized above all by high unemployment but also emigration, an inability to modernize infrastructures and daunting environmental problems stemming from the very success of industrial development in earlier years.

These are aggravated by the fact that the accelerating pace of industrial and technological change and the general economic difficulties of recent years are now creating high unemployment in other industries and regions.

4. Congested cities

Linked with and to a considerable extent caused by the division of much of the Community between poor agricultural areas and highly industrialized ones, are the further problems of congestion, pollution and general environmental decline seen in the Community's more densely populated urban areas. Though major conurbations do exist in the poorer regions—Naples, in the predominantly agricultural south of Italy, Glasgow and Liverpool, in the declining industry areas of the United Kingdom—most are to be found in richer and more central parts of the Community.

Sometimes these conurbations involve very large proprotions indeed of the population and economic activity of Member States. The Paris region houses 18% of the French population and produces 21% of the jobs, on about 2% of the national territory; it also produces 27% of the national income. The Ruhr area of Germany also comprises 18% of the national population, the London metropolitan area 23%, greater Copenhagen 35% and the Randstad (the Amsterdam-Rotterdam-Utrecht triangle in the Netherlands) 46%.

While these concentrations of people often reflect the most sophisticated and the most rewarding activities, the congestion which they create also leads to continuous decline in their environment and quality of life, and within many of them there are major problems of inner-city decay and substantial pockets of poverty.

There is a double problem concerning such areas: how to divert new economic activity away from them both to reduce congestion there and to stimulate growth in the less-developed regions; and at the same time to redevelop the declining inner areas which many conurbations possess.

5. Frontier regions

Finally there are the regions lying across the Community's internal borders. Some neighbouring regions are handicapped by inadequate cross-border infrastructure and by income, currency and legal differences between States. This problem can be particularly acute where large numbers of people cross from one country to another every day in going to and from their work.

II - Why a Community regional policy is so necessary

1. The regions and the general economic situation

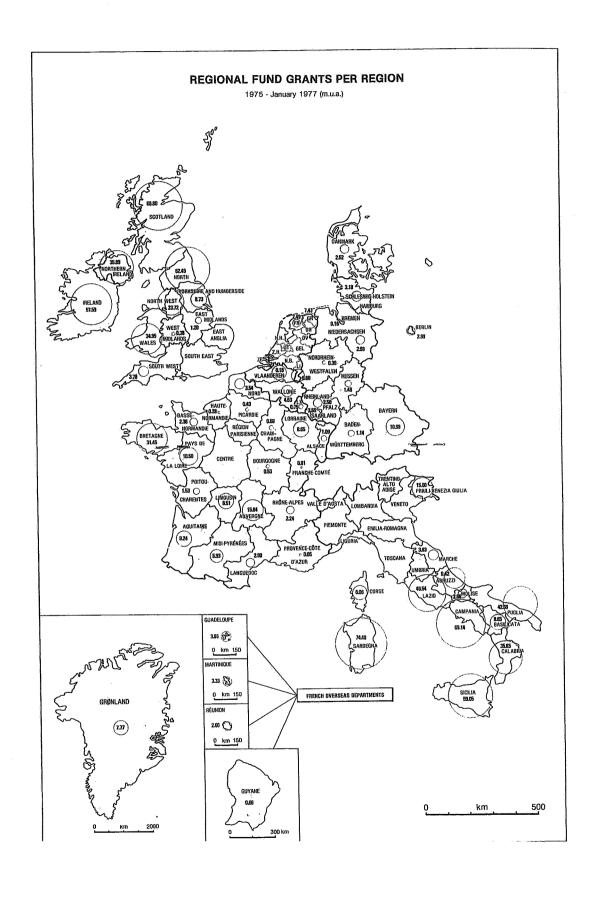
It is significant that the three countries with the most severe regional problems—Italy, Ireland and the United Kingdom—are also those with the most difficult general problems. This is clearly no accident. On the one hand, the existense of acute regional problems is a brake on the overall expansion of the national economy; and on the other, the weakness at national level places strict limitations on what the countries can do to solve their regional difficulties. It is a vicious circle.

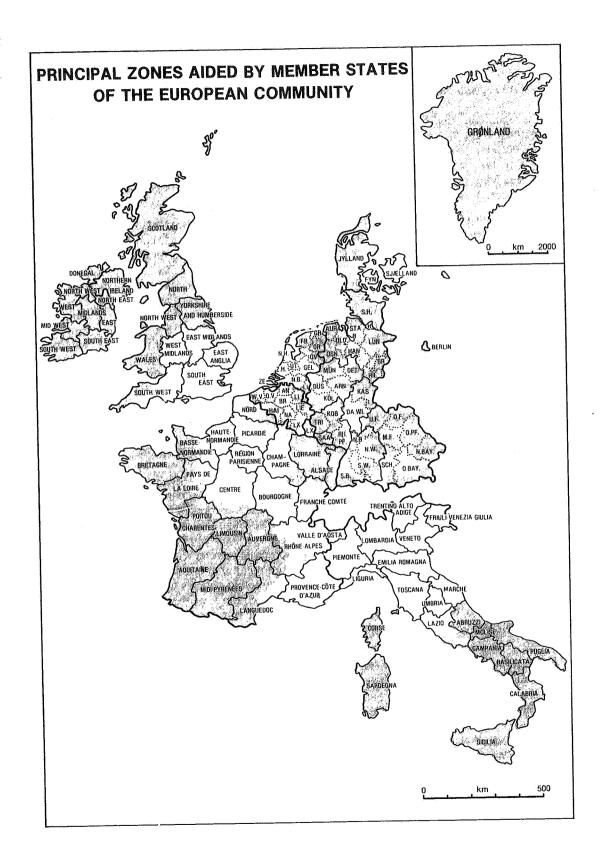
The solution of the Community's regional problems has not been made easier by the economic situation. All regions, rich and poor, have been affected, and in general to a similar extent. Although unemployment has increased dramatically in many of the more developed regions, it remains highest in the poorer ones, as it has always been. An economic recession always hits the poorer regions hardest, since priority tends to go to solving short-term inflation and balance-of-payment problems at the expense of longer-term structural reforms. The gravity of the present crisis intensified this tendency and has also led to changed investment priorities which will continue even when the economy picks up again. It is clear that unemployment is likely to remain higher than in the past in many of the richer regions, so governments are having to pay more attention to these areas too, as well as to investments in such crucial sectors as energy—which may mean, especially in times of public expenditure restrictions, less for the traditional 'development' regions. It would seem then time for a serious review of regional development policies, at both national and Community levels.

2. Regional disparities are an obstacle to the Community's progress

It is difficult to believe that the Community will develop much further towards a real European union of peoples unless its different levels of regional prosperity can be brought within reasonable limits. First, the underprivileged farm-worker of southern Italy or Ireland, the out-of-work miner or shipyard worker of Scotland—to mention but some of the extreme cases—none of these, all of whom are voters, will have any interest in a Community which condemns them and their families to perpetual poverty as second-class citizens. Second, persistent and growing regional disparities mean that the nine governments cannot possibly follow the convergent, coordinated economic policies without which further Community integration simply cannot come about. And third, neither the national nor the Community economy can afford the continued wastage of resources—in terms of people, of money, and of skills—which the present regional inequalities have involved over long years.

So, in terms of hard economics and of its own future development and even existence, the Community has no choice but to accept responsibility, shared with national and regional authorities of course, for the extremely difficult task of bringing the economies of its various regions more closely into line.





III - What the Community can do

Every Member State of the European Community applies regional policies of one kind or another and most have been doing so since long before the establishment of the Community. These policies aim generally to help develop the least prosperous regions of the national territory by a transfer of resources from the richer regions in order to create or re-establish a better balance of population, activity and prosperity. This is done by the promotion of regional infrastructure and by financial aids (investment grants, tax incentives, low-interest loans, etc.) to attract new investments into the areas concerned, and in particular investments which will create jobs.

Certain governments, the French and British for some time, the Dutch and Italian more recently, also use disincentive measures to curb investment in highly developed areas—partly to ease congestion there, partly to encourage the transfer of investment to the less-developed regions.

It is clear that the principle responsibility for helping the regions will and must remain with the regions themselves, and the national authorities. But the Community has a real role to play as well. There are three main types of action it can and must take:

- it must ensure that all its policy decisions, in all fields which affect the regions, take proper account of the regional interest;
- it must add its own financial effort to that of national, regional, and local authorities;
- it must compare and contrast, and where necessary and appropriate, coordinate national regional development policies.

1. The regional impact of Community decisions

Regional policy is concerned with everything which affects the development of the regions. While in certain of its aspects it is a separate policy, it must also be seen as the regional dimension of all other policies.

Nearly all Community decisions—be they in the field of agriculture, industrial policy, external trade, the entry of new member countries, or whatever—have their consequences for at least some of the less-favoured regions. Thus for example, decisions on food prices affect not only the consumer but are crucially important to the poorer agricultural regions of Italy, France and Ireland; the common fisheries policy has a direct impact on those areas of Scotland particularly dependent on fishing; a more generous attitude to the import of textiles goods from Asia is of immediate concern to textile-producing areas like Northern Ireland; and trade agreements with other Mediterranean countries bring into the Community wine and citrus fruits which compete directly with that produced in southern Italy.

Such decisions may well be in the interest of the Community as a whole, but perhaps not in the interest of the regions concerned. Clearly, the interest of one region cannot determine what is good for the whole Community, but the Community must be aware of the regional consequences of its decisions and take appropriate action to ensure that the regions concerned do not alone bear the cost.

Coordination of this type, which to be effective must include the Council of Ministers as well as the Commission, is a complex and on-going task, and it is in its very early days. But work has begun and the Commission is convinced that in the long run it can bring great benefit to the regions.

2. The Community's financial effort

The principal Community instrument of regional development is clearly its Regional Fund, which spends all its money in the development regions. But other and older funds also exist which, though their aims are not exclusively regional, have a significant impact on the regions and in some cases spend most of their money on schemes in the areas. Taken together their resources are considerable. Up to the end of 1976, they had made the following loans and grants (the figures are only approximate due to exchange rate variations over the years):

- loans under the European Coal and Steel Community (ECSC) Treaty for modernizing the coal and steel industries, totalling 3 343 million u.a. (£1 390 million);
- ECSC loans to create new jobs in coal and steel regions, totalling 447 million u.a. (£185 million);
- ECSC loans amounting to 63 million u.a. (£26 million) for building or improving steelworkers' and coalminers' housing;
- loans from the European Investment Bank, totalling 6 005 million u.a. (£2 500 million) of which 4 558 million u.a. (£1 900 million) were to help schemes in the Community's less favoured regions;
- grants amounting to 1390 million u.a. (£580 million) from the European Social Fund and from the ECSC funds for training, retraining and resettlement of workers in need of jobs;
- grants totalling 1795 million u.a. (£750 million) from the Community's agricultural fund for agricultural modernization and improvement schemes.

To this must be added 800 million u.a. (£333 million) in grants made from the Regional Fund, which came into being only in mid-1975. The total is not a negligible sum.

Community financial assistance can of course have a much greater beneficial effect on the regions if the operations of the various instruments are closely coordinated. In concrete terms this means, for example, ensuring that the training schemes supported by the Social Fund can provide the appropriate skills for the new jobs created with the aid of the Regional Fund. Much greater emphasis is now being placed on this form of coordination.

3. The European Regional Development Fund to date

How much money?

The Regional Fund was established in March 1975, and made its first grants in October of that year. It is financed out of the Community's general budget, and has an initial three-year allocation of 1300 million u.a. (£542 million) (300 million u.a. (£125 million) for 1975,

and 500 million u.a. (£208 million) for each of 1976 and 1977). The 1975 and 1976 resources were fully utilized, and it seems likely that the same will happen in 1977. New proposals for a modified fund are now under discussion (see Section IV).

Where does it go?

To take account of the relative gravity of each country's regional problems the resources of the Fund are distributed as follows: Italy 40%, United Kingdom 28%, France 15%, Federal Republic of Germany 6.4%, Ireland 6%, Netherlands 1.7%, Belgium 1.5%, Denmark 1.3%, Luxembourg 0.1%.

Regional Fund priority areas are the same as nationally defined priority areas. So aid goes mainly to the following regions: southern Italy; Ireland; Northern Ireland, and the special development and development areas in Great Britain; the west and the south-west of France; the regions on the eastern frontier of the Federal Republic of Germany; the mining areas and farming areas of Belgium and Luxembourg; the north of the Netherlands; Greenland. The map on pages 10 and 11 shows how this has worked out in practice so far.

Who does it help?

It is clearly in the interest of the regions concerned that Community and national regional policy measures are properly coordinated. To ensure that this is done, the Regional Fund only helps investments which are also in receipt of national public money. Applications for Fund assistance are made by the governments, after they have done a pre-selection among the suitable projects. This procedure not only ensures coordination but makes sense since, at its present size, the Fund would have to turn down an enormous number of applications if they came direct.

The Fund makes grants to two types of investment projects:

- industry and service sector investments which create new jobs or are necessary to guarantee existing ones; typically, this means a new factory or the extension or modernization of an existing one. Fund aid covers 20% of the investment, up to a maximum of 50% of national public aid and depending on the number of jobs created.
- infrastructure investments which are either linked to such industrial development (to date this has been the most important type of investment financed), or are located in certain mountainous and other difficult farming areas threatened by economic decline and depopulation; for example, roads, electricity and water supply, etc. Regional Fund help can go to 30% of the cost of the investment.

When the Commission has approved a project for which application is made—this usually takes about two months—the money is then paid over to the government concerned as soon as it demonstrates that the work is actually being carried out. The government has the choice of passing on the grant to the investor concerned (industrialist, local authority, etc.), or using it as a part reimbursement of the national aid or public expenditure on the project. In practice all governments use the second alternative for industrial investments.

A further 6 million u.a. (£2.5 million) goes to Ireland, deducted from the shares of the other Member States except Italy.

This is acceptable as long as the money received is then genuinely used for other regional development purposes. The Regional Fund's aim is after all not just to provide more generous help to a static number of investors, but to make a larger total sum available, to encourage additional investment and thus to create more jobs. For infrastructure investments Fund grants are in most cases paid over to the authorities directly responsible.

By early 1977 the Fund had made grants totalling 854 million u.a. in respect of 2837 investment projects in the nine countries. The breakdown is given in the following table:

Regional Fund grants to January 1977

	:	No of investment projects	Regional Fund aid (million u.a.)	Regional Fund aid (million £)
Belgium Denmark FR of Germany France Ireland Italy Luxembourg Netherlands United Kingdom		64 76 260 441 200 530 1 11 1254	10.71 10.29 29.38 122.49 57.59 368.08 0.75 15.58 239.59	4.46 4.29 12.24 51.04 23.99 153.37 31 6.49 99.77
	Total	2.837	854.46	355.96

Regional programmes

From the end of 1977 Fund aid will only be available for regions for which a comprehensive development programme has been submitted. The programmes, based on a jointly agreed outline, will give precise indications of regional development objectives, and the means available and/or needed to further them. These programmes will be important for three reasons. First, they will give clear guidance to all interested parties on how the development problems of a given region are being tackled and what the priority aims are. Second, they will help the Commission in deciding which projects should be given priority in terms of financial assistance from the various Funds at the Community's disposal. And last, they will greatly facilitate the task of comparison and coordination of national policies on regional development.

Coordination of national measures

The Community is not in favour of coordination for its own sake, but only where it is clearly necessary. Although the measures used to stimulate new investment in less-favoured regions are fairly similar in all member countries, they are far from identical. Different countries put more emphasis on different measures, and there can be great variations in the way the same measures are used. The first job is to compare and here the

regional development programmes are essential. Without such comparison it is impossible to judge whether a degree of coordination is desirable or not. Such coordination may be in the interest of the whole Community, or of the development regions or of both.

In the field of State aids to industry, for example, there is already a Community-wide system of upper limits, varying according to the needs of the different regions. This is necessary both to prevent one country giving its industry an unfair advantage by subsidies not justified for reasons of regional development, but equally in an effort to ensure that regional aid really goes where the need is greatest. Some degree of coordination may also prove desirable in the field of controls and disincentives to investment in over-developed, congested areas; otherwise, it may be possible for a company to evade regional policy controls in one country by investing in another. And some form of coordination seems essential if the Community is to help solve the problems of some of its internal frontier regions.

The Regional Policy Committee

The central instrument of regional policy in this field is the Regional Policy Committee, a consultative body composed of senior regional policy officials in the Member States and in the Commission. It began work in the middle of 1975. The Committee has a wide range of tasks. Indeed, generally speaking nothing which affects the regions is beyond its scope. Some of its work is linked with the Regional Fund, notably in deciding what types of infrastructure schemes should be eligible for assistance. One of its most important tasks in the future will be to examine and approve the regional development programmes which are so central to the future development of Community regional policy. But it can, and does, concern itself with all aspects of the general field of coordination.

When the Committee has examined a particular topic, it will decide whether to recommend a particular action. If that action requires Community legislation, then the Commission will draw up a draft regulation or directive, which will go to the Council of Ministers for approval under the normal procedures.

IV - The future of Community regional policy: new proposals

1. Aims

Community regional policy must be flexible and dynamic, so that it can adapt to the changing needs of the regions and to changes in the general economic situation. In June 1977 the Commission therefore presented new regional policy proposals to the Council of Ministers. The Council will have to decide on them by the end of the year so that they can come into force in 1978.

The new regional policy must be a comprehensive policy in the sense that it is concerned with the whole territory of the Community and all Community activity. It has two aims: on the one hand, as in the past, to reduce existing regional imbalances; and on the other, to prevent new ones from arising.

2. The means proposed

Every two years, beginning in 1979, a report will be published on the situation of the regions, and priorities and guidelines fixed to be followed by the Community and the member countries.

The Commission will from now on take full account, in its policy proposals in other fields, of the likely regional consequences, and where necessary will propose special additional measures to correct any adverse effects in particular regions.

The coordination of national regional development policies will be pressed forward.

The Community's financial effort will be increased. This involves an increase in the size of the Regional Fund—750 million EUA proposed for 1978, the creation of new Community loan facilities, and the more effective coordination of all the various funds at the Community's disposal.

As well as increasing its size the Fund's rules will be changed so as to make it more flexible and better able to meet the varying needs of the regions. In future the Fund will have two distinct sections.

The main section (650 million EUA proposed for 1978) will continue, as in the past, to provide support for national regional policies on the basis of the existing national quota system. The same areas will be eligible as under the present arrangements.

A new section (100 million EUA proposed) will finance specific Community actions outside the quota system. It will be able to provide assistance to areas affected by the Community's policy decisions in other fields or to internal frontier regions which feel the effects of integration with particular sharpness. It is not possible to say in advance where these areas will be, though they could be in any part of the Community. It will depend on where the problems arise. The new section will finance special measures which will be decided upon in the light of these problems. One special measure is proposed straight away: a system of interest subsidies on Community loans which is intended in particular to make it easier for smaller firms to obtain investment capital.

The new proposals seek generally to endow the Community with an effective and flexible regional policy capable of making a real contribution to reducing the gaps between regions. Otherwise the Community is unlikely to progress much beyond its present stage of integration.

¹ In 1978 the Community begins to operate a new 'European unit of account' (EUA) which reflects exchange-rate fluctuations.

EUA exchange rates (as at 24.5.1977)

(millions of currency units)

	750 million EUA	650 million EUA	100 million EUA
FB	30 500	26 500	4000
DKr	5 090	4410	680
DM	2 000	1 730	270
FF	4 200	3 600	500
E.	490	425	65
Lit	749 000	649 000	100 000
Fl	2 080	1 800	280

Select reading list

I - Publications of the European Communities

(1) A regional policy for the Community, 1969, 241 pages.

(2) Regional development in the Community, analytical survey, 1971, 316 pages. (3) Report on the regional problems in the enlarged Community, 1973, 289 pages.

(4) Regulations and decisions of the Council of the European Communities on regional policy (European Regional Development Fund and Regional Policy Committee), Official Journal of the European Communities L 73 of 21.3.1975.

(5) European Regional Development Fund, Annual Report (1975), 1976, 41 pages.

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II - Other publications

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(2) LIND (H) and FLOCKTON (C), Regional policy in Britain and the Six, Community regional policy, PEP, Chatham House, London 1970, 77 pages.

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