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# BACKGROUND INFORMATION

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BACKGROUND NOTE

## DEVELOPING UNDERDEVELOPED EUROPE

After the January 1 entry of two new members with extensive "depressed" regions -- Britain and Ireland -- the European Community must soon make far-reaching decisions about regional policy.

The proposals currently under consideration are designed to deal with a problem recognized by all: the Common Market is now 15 years old; although it has eliminated many obstacles to trade, it has not engendered uniform development of economic activity throughout member states. Current enlargement of the scope of the Community is tending to consolidate and increase the existing gap between the developed and underdeveloped sections of the Community economy.

Specific commitments have now been made to form an economic and monetary union; if these are to be respected, Community planners believe, it is essential that regions now in difficulty should be given a chance to catch up. To do this, they need aid. In March last year, the European Community's Council of Ministers adopted a resolution on monetary union which included recognition of the need for regional subsidies. Among proposals from the EC Commission, the Community's administrative arm, which the Council accepted, was one covering financing by the European Agricultural Guidance and Guarantee Fund of projects forming part of development operations in priority agricultural regions.

The Council also accepted a Commission proposal for European Fund interest rebates on loans for regional development. The maximum rebate proposed is three points for a period of 12 years, payable in annual instalments. A proposal for a regional development company was also approved.

The main regional development problems have been defined as follows: those arising from the historic underdevelopment of peripheral areas; difficulties arising directly from European integration, notably in frontier zones; the regional impact of the principal joint policies of the Community, more especially the common agricultural policy; and problems arising from the decline of traditional economic activities, like mining.

#### Outstanding problems

The proposals made to the Council by the Commission in recent years have called for the definition of attitudes on the following points:

- 1) the choice between a special fund and some other system of joint resources. The Commission favors a Regional Development Fund. It has noted that neither the Community nor the European Investment Bank is currently in possession of unused resources which could be applied for regional development.
- 2) the date for bringing into operation the chosen finance system. The Commission suggests it be set up at once but not brought into operation until the second stage of economic and monetary union. Meanwhile, a credit line would be opened, permitting priority action in the most blighted districts.
- 3) the formal status of the Regional Development Committee among the Community institutions. The Commission thinks this Committee should report both to the Council and to the Commission.
- 4) the intervention techniques for the Regional Development Fund. The Commission favors not only interest rebates but capital subsidies as well.

5) the formation of additional instruments of regional policy. The Commission considers that the Regional Development Fund would be the more effective if its operations could be backed at Community level by research and information for investors, by the provision of technical assistance and by the authorization of temporary shareholding participation in corporation equity in the Community's priority regions. These tasks, the Commission suggests, could be performed by a Regional Development Company, borrowing from the European Investment Bank and other financial institutions.

Council action is awaited providing the Community with financial resources for regional development in the priority regions, and determining methods to apply these resources.

Most of Ireland constitutes a zone of underdevelopment. In Britain, this "status" goes to all of Wales and Scotland, all Northern England, and most of the "West Country" (southwest England). Hard-core "priority" zones are a large part of southern Wales, Scotland's Clydeside (including Britain's third city, Glasgow) and large parts of the counties of Cumberland, Westmorland, Durham and Northumberland, including Newcastle.