

EUROPEAN BACKGROUND INFORMATION COMMUNITY

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BACKGROUND NOTE

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EUROPEAN COMMUNITY TO HAVE REGIONAL DEVELOPMENT FUND

The European Community will soon have a Regional Development Fund to help finance the economic growth of its most backward areas. This was one of the most important political decisions made by the nine EC heads of government at their "Summit" meeting in Paris December 9-10, 1974.

Now that the "Nine" have agreed on the fund and its size, the EC Council of Ministers has to pass laws governing its operations early next year.

The fund, to be created for a trial period of three years, will consist of 1.3 billion units of account (UA), contributed by member states. (One UA equals \$1.20635 at current rates.) For agricultural areas, up to UA 150 million of the UA 1.3 billion will come from the European Agricultural Guidance and Guarantee Fund. The Regional Development Fund's 1975 budget will be UA 300 million. Its 1975 and 1976 budgets will be UA 500 million each. In allocating resources, priority will be given to the neediest member countries -- Italy, Ireland, and the United Kingdom.

Background

Regional policy, according to the 1974 Summit communique, is meant to correct imbalances "resulting notably from agricultural predominance, industrial change, and structural underemployment." Since the beginning, in 1957, the European Economic Community (EEC) has been committed to balanced regional development as a means for achieving integration. Thus, the preamble of the Rome Treaty creating the EEC emphasized the signatories' intent 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."

The Community's poorest areas are southern Italy, most of Ireland, western and southwestern France, northern Holland, parts of Germany along the eastern border, and large parts of the United Kingdom, particularly Wales and Scotland. (The discovery of oil in the North Sea should alleviate some of Britain's regional development problems.)

Regional considerations had influenced many EC policies, but the first comprehensive guidelines for a regional policy were proposed by the Commission only in April 1973, after the 1972 Summit had agreed on the need for a Regional Development Fund. Community regional policy, said the Commission, should: coordinate and complement, not replace, national regional policies; coordinate the Community's common policies and financial instruments, and reduce congestion in crowded areas in addition to aiding underdeveloped regions. These principles remain valid today.

In July 1973, the Commission proposed the creation of a UA 2.225 billion three-year Regional Development Fund. Although EC members had agreed on the need for such a fund, international monetary turmoil and the oil crisis delayed agreement on its size and operational details.

Thus, in the course of this year, the Commission proposed a smaller fund, UA 1.4 billion, which would concentrate aid initially in fewer member countries. The Summit decision basically follows the Commission's second proposals.

How the Fund Will Work

In principle, the fund's resources will be divided as follows, in percentages: Belgium, 1.5; Denmark, 1.3; France, 15.0; Ireland, 6.0; Italy, 40.0; Luxembourg, 0.1; the Netherlands, 1.7; Germany, 6.4, and the United Kingdom, 28.0. In practice, Ireland will receive UA 6 million more than its share, because the other member countries, except Italy, agreed to reductions in their allocations.

According to Commission proposals to be enacted by the Council, the Commission will supervise the institutions which will execute regional policy: the Regional Development Committee and the Regional Development Fund.

The committee (consisting of two members from each of the Nine and from the Commission, with a secretariat run by the Commission) will study member states' regional problems and regional policies, their aid systems, development programs, and disincentive measures in overly concentrated areas. Member states will report to the Commission annually on the resources that they will make available for development of "priority regions." The selection of this "priority list" will be based on the following criteria: a gross domestic product per capita below the EC level, heavy dependence on agricultural employment, heavy dependence on employment in declining industries, or structural unemployment.

The Regional Development Fund, following these criteria, will disburse Community resources for development programs which have a clearly European nature and which conform to EC objectives. The fund will be managed by the Commission, assisted by a Regional Fund Committee, Proposed fund expenditures will be submitted to the Committee for consideration. Any Commission decision not in conformity with the Committee's opinion could not go into effect for one month. During that time, the Council will have the option of replacing it. The Commission will ensure proper application of fund grants and could suspend or cancel assistance loans that have been misused.

Significance of Summit Decision

George Thomson, the EC Commissioner responsible for regional policy, said the Summit decision marked "an important breakthrough for the whole Community... Although the fund is relatively modest in size, it will be able to bring practical benefits to Europe's most underprivileged regions as from 1975. Even more important, it will restore faith in the Community for millions of ordinary citizens who have waited a long time for the commitment to set up a regional fund to be fulfilled." Thomson stressed the importance of an effective regional policy to the United Kingdom's current attempt to renegotiate its terms of EC membership. "The British entitlement to a share in the fund amounts to 28 per cent or about 150 million pounds. This compares to a contribution to the fund from the United Kingdom averaging less than 17 per cent during the next three years. The benefit to the United Kingdom is therefore of an unmistakable character. It should help to improve the general climate for renegotiation. In a referendum the existence of the fund will play an important part in convincing the British voter that the Community is concerned to help with the distinctive British problem of areas of ageing industry in the same way as it deals with the Community's agricultural problems."

The decision made in Paris proves that the solidarity among EC countries is a reality, even in a time of formidable pressure upon their economies. The effective launching of a regional policy is part of a broader effort to bring European economies more closely together. Its significance is enhanced by the acceptance of countries which are better off - Germany and the Netherlands - to adopt moderately reflationary policy to help their partners. These efforts, praised by the Summit communique, should also further the structural changes necessary for a real economic and monetary union.