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BACKGROUND NOTE
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A COMMON REGIONAL POLICY FOR THE EC

The European Economic Community has been committed to harmonious regional development as a means for achieving economic and social integration since the signing of its charter, the Treaty of Rome, in 1957. The Treaty's Preamble emphasizes the Member States' desire to "strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favored regions."

To date, however, there has been no coordinated EC-Member State approach to developing backward regions. Consequently, despite Community and Member States' continuous efforts to eliminate regional disparities, the income per capita in the EC's richest regions, according to an April Commission report, is five times higher than that in its most backward regions.

Setting 1980 as the completion date for economic and monetary union, the Community members' political leaders recognized in 1972 that their countries' economies cannot be integrated within that time frame unless structural and regional imbalances are corrected more quickly. Therefore, the 1972 "Summit's" final communique gave top priority to regional problems and called upon the EC to move toward a "Community solution" through creation of a Regional Development Fund by the end of this year. The Heads of State and Government also pledged to undertake coordination of their national regional policies. The Commission responded to this action by conducting a study of EC regional problems and later proposing a Regional Policy Committee and Regional Development Fund (RDF) as initial steps toward a comprehensive Community regional policy.

Underdeveloped Europe

Underdeveloped regions can be characterized by a relatively low per capita income, structural underemployment, permanently high level of unemployment, and large scale emigration. The underlying reasons for regional imbalance can be traced to the absence in certain regions of modern economic activities or to excessive dependence on agriculture or on declining industries. The EC's regional problems are particularly acute in Southern Italy, Western and Southwestern France, Northern Holland, parts of Germany along the eastern frontier, most of Ireland, extensive areas of Britain (especially Wales and Scotland) and in regions where two frontiers meet, such as the Liege-Maastricht-Aachen border.

Throughout Community history, Member States have independently operated their own regional policies, and Community efforts, though often successful, have been decentralized. The European Investment Bank (EIB) was set up in 1958 as an independent institution to promote development in the EC's backward regions and in areas undergoing economic change. EIB loans in the period 1958-72 totaled 2.6 billion units of account (UA), of which 75 per cent (UA 1.9 billion) was allocated for regional development. (One UA equals one 1970 dollar). EIB loans function as "seed money," with the Member States or private sources supplying the rest of the funds. EIB financed projects include, for instance, road construction in Italy, irrigation in France, and railroad electrification in Germany.

Initially confined to the territory of the Member States, the EIB's activities have gradually been extended under the Association agreements to Greece (until the 1967 coup d'etat), to the 19 Associated African and Malagasy States (AAMS), as well as to certain other overseas countries and Turkey.

Regional Impact

The European Coal and Steel Community (ECSC) has been another source of funds for regional improvement. Under Article 56 of the ECSC Treaty, UA 188 million had been spent by the end of 1972 to retrain nearly half a million workers in the coal and steel industries. Again, this aid has been seed money. ECSC reconversion loans have created some 110,000 new jobs in declining coal and steel regions. The Social Fund also has had a regional impact by providing UA 265 million for worker resettlement and training. Finally, the Guidance Section of the European Agricultural Guidance and Guarantee Fund (FEOGA) has spent some UA 150 million for modernizing and raising standards of living in agricultural regions.

In pursuit of its regional objectives, the EC has allowed certain exceptions to Community rules. For example, regional considerations take priority over the uniform application of the common agricultural policy. In other regional action, the Council of Ministers, in 1971, discouraged aid to overdeveloped congested areas, to the benefit of less favored regions, by placing a ceiling on the amount of aid a Member State could contribute to any one investment.

Additionally, the Council issued a set of principles for coordinating regional aid systems in the EC's central (industrialized) regions. This year, the Commission extended these principles to the three new EC Members (Britain, Ireland, and Denmark), and said it would outline a system for coordinating aid systems in all EC regions by December 31, 1974.

Fund and Committee's Role

Guidelines for initiating a Community regional policy along the lines of the "Summit" mandate were drawn up by the Commission in April. Community regional policy, the Commission said, should complement rather than substitute for national regional policies, should seek to reduce concentration in congested areas as well as well as give aid to poorer regions, should coordinate the Community's various common policies and financial instruments, and, finally, should fully coordinate national regional policies as the "Summit" participants pledged.

Within the context of these guidelines, the Commission laid the groundwork for a common regional policy in its July proposals for setting up a Regional Development Committee and a Regional Development Fund by January 1, 1974. The Regional Policy Committee would be the chief instrument for coordinating Member States' regional policies and ensuring concerted regional action.

The Committee would study Member States' regional problems, policies and means, their regional aid systems, development programs, disincentive measures in overly concentrated economic areas, and improvements in the information services for public and private investors interested in regional development. The Committee would also examine financial resources proposed by the EC and Member States for use in regional development as well as a means to coordinate putting regional measures into effect.

The Committee will consist of two members from each Member State and from the Commission. The Committee chairman will be appointed by the Member States while the Secretariat will be run by the Commission.

The Regional Development Fund will disburse Community resources to be used for regional aid. This aid will be directed entirely toward medium- and long-term development of backward and declining regions so as to bring about self sustaining growth. Managed by the Commission with the assistance of a Regional Fund Committee, the Fund would operate in agricultural priority regions, regions undergoing industrial change, and regions suffering from structural unemployment.

Priority List

The Fund would have a three year budget of UA 2.4 billion, with expenditures of UA 500 million in 1974, UA 750 million in 1975, and UA 1 billion in 1976. In addition, the Commission proposes the use of UA 150 million in FEOGA funds over the next three years for new jobs in agricultural priority areas.

Regional Development Fund operations would be determined by a priority list of regions benefiting from regional aid systems and with gross domestic product per capita below the EC level.

Selections for the priority list, which the Commission would draft for Council adoption, would be based on the following criteria: heavy dependence on agricultural employment, heavy dependence on employment in declining industries, or persistent high rates of unemployment and net outward migration.

Member States would provide the Commission with an annual report on the resources they are either making or propose to make available for development of the priority regions. In addition, Member States would provide the Commission with detailed reports on their regional development programs or specific regional objectives; the development and social situation; proposed measures regarding infrastructure and creation of economic activity; intended financial arrangements, and the authorities, organizations or institutions responsible for the program.

Regional Development Fund assistance would go only to development programs which have a clearly European nature and which conform with EC objectives. With these criteria in mind, investment proposals would be approved by the Commission. They must be reviewed by the Regional Policy Committee before being submitted to the Commission for approval.

A Regional Fund Committee to help the Commission manage the Fund would be made up of Member State representatives; its chairman would be a representative from the Commission. Proposed Fund expenditures would be submitted to the Committee for consideration. The Committee Chairman would draft a decision on each proposal, sending it with a Committee opinion to the Commission for adoption.

Supervisory Function

Any Commission decision not in conformity with the Committee's opinion could not go into effect for one month, during which time the Council would have the option of replacing it.

The Commission, intending Community regional aid to complement rather than substitute for Member State regional aid, has devised a formula for distributing RDF funds that would also ensure efficiency and adaptability to differing regional situations. The Fund could grant up to 15 per cent of service and industrial investments for projects costing at least UA 50,000, while not exceeding 50 per cent of national public authority contributions. For infrastructure investment, RDF assistance could not exceed 30 per cent of national assistance.

Expenditure proposals for industrial and service investments totaling a minimum of UA 10 million and for infrastructure investments of a minimum of UA 20 million, would be decided case by case. Proposals for smaller investments, to be sent to the Fund in quarterly reports, could be considered in groups.

The Commission would have a supervisory function to ensure proper application of Fund grants, and could, by decision, suspend or cancel assistance loans that have been abused. Delinquent loans would have to be repaid within six months of the Commission's decision to recover them.

ANNEX

COMPARISON OF REGIONAL DEVELOPMENT AIDS IN THE NINE*

	BELGIUM	FRANCE	ITALY	LUXEMBOURG
DEVELOPMENT AREAS	Most Walloon areas, Western Flanders/French border (Comines, Menin, Monscron, Tournai)	Principally the farming areas of West and South West and the old centres of industry in the North East (Department du Nord).	Mezzogiorno (whole of area beginning 25 miles South of Rome). Sicily, Sardinia.	Northern part of Grand Duchy - (Luxembourg Ardennes)
FINANCIAL INCENTIVES	Interest rebates on long term loans. 7% for first 2 years 5% for 3 following years on not more than 2/3rds of total investment. Loan guarantees Grants of up to 20% for buildings, 7½% for equipment.	Grants of up to 25 per cent. Loans of up to one third of total investment at 6.75 per cent over 10-15 years. Training Grants. Reduction of price of certain industrial sites in West France to 6 francs per sq. meter. Natural gas available at reduced price.	Maximum of 20 per cent subsidy for investment in buildings and equipment. Extent of subsidy is determined by 1) Location, 2) Type of industry, 3) Size of concern. Maximum of 70 per cent loans for capital investment, interest rates 3-6 per cent depending on size of enterprise. 15 years maximum length of loan. Very low interest loans for land purchase. Transport subsidies.	Interest rebate of up to 4%. State guarantee for 50% of loans Capital grant of up to 15%
FISCAL INCENTIVES	5 year exemption from real-estate tax. Exemption for up to 10 years (usually 5) from tax on labour and energy. Depreciation allowance doubled for 3 years. Exemption from Company registration tax of 2.5 per cent. Capital gains tax reduced to 15 p.c.of normal rate in the case of capital invested in a development area.	Depreciation allowance of 25% for capital investment in West. Reduction in conveyancing tax. Total or partial exemption from business tax for 5 years.	Exemption for 10 years. from: 1) Tax on profits. 2) Company tax. Permanent 10% reduction in Social Security charges, 30% for personnel recruited after 1971.	Various tax reliefs.
OTHER AIDS	Regional public investment budgets.	Regional public investment budgets. Regional development corporations. Subsidies for communications, also for development of sporting and cultural amenities in rural areas.	Government requires 60% (Recently increased from 40%) of all public sector investment to be located in development areas.	

*Figures based on La documentation francaise, Notes Et Etudes Documentaires. These figures are intended as a rough guide only and it should be remembered that in many cases the figures given are not strictly comparable. If detailed information is required application should be made to the appropriate national authorities.

NETHERLANDS	WEST GERMANY	UNITED KINGDOM	DENMARK	IRELAND
Northern and South-Eastern provinces (Groningen, Drenthe, Friesland, Brabant, Limbourg).	Bavarian forest in South East, Franconia, Heifel-Hunsbruck, Harz, Zone bordering East Germany.	Wales, Scotland, Northern Ireland, and North England, Mersey, South West England.	Jutland, Certain Islands, (e.g. Bornholm, Faroes) Greenland.	12 Western Counties
Grants of 25% of total investment in new development (maximum 3m florins). Grants for extending existing development, 15% in North, 10% in other zones. Loan Guarantees with Herstelbank. 50% reduction in purchase price of land.	Grants of between 10% and 25%. Long term loans (10 years) at 3½% interest. (Max. 1m DM or 10% of investment). Loan guarantees (up to DM 5m or 90% of total). Reduction of 30% in purchase price of land. State Aids for industrial training.	Development grants (22% in special development areas). Removal grants. Operation grants (max. 30% of total salaries for first 3 years). Derelict land clearance subsidies of 50% - 85%. Loans at 5% - 7% for 6 to 11 years. Subsidies, Government training facilities, Estates, and factories provided with possibility of 2 years free rent. Aids for resettlement of key workers.	25% maximum grants Loan guarantees. Possibility of buying or renting factories built by local authorities (financed by state loans at 7%) Subsidy for industrial equipment (up to 25%) Subsidies to industrial concerns whose output has fallen sharply.	Investment subsidy 60% in development areas 45% elsewhere (Dublin-no subsidy). In Galway and Wateford factories provided by I.D.A. for purchase or rent for industrial training including removal expenses.
Depreciation allowance of 33% for first two years.	Depreciation allowance for first 5 years (30% for buildings 50% for machinery).	NIL	Depreciation allowance increased by 20% for 4 years. Aids for industrial training.	Exemption from tax on profits for 20 years (total exemption for first 15).
Subsidies for development of communications sporting and cultural amenities, and other infrastructure.	Subsidies for development of community's sporting and cultural amenities, and other infrastructure.	Priority (varying in degrees) given to regional needs in central departments' expenditure programmes.		