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Regional development and the European Community

European File

Every Community country is faced with the problem of regional disparities. But if we compare differences between regions in the Community as a whole, the problems are even more acute. In the Community of Nine, the poorest regions were found in the south of Italy and in the west of Ireland: the gross domestic product in these areas was only one-fifth of that of the most prosperous regions, Hamburg and Paris. In the enlarged Community incorporating Greece, the regional disparities are even more marked and the differences are of the order of 10 to 1.[1]

The Community's regional problems

The main problem regions fall into two categories:

- ☐ first, there are the underdeveloped rural areas, largely dependent on agriculture and characterized by low levels of income, high unemployment, underemployment and frequently inadequate public infrastructure. Such regions are to be found principally in Greece, in Italy's Mezzogiorno, in Ireland and in certain areas in the west of France;
- ☐ second, there are the once wealthy regions founded on industries now in decline such as coal, steel, shipbuilding and textiles. Such areas are found in the older industrial regions of the United Kingdom and also France and Belgium. They are characterized, above all, by an outdated industrial structure and high levels of unemployment.

[1] This file updates and replaces No 10/79.

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8/81
April 1981

Many of the regions concerned are located at the periphery of both their national territory and the Community which clearly aggravates the problems. Distance is an even more important factor for the French overseas 'departments' and, in particular, Greenland which faces special problems resulting from its sparse population and inhospitable climate.

The problems faced by certain border regions within the Community should not be forgotten. For example, the regions of Lorraine, the south of Luxembourg and the Sarre form a contiguous area faced with very similar economic and social problems stemming from the decline of the steel industry.

These traditional regional problems are aggravated by the economic crisis whose effects will be felt for some years to come in both the prosperous and poorest regions. Unemployment has risen everywhere, but the situation has become particularly serious in the least prosperous regions whose relative economic position has deteriorated compared to the rich regions.

A European regional policy — why ?

National governments have for many years operated their own regional development policies, aimed at stimulating economic development in the regions faced with the sort of problems outlined above. This involves two main types of measures:

- ☐ financial and other incentives (grants, loans, tax concessions, etc.) to encourage industrial and other firms to set up in these regions, so as to create more jobs;

- ☐ development of public infrastructure which is necessary both to improve living conditions generally and to help attract outside investors; this typically involves the improvement of the transport and telecommunications networks, of water and electricity supply, the development of industrial estates, improvement of social services and so on.

Alongside member countries' national and regional authorities, the European Community has a role to play in reducing regional disparities. Its responsibility in this area will increase in parallel with the progress towards a veritable economic union. The main reasons for this are as follows:

- ☐ national regional policies aim to reduce the differences in levels of economic development within one country. But the gaps are even bigger when viewed at the Community level. It is the Community's task to reduce them and this is in the interest of both the poor and the rich regions. The former will gain the opportunity of more rapid development and the latter will benefit from an expanding market for their goods;

- ☐ excessive differences in levels of economic performance and, in particular, in levels of productivity, increase inflationary tendencies. This is because, almost inevitably, political and other pressures are active to ensure that wage levels and social welfare provisions in the poorer regions keep up with those in the richer ones, even though productivity remains lower. This has long been true within the national context and will become more evident at the European level as the Community becomes a more closely integrated economic unit. An increased Community effort is needed to help reduce the causes of these inflationary pressures for the benefit of all;

- ☐ national regional policies conducted in isolation and sometimes in competition with each other are both more costly and less effective. For public infrastructure like roads and canals, coordination is obviously necessary between regions on either side of the Community's internal frontiers. But it is also necessary to coordinate State-aids to investors; otherwise, these can develop into a sort of aid auction in which investments go to the regions where most help is available, which forces governments to compete by increasing their levels of aid. Common rules make it possible to avoid such a waste of funds and they alone can ensure that incentives are largest in the areas of greatest need rather than in those able to pay the most;

- ☐ as more policy decisions in fields such as external trade, agriculture, industry and so on are taken collectively at the European level and not unilaterally by individual governments, they will clearly sometimes have negative consequences for some regions. The Community has an obvious and direct responsibility here;

- ☐ the persistence of huge regional disparities imposes major economic and financial burdens on the governments least able to bear them, and increases the pressures on them to reduce the constraints which further integration inevitably implies. Thus, for example, the Irish and Italian Governments felt able to agree to join the European Monetary System – which among other things limits their freedom to adjust their exchange rates – only if the Community agreed to make available to them additional assistance to help develop their poorer areas;

- ☐ last but not least, one of the fundamental aims of the Rome Treaty is to help the economic development of the less prosperous regions. To gain the active sympathy and support of its citizens, the Community must demonstrate its will and ability to help those who have to live and work in these regions.

How the European regional policy works

The Community's regional policy has three principle lines of action. Firstly, it aims to introduce a regional dimension into the other Community policies by assessing and taking into account the effects that these policies are likely to have at the regional level. Secondly, it is active in coordinating national regional policies, both with each other and with the Community's work. Finally, it has a large range of instruments for giving financial support to regional development work in the Community's poorer regions.

To be able to evaluate the conditions for effective action in each of these three areas, Community officials must clearly be precisely aware of the gravity of regional problems in the European context. In reality, a region regarded as less prosperous according to the criteria of a wealthy country could be regarded as moderately rich in the context of another country. Community criteria are therefore needed to make valid comparisons and to set priorities for action. Every two and a half years the Commission will prepare a report on the economic and social situation in all Community regions, wealthy or not, and it will propose to the Council of Ministers the priorities and the principles of action in the future. The first of these reports was completed in 1980.

Assessing the regional impact of other Community policies

Community policies in many other areas – agriculture, industry, international trade, etc. – have their consequences for the less prosperous regions. It must be ensured that these policies do not work against the objectives of the regional policy. And it must be ensured that they support as much as possible the work being undertaken to improve regional development. A process of systematic assessment of the regional consequences of every policy has consequently been introduced. Certain results have already been achieved, for example in taking more account of regional disparities in the Community's policy on farm prices. Other good results have been achieved with the implementation relatively recently of 'integrated operations', through which the application of several Community funds is coordinated for the development of a particular zone.

Coordinating Member States' regional policies

There is no intention of trying to impose a uniform pattern of regional development in all Member States of the Community. However, both the European Commission and the Council of Ministers consider that some coordination of national regional policies is essential, especially regarding Member States' regional development aids. The Commission has therefore set a ceiling on national aid for investments in the less prosperous regions. These ceilings take into account the gravity of the situation in each region concerned. The objective of such coordination is to ensure that the resources are utilized where they are most needed and will be most effective so that economic activity and prosperity will gradually become better distributed.

One of the fundamental ways of ensuring coordination of national regional policies is through the national regional development programmes which Member States must draw up in a consistent way for each of the regions which can receive assistance from the European Regional Development Fund. These programmes improve the coordination of national regional development assistance. They also serve as a guide for the use of the Regional Fund's resources which we will come back to later on.

Community financial assistance to the end of 1980

The Community has several financial instruments at its disposal to help solve regional problems by way of grants and loans:

- ☐ The European Coal and Steel Community has made loans totalling 7 200 million ECU [1] to help modernize coal and steel industries or to attract new job-creating industries to the coal and steel regions. In 1980, such loans amounted to almost 1 020 million ECU.

- ☐ The European Investment Bank has made available over 15 400 ECU in loans, the bulk of which has been for regional development projects. In 1980, more than 1 900 million ECU (70% of all loans made) were allocated for regional development purposes.

- ☐ A new Community intervention instrument (the 'Ortoli facility') has since 1979 accorded loans for, essentially, modernizing infrastructure and developing our energy resources. More than 470 million ECU have already been allocated. Of the 198 million granted in 1980, the majority went to the less-favoured regions.

- ☐ In the framework of the European Monetary System, interest rebates totalling 400 million ECU, i.e. 200 million in 1980, were accorded to the least prosperous regions, Ireland and Italy, which have thereby benefited from low-cost loans worth a total of 1 936 million ECU.

- ☐ The European Social Fund and the European Coal and Steel Community have together allocated non-repayable grants totalling more than 3 400 million ECU for training and retraining workers. Aid distributed in 1980 reached a level of more than 1 040 million ECU, 80% of which were for training schemes in the poorer regions.

- ☐ The Guidance Section of the European Agricultural Fund (EAGGF) has allocated aid worth 2 700 million ECU (523 million in 1980) for modernizing the structure of agricultural production and distribution.

- ☐ The European Regional Development Fund has, since its creation in 1975, made available more than 3 600 million ECU to encourage new investment for improving infrastructure in the Community's problem regions. The aid given represented 1 134 million ECU in 1980 and should exceed 1 500 million ECU in 1981.

The European Regional Development Fund

The European Regional Development Fund is the only Community instrument whose sole objective is to help the development of the less-favoured regions. The Fund's main purpose is to support national regional development work. It is composed of a 'quota' and a 'quota-free' section.

[1] 1 ECU (European currency unit) = about £ 0.54 or Ir.£ 0.70 (at exchange rates current on 20 March 1981).

- The 'quota' section accounts for 95% of available resources. It is, as the name indicates, shared between Member States according to a system of national quotas which aims to guarantee that the largest shares of the Fund are directed towards the countries with the most acute regional problems. Up until the end of 1980, almost three-quarters of the allocations from this section went to Italy, Ireland and the United Kingdom. With the entry of Greece into the Community, these quotas have been slightly modified to take into account the regional problems of the new Member State, but the principle of sharing the resources between the countries most in need remains the same.

Each Member State currently receives the following share of resources from this section:

Belgium	1.11%	Ireland	5.94%
Denmark	1.06%	Italy	35.49%
Germany	4.65%	Luxembourg	0.07%
Greece	13.00%	Netherlands	1.24%
France	13.64%	United Kingdom	23.80%

The 'quota-free' section helps finance two categories of investment in regions receiving aid from national governments:

- investment aimed at creating new jobs or maintaining jobs in industry or in the service sector. Aid from the Fund can extend to 20% of the investment cost, but must not exceed 50% of the amount of national aid given to the project in question;

- infrastructure work which assists regional development (roads, ports, industrial zones, tourist facilities, etc.). The Fund's assistance can in such cases be as high as 40% of the investment total.

Requests for assistance from the Fund can only be made by the national authorities of each Member State, and the investments envisaged must conform with the framework of the regional development programmes mentioned above. Aid from the Fund is given to the national authorities who can, in conformity with the provisions governing the activities of the Fund, either pass them on to the investors or consider them as part-payment for their own national regional aid expenditure. In all Member States, assistance for industrial investment is, in fact, kept by the national authorities; for infrastructure investment, the Fund's contributions are transferred, in the majority of cases, to the local authorities concerned, though this practice varies from country to country.

European Regional Fund Aid, 1975-80

	Number of investment projects assisted	Aid given in million ECU
Belgium	232	51.08
Denmark	342	47.31
Germany	1 318	280.21
France	1 756	626.93
Ireland	558	230.75
Italy	4 506	1 418.76
Luxembourg	6	3.41
Netherlands	34	70.50
United Kingdom	2 993	986.25
Community	11 745	3 625.20

□ The second section of the Regional Fund, known as the 'quota-free' section, is relatively new (introduced only in 1979). This section represents only 5% of the Fund's resources and it helps finance specific Community measures without the requirement of a pre-established percentage distribution between Member States. Projects financed by this section are intended to facilitate the implementation of Community policies and, in particular, to prevent or compensate for the negative effects which they could have in certain regions. The five first measures of this type were adopted in 1980. They aim to prevent the unfavourable effects on certain regions which could result from the enlargement of the Community, or aim to complement Community policies conducted in the sectors of steel, shipbuilding and energy. Southern Italy and certain regions of France, Belgium and the United Kingdom should benefit from such assistance. In addition, particular support is planned for the border zone between Ireland and Northern Ireland, which is among the worst-off areas in the whole Community.

In total, financial assistance from the Regional Fund since its creation in 1975 has been by no means negligible; it is still, however, not on a scale large enough to meet the gravity of the problems to be tackled. This is why a revision of the Fund and of some of its operating methods is under way. In addition, the European Commission is active in closely coordinating the activities of the Regional Fund and of other financial instruments (Guidance Section of EAGGF, Social Fund, ECSC Fund, European Investment Bank, etc.) which permits the Community to intervene to help the worst-off regions. Proper coordination considerably increases the impact of such intervention in these regions.

Working separately, the Member States cannot accomplish the vast effort which is needed – and will be needed for a long time to come – to reduce to reasonable limits the existing disparities between the wealthy and the poor regions within the Community. With the current low level of economic growth, joint action is even more necessary. The reduction of regional inequalities constitutes one of the basic conditions of all economic and political progress by the Community ■

The contents of this publication do not necessarily reflect the official views of the institutions of the Community.

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Office for Official Publications of the European Communities
L-2985 Luxembourg

ISSN 0379-3133

Catalogue number: CC-AD-81-008-EN-C