

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(87) 236 final

Brussels, 27 May 1987

## COMMUNICATION FROM THE COMMISSION

Exchange of views between the Commission, the Council and the European Parliament on the appraisal and implementation of the principles contained in the new ERDF Regulation

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## I. INTRODUCTION

At the preliminary conciliation meeting on the reform of the European Regional Development Fund (ERDF) which took place on 19 June 1984, the Council, Commission and Parliament, in a joint declaration, "noted the emphasis on the Community nature of the new Regional Fund Regulation" and "considered that appraisal and implementation of the principles contained in the new Regulation must be the subject of an exchange of views at least once a year".

The first such exchange of views, which was held in Luxembourg on 21 April 1986,<sup>1</sup> dealt primarily with the first year of application of the new Regulation.

This document provides the basis for the second exchange of views focusing on 1987, a year which saw in particular the accession of Spain and Portugal and incorporation of regional policy in the Single European Act (Article 130 B).

## II. IMPLEMENTATION OF PRINCIPLES

### 1. Coordination of Member States' regional policies

- (a) The Regional Policy Committee - the main forum for regional policy coordination - held three meetings in 1986. It examined, and gave a favourable opinion, on the RDPs for Belgium, Denmark, Greece and Ireland. At the time of writing, examination of the RDPs for the Netherlands and the United Kingdom has also been completed, and the process for the Italian programme will be concluded shortly.

In the context of the new Article 130 D, which is inserted into the EEC Treaty by the Single European Act and which provides that once the Single Act enters into force the Commission must submit a comprehensive proposal to the Council concerning the structure and operational rules of the existing structural Funds, the Committee delivered an opinion on the reform of the Community's regional policy.

Lastly, further to its opinion of 18 June 1985 on regional aid, the Committee is broadening discussion of the policy of national regional aid and has held an exchange of views on the practical aspects of coordinating the Community's financial instruments and on the state of progress of the IMPs.

- (b) Regional development programmes (RDPs) continue to be an important instrument for coordinating Member States' regional policies. They provide the frame of reference for ERDF assistance.

As the second-generation had lapsed at the end of 1985, the year 1986 was the start of the third five-year regional programming period (1986-90). During 1986, the Commission examined the RDPs submitted by Greece, Denmark, Belgium, Ireland, the United Kingdom, the Netherlands and Italy. These programmes are clearly of a higher quality than the second-generation ones, especially as regards the indication of development priorities: they were drawn up taking into

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<sup>1</sup> Council Regulation (EEC) No 1787/84, OJ No L 169, 28.6.1984.

account the Commission's opinion of 19 June 1984 and the Parliament's Resolution of 12 July 1985 on second-generation regional development programmes. In the case of France and Germany, 1986 still comes under the second-generation RDPs. An important development was the accession of the two new Member States, Spain and Portugal, at the beginning of 1986. In preparation for their joining the Community, both countries submitted RDPs in 1985, Spain's being a provisional one. The Portuguese RDP is in the process of being updated. The definitive programme for Spain will be submitted soon and will reflect the new system of financing the Autonomous Communities and the redrawn boundaries of the areas eligible for regional aid.

(c) Regional impact analysis

In 1986, the Commission continued and updated its analysis of the regional effects of the common agricultural policy. It has been found that in most of the less-favoured regions on the southern periphery of the Community, the level of support provided to agriculture by the common organization of markets is lower than in the other regions. But the new, restrictive guidelines for the common agricultural policy will focus mainly on agriculture in regions which, for the most part, receive a high level of support at present. The more dependent a region is on agriculture, the greater the negative consequences of those guidelines will be in terms of income and employment.

The Commission also initiated a feasibility study to explore the implications of completing the internal market for the less-favoured regions of the Community. The initial results show that the declining industrial and the peripheral regions will probably be most at risk, while agricultural regions could miss the chance of attracting the modern, non-agricultural activities needed if they are to diversify their economies.

Presenting its latest guidelines on State aid to shipbuilding, the Commission emphasized the importance of taking the regional consequences of its new strategy into account. To this end it said it would examine the advisability of setting up a Community programme to facilitate conversion of the areas adversely affected by restructuring of the shipbuilding industry, especially in Spain and Portugal.

(d) The dialogue between the Commission and regional and local authorities continues to develop, on the one hand when there are problems in one region or another, and on the other through the re-enforcement of the links between the community associations representing regional and local bodies.

(e) The third Periodic Report, has just been adopted by the Commission.

The report is the first since (a) the entry into force of the current ERDF Regulation and (b) the accession of Spain and Portugal.

## 2. ERDF resources in 1986

### (a) Budget allocations

In 1986, 3 003 million ECU (8.6% of the Community budget) was allocated to the ERDF in commitment appropriations. Of this total, 95 million ECU was earmarked for financing specific Community measures, pursuant to Article 45 of the Regulation.

In nominal terms, the Fund's allocation in 1986 was 35.3% up on the previous year. Allowing for inflation - 3.7% in 1986 - the Fund's resources still grew in real terms, the difference being explained by the additional appropriations arising out of the accession of Spain and Portugal. It must be acknowledged, however, that this growth was not proportional to the increase in regional disparities which resulted from that accession and that there was a fall compared with 1985, even in nominal terms, in the amount allocated to the Ten.

### (b) Allocation of funds

#### - Commitments

In 1986, grants made by the ERDF totalled 3 186 million ECU, nearly 30% more than in 1985. However, the sums committed by the Ten in 1986 were 8.8% lower than those committed in 1985, thus confirming the inadequacy of commitments when measured against the scale of the Community's regional problems.

The difference between the appropriations actually committed and the budget allocation is explained by a number of decommitments and, in particular, by the fluctuations in ECU rates. All available appropriations were committed. In addition, several decisions (involving 385 million ECU) had to be deferred till 1987.

Luxembourg and the United Kingdom are the only countries for which total commitments made in 1985 and 1986 did not exceed the minimum appropriations available for those two years. This was due, in the case of the United Kingdom, to the slide in sterling during 1986.

#### - Payments

The payment appropriation initially entered in the 1986 budget, including 150 million ECU from the supplementary and amending budget for 1986, amounted to 2 282 million ECU, which was 48.2% more than in 1985, notably as a result of the accession of Spain and Portugal. If the 115.03 million ECU carried over are included, however, the total payment appropriations available were 2 397.03 million ECU.

Payments actually made amounted to 2 394.16 million ECU - a 51% increase on the previous year. All available appropriations were in fact used, and requests for payment from the Member States exceeded the payment appropriations initially available by some 340 million ECU.

The breakdown by Member State was as follows:

Etat membre	ECU	%
B	21,61	0,9
DK	18,94	0,8
D	88,23	3,6
ESP	314,30	13,1
GR	302,87	12,7
F	200,36	8,4
IRL	77,04	3,2
I	701,45	29,3
L	0,13	0,005
NL	11,82	0,5
P	188,78	7,9
UK	468,26	19,6
COM.	0,37	0,01
EUR 12	2 394,16	100,0

Advance payments for project pursuant to article 31 of the current Regulation amounted in 1986 to only 37.5 million ECU.

As regards "old commitments", the Commission continued with its efforts to whittle them down gradually. Thus, by the end of 1986, there remained for settlement only 0.68% of the commitments entered into in the period 1975-77, 6.8% of those entered into in the period 1978-80 and 18.1% of those entered into in the period 1981-1983. These percentages can be considered as "normal" for a system of this type. When a grant decision is taken, the entire grant is committed immediately, whereas settlement is spread over several financial years in line with the rate of project implementation and the pace of spending by the Member States. ERDF payments are made only at the express request of the Member State concerned. The shortage of payment appropriations does not make the problem any easier to solve. This system is however open to improvement and, in the context of the next reform of the structural funds, arrangements which would reinforce the possibility of decommitment of grants in the case of unjustified delays in the implementation of actions benefitting from ERDF aid, can be envisaged.

#### - The system of ranges

With regard to the allocation of resources, the new ERDF Regulation provides for a system of ranges in place of the old quota system.

These have been determined on the basis of the severity of regional imbalances, in such a way as to concentrate ERDF assistance in the least favoured regions.

The Commission is working out a method of assessing the Community interest of grant applications. This method must be used to determine, at the end of the three-year period (1985-87), the distribution of available budget resources among the Member States

(the margin). This method has been explained to the Regional Policy Committee and the ERDF Committee and then transmitted officially to the Member States.

As in 1985, the volume of applications increased in 1986, as a result of the pressure brought to bear on Member States through the system of ranges and because of the rise in the number of priority regions<sup>2</sup> following enlargement.

(c) Distribution of resources

- Distribution between the productive sector and infrastructure

In 1986, the share of ERDF resources allocated to productive investment was 12%, as against 17% in 1985<sup>3</sup>. This decline is due to the accession of Spain and Portugal. If these two countries are disregarded, the share allocated to productive investment in the Ten was 18.2%. It must be remembered that the new Regulation, which came into force on 1 January 1985, requires the Member States and the Commission to "endeavour to ensure" that an appropriate proportion (if possible 30%) of the Fund's resources is allocated to productive investment. In the old Regulation, by contrast, this percentage was mandatory. The Commission is continuing, however, to give priority to productive investment and to urge the Member States to do likewise. Assisted investment projects of this kind should make it possible to create or safeguard 68 000 jobs in 1986 (764 000 since 1975).

- Geographical distribution

On the pattern of ERDF assistance as a whole (see point 2(a) (2)), the resources allocated to the priority regions in 1986 evolved as follows compared with 1985 :

- . There was a decline of 9% for the old priority regions as defined in the Community of Ten.
- . There was an increase of 60% if to those "old" priority regions are added the regions in Spain and Portugal. From now on, the share allocated to the priority regions represents 73% of the ERDF assistance.

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<sup>2</sup> The ERDF considers as priority regions those regions which present the most serious economic problems these being: the Mezzogiorno, the DOM, practically all the regions of Spain and Portugal, Greece, Ireland and Northern Ireland.

<sup>3</sup> 14% in 1984; 11% in 1983.

The table below shows the distribution of resources in 1986.

Amounts committed, 1986 (by Member State)

(Mio)

Member State	Industry, service and craft		Infrastructure		Studies		M.P.C.I. and Article 15		Total	
	Net. eur.	ECU	Net. eur.	ECU	Net. eur.	ECU	Net. eur.	ECU	Net. eur.	ECU
B	129.37	3.00	538.07	12.46	0.43	0.01	159.01	3.68	827.08	19.15
DK	9.20	1.17	58.36	7.44	0.18	0.02	19.54	2.49	87.28	11.12
D	111.30	33.50	60.32	28.92	0.29	0.14	-	-	171.71	82.56
GR	0.25*	1.72	41.27*	290.36	-	-	2.56*	17.58	44.08*	309.86
E	1.38*	11.20	87.93*	629.68	-	-	-	-	89.31*	640.88
F	127.66	18.78	1 431.70	210.37	0.95	0.14	203.74	29.93	1 764.25	259.22
IRL	16.80	21.98	78.36	102.54	-	-	0.47	0.62	95.63	125.14
I	268.09*	186.08	903.66*	627.19	0.51*	0.35	-	-	1 172.26*	813.62
L	-	-	-	-	-	-	42.00	0.97	42.00	0.97
NL	-	-	54.45	23.19	0.11	0.04	11.86	5.05	66.42	28.28
P	-	-	57.60*	380.85	-	-	-	-	57.60*	380.85
UK	62.06	84.12	273.80	371.64	1.04	1.43	41.54	56.24	378.44	513.43
Commun.	-	-	-	-	1.22	1.22	-	-	1.22	1.22
EUR 12	-	361.55	-	2 684.64	-	3.35	-	116.56	-	3 186.10

\* Thousand million

- Studies

As regards studies, the Commission has tightened the criteria for selecting grant applications, so as to be able to participate more fully in guiding studies which are part-financed by the ERDF and ensure greater consistency with the guidelines and priorities for ERDF assistance. In particular, it has made it clear that in future, all grant applications for a study must be sent in good time, i.e. at least two months before the study's proposed starting date.

3. Programme financing (Article 7 to 14, 25 and 26)

Before the 1984 reform, there was no provision for programme financing if one leaves aside the relatively small volume of money which went to non-quota specific Community measures. The cofinancing of programmes, provided for in the new Regulation, expanded significantly in 1986 and if the current trend is maintained in 1987 the Commission believes that the 20% target set in the Regulation should be attained.

(a) Community programmes

On 27th October 1986 the Council adopted by a qualified majority the regulations instituting the first two Community programmes in the financing of which the ERDF will take part. Put forward by the Commission on 20 January, they are aimed at ensuring a better link-up between the Community's objectives for the structural development of regions and its objectives for telecommunications and energy.

(i) The STAR programme (advanced telecommunications services)

The purpose of the STAR Community programme is to contribute, in the least-favoured regions of the Community, to the strengthening of the economic base, job creation and access to a higher standard of technology, by improving the supply of advanced telecommunications services and integrating those regions into the major telecommunications networks.

The specific nature of the Community programme consists here in financing only advanced telecommunications, in line with the guidelines for the Community's policy in this field (action programme in the field of telecommunications).

Most of the money is earmarked for basic equipment: establishment of new advanced telecommunications networks on a Community scale and of telecommunications trunk routes; digitalization (with a view to the provision of an integrated services digital network, ISDN); creation of the extra capacity needed in particular for data transmission, cellular radio, monitoring and metrology laboratories; and feasibility studies concerning such investment projects.

The measures relating to basic equipment are supplemented by others to stimulate the supply of and demand for advanced telecommunications services: the preparation of regional programmes; promotion measures; demonstration projects; aid to small and medium-sized enterprises; service centres; experiments in homeworking; regional specialized information services.

Provisionally, 780 million ECU has been allocated to this programme, which will last for five years (from 1 November 1986 to 31 October 1991).

(ii) The VALOREN Programme (Exploitation of indigenous energy potential)

The purpose of the VALOREN Community programme is, in the regions concerned, to contribute to the strengthening of the economic base by improving, with due regard for the Community environment policy objectives, local energy supply on satisfactory economic terms, to assist job creation and to help raise technological standards.

The operations to which the programme relates are:

- the exploitation of local energy resources: alternative and renewable energies, solar and wind power, biomass, the use of industrial and urban waste, small-scale hydro-power and geothermal energy), and small deposits of peat and brown coal;
- the efficient use of energy in small and medium-sized enterprises, craft industry and infrastructure: energy-saving (e.g. insulation, regulation, lagging, load balancing and rationalization of energy production processes) and oil substitution (e.g. combined heat and power, efficient utilization of natural gas and the recovery of waste heat);



- such operations will be supplemented by a major promotion drive, to comprise analysis and programming at regional and local level, advice and technical assistance to SMEs, and the dissemination of knowledge.

A provisional sum of 400 million ECU over a five-year period has been allocated to ERDF assistance for this programme.

As regards procedure, the two Council regulations instituting the STAR and VALOREN programmes provide the framework within which the Member States are to submit assistance programmes to the Commission.

As soon as the regulations instituting the first Community programmes had been adopted, working relationships were established between the Commission's departments and the authorities responsible for drawing up the assistance programmes. The close cooperation that has resulted should make it possible for all proposed programmes to be presented to the Commission within the prescribed time limit, i.e. by the end of April 1987.

(b) National programmes of Community interest (NPCIs)

There were 47 applications in 1986 (as against 17 in 1985), from nine Member States (none from Germany, Spain and Portugal). Thirty of the applications constituted the ERDF component of integrated Mediterranean programmes or proposals for integrated operations. However, there was a slight drop in commitments made<sup>4</sup>.

Special care has been taken to avoid duplication of financing, i.e. situations where one and the same operation receives assistance, not only as part of a national programme of Community interest, but also as a specific Community measure or under an integrated Mediterranean programme.

The proposals having been examined and the ERDF Committee having given a favourable opinion, the Commission in 1986 formally approved fourteen NPCIs (including that which is part of the IMP for Crete) involving seven Member States. The total volume of assistance for these programmes is 416 million ECU; 116 million ECU were committed in 1986, 31 million of them for the continuation of programmes started in 1985. The fourteen programmes should help to create or safeguard 35 000 jobs in regions where the unemployment rate is substantially above the Community average.

The following three programmes are typical examples:

- "The European Development Pole": submitted by the Belgian, French and Luxembourg Governments, this is a pilot project based on transfrontier cooperation; its purpose is to promote the establishment of new economic activity, and ultimately the creation of 4 000 jobs, in an area that has been hard hit by the steel crisis;

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<sup>4</sup> 134 million ECU committed in 1985 compared with 114 million ECU in 1986.

- Mid-Glamorgan: submitted by the UK Government, this programme is aimed at the development of the Welsh county's infrastructure so as to regenerate the local economy and develop tourism in a declining mining area. It is hoped that 1 500 to 2 000 jobs will be created.
- Crete: this programme (part of the integrated Mediterranean programme), which will cover the phase 1986-1992 and receive a contribution of approximately 200 million ECU, is to enable the island to adapt to the new economic conditions resulting from enlargement.

Some 1986 programmes have been held over for examination in 1987, and new programmes were submitted or notified to the Commission at the start of this year, a sign of Member State's interest in this new approach. The NPCIs for Auvergne, Limousin, Lorraine, Nord-Pas-de-Calais, Réunion, Charente Maritime, Lozère, Belgian Limburg, Westhoek and Birmingham, certain of which form part of an IDO<sup>5</sup> proposal, are being examined, as are the ERDF components of the Italian, French and Greek IMPs. The NPCI for Asturias should be received soon.

#### 4. Potential for internally generated development

Articles 15, 16, 27 of the new Regulation are intended to encourage the less-developed regions' potential for internally generated development through ERDF financing of a set of measures to assist small and medium-sized enterprises. The ERDF can thus, in the context of programmes or of a consistent set of projects:

- make services available to SMEs which will enable them to expand their business and have access to new technologies through, for instance, business and innovation centres;
- make it easier for SMEs to raise money on capital markets by helping them for instance to draw up their financing plans.

In 1986, the Commission made substantial grants towards four schemes designed to mobilize the potential for internally generated development of regions. These were the Morsø Food Park in the island of Morsø in Denmark, seven business and service centres in Flanders (Belgium), a business and technology centre in Ireland and the NPCI for Northern Ireland, which is primarily concerned with that region's potential for internally generated development.

The development of indigenous potential of regions is of course also a factor in many other programmes.

The year 1986 thus saw the introduction of the first measures of this type, even though things seem to have got off to a somewhat slow start.

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<sup>5</sup> IDO: Integrated Development Operation.

## 5. Integrated development approach

### (a) General

The integrated development approach, already referred to above, which was tried out for the first time in 1980, is designed to bring together all the parties to regional development measures, i.e.:

- the Community financial instruments, and
- the Community, national, regional and local authorities.

The general objectives of the integrated approach are:

- the exploitation of the region's potential for indigenous development,
- the concentration of the flow of funds on certain regions or sectors.

On 22 July 1986 the Commission sent the Council and Parliament a communication on this subject clarifying the content of the integrated approach<sup>6</sup> and the procedure for implementing it.

### (b) Preparation of integrated development operations (IDOs)

The special budget heading - 5410 - enables the financing of feasibility studies necessary for the launching of an IDO. The studies can be undertaken at the initiative of the Commission or of the competent authorities of the Member States concerned.

In 1986, feasibility studies were part-financed for: the Meuse Valley (France, Belfast (UK), the Sétubal Peninsula (Portugal) and Andalusia, the Canaries, Castile-La Mancha, Castile-Leon, Extremadura and Asturias (Spain). The Commission has also received proposals for integrated development operations in the following zones: Auvergne, Limousin, Lorraine, Nord-Pas-de-Calais, Ariège, Tarn-Aveyron et Réunion (France), Groningen-Drenthe (Netherlands), Limburg, Westhoek, Kempen (Belgium).

### (c) Continuation of the Naples and Belfast pilot IDOs

#### - Naples

Begun in 1980, this integrated operation is intended to contribute to the solution of the main structural problems of the Naples conurbation, i.e. substandard infrastructure for pollution control, poor transport services and inadequate water and energy supplies - all areas where it should be possible to create new jobs.

By the end of 1986, the total investment planned and selected under this operation was worth LIT 8 400 000 (170 infrastructure projects) and Lit 345 000 million (productive investment projects).

The total ERDF contribution to the financing of the operation in 1986 was LIT 358 000 million.

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<sup>6</sup> COM (86) 401 final.

- Belfast

This operation was approved in June 1983. A new programme was introduced in 1985 covering a wide variety of infrastructure measures (transport, tourism, airport, etc).

The total cost of the projects covered by the programme is £ 760 million.

(d) Integrated development programmes (IDP)

The IDPs are aimed at promoting simultaneously the development of both agriculture and other sectors of activity in areas with low productivity. Three programmes have been in progress since 1981 in :

- The Western Isles (UK);
- South-East Belgium (2.9 million Ecu were invested with ERDF assistance in 1986), and
- Lozère (no application submitted in 1986)

(e) In the context on the integrated approach, the Commission sent three communications to the Council:

- . one on stronger Community structural measures to assist steel restructuring areas (24 July 1986) <sup>7</sup> ;
- . one on a new policy on aid to shipbuilding (16 October 1986) <sup>8</sup>, and
- . one on a special programme for the development of Portuguese industry (PEDIP) (17 October 1986) <sup>9</sup>.

6. Specific Community measures (non-quota measures)

These measures are implemented in the form of special multiannual programmes submitted by the Member States for approval by the Commission following consultation of the ERDF Committee. The programmes must form part of the regional development programmes of the countries concerned. In addition, they must contain information analysing the situation and needs related to the objectives pursued, specify the operations proposed and the timetable for carrying them out and, more generally, provide any information relevant to an assessment of their consistency with regional development objectives.

Between 16 June and 22 December 1986 the Commission, after consulting the ERDF Committee, adopted 21 special programmes worth a total of 415.2 million ECU. This represented a considerable increase on 1985.

Taking all specific Community measures, by the end of 1986, the Commission had thus adopted special programmes involving total assistance of 905 million ECU or 84% of the Community contribution earmarked for this purpose. It is to be regretted that, in this area, payment applications from the Member States are somewhat slow in arriving.

<sup>7</sup> COM (86) 422 final.

<sup>8</sup> COM (86) 553 final.

<sup>9</sup> COM (86) 552 final.