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DOCUMENT 452/77

Report

drawn up on behalf of the Committee on Regional Policy, Regional Planning and
Transport

on the ~~Second~~ Annual Report of the Commission of the European Communities
(Doc. 224/77) on the European Regional Development Fund (1976)

Rapporteur: Mr R. JOHNSTON

On 24 June 1977 the Commission of the European Communities presented to the European Parliament, pursuant to Article 16 of Regulation (EEC) No. 724/75¹ of the Council of 18 March 1975 establishing a European Regional Development Fund, the second annual report on the European Regional Development Fund (1976).

The President of the European Parliament referred this report to the Committee on Regional Policy, Regional Planning and Transport as the committee responsible and to the Committee on Budgets and the Committee on Economic and Monetary Affairs for their opinions.

On 21 June 1977 the Committee on Regional Policy, Regional Planning and Transport appointed Mr Johnston rapporteur.

It considered this report at its meetings of 18 October 1977 and 18 November 1977 and adopted it unanimously.

Present: Mr Evans, chairman; Mr Durand, vice-chairman; Mr Johnston, rapporteur; Mr Corrie, Mr Dalyell (deputizing for Mr Kavanagh), Mr Damseaux, Mr Delmotte, Mr Ellis, Mrs Ewing, Mr Hamilton, Mr Hoffmann, Mr Jung, Mrs Kellett-Bowman, Mr Liogier, Mr Mascagni, Mr Ney (deputizing for Mr Fuchs), Mr Noè and Mr Schyns.

The opinions of the Committee on Budgets and the Committee on Economic and Monetary Affairs are attached.

¹ OJ No. L 73, 21.3.1975, p.1.

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A

The Committee on Regional Policy, Regional Planning and Transport hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the second annual report by the Commission of the European Communities on the European Regional Development Fund

The European Parliament,

- having regard to the second annual report on the European Regional Development Fund (1976) presented to it pursuant to Article 16 of Regulation (EEC) No. 724/75¹ (Doc. 224/77),
 - having regard to the report of the Committee on Regional Policy, Regional Planning and Transport and the opinions of the Committee on Budgets and the Committee on Economic and Monetary Affairs (Doc. 452/77);
1. Congratulates the Commission for having presented the report within the prescribed date of 1 July and stresses the importance of keeping to this date in order to enable Parliament to consider budgetary proposals concerning the European Regional Development Fund in the light of up-to-date information concerning the operation of the Fund,
 2. Considers that the second annual report clearly demonstrates the inadequacy of the Fund, as endowed for 1976, to remedy by itself the principal regional imbalances within the Community,
 3. Urges the Commission therefore to continue to give priority consideration to achieving a positive co-ordination of all Community financial instruments having a regional impact,

¹ OJ No. L 73, 21.3.1975, p.1

4. Stresses the need, as a minimum measure, to ensure that the real value of the Fund is not eroded by the effects of inflation, while insisting that its size will also have to be increased in absolute terms if it is to have an effective role in a co-ordinated Community regional policy,
5. Calls on the Commission to continue its efforts to ensure that assistance from the Fund is concentrated as far as possible on the areas of greatest need within the Community,
6. Deplores the fact that the Fund Committee was unable, in 1976, to define projects eligible for assistance in the tourist sector since the development of tourism may be of paramount importance in certain regions,
7. Regrets that for the year in question comparatively little progress was made towards the production of uniform comparable statistics since such information is essential to arrive at an accurate comparison of the regional problems of the different Member States,
8. Regretting the absence in the Second Annual Report of any analysis of the impact and effectiveness of assistance from the Regional Development Fund on the regions and sectors which are eligible for assistance calls on the Commission to ensure that such an analysis is provided in subsequent Annual Reports in those years when the biennial report proposed by the Commission¹ does not appear.

¹ Doc. 183/77, p.25

EXPLANATORY STATEMENTI. INTRODUCTORY

1. Reports on annual reports are seldom, by their very nature, the most instructive of documents unless they can provide a constructive element by offering helpful suggestions as to how past experience can be applied to the development of future practice. In preparing this report on the Commission's Second Annual Report (1976) on the Regional Development Fund¹, your Rapporteur has found himself at something of a disadvantage, not only because of the inevitable degree of time-lag involved in commenting at the end of 1977 on events in 1976, but also because 1977 represents the last year of the initial three-year period of the Regional Development Fund.

2. It is proper that the attention of both the Committee on Regional Policy, Regional Planning and Transport and the European Parliament should be directed more towards the future of the Regional Development Fund, as contained in the Commission's proposals for the period after 1977², and to the development of an overall Community Regional Policy than to looking backwards to what the Fund has achieved. Nevertheless it is largely on past experience and results that the Commission has had to prepare its proposals in the field of Regional Policy (where the Regional Development Fund is only one element among many) and an examination of the Commission's conclusions for 1976 may therefore prove of some assistance in evaluating its proposals for 1978 and thereafter.

3. In undertaking this task your Rapporteur has no wish to trespass into territory which is covered by the work of either the Rapporteur on the Communication and Proposals from the Commission to the Council with Guidelines for Community Regional Policy² or the Draftsman for an Opinion for the Budget Committee concerning the allocation for the Regional Development Fund in 1978. Some degree of overlap is, however, unavoidable though this does not imply that there is any danger of inconsistency between a report which is basically retrospective and those which are considering proposals for the future.

¹ doc. 224/77

² doc. 183/77

4. Your Rapporteur has in fact been struck by the degree of consistency which the Committee on Regional Policy, Regional Planning and Transport have been able to maintain over the years in their attitude towards Regional Policy and the Regional Development Fund. Broadly speaking national, regional and political differences have not affected our work, and we have evolved common attitudes towards regional problems. Whether this somewhat academic and dispassionate approach will be easy to maintain in a directly elected European Parliament is open to question, but your Rapporteur believes that it has made it possible for the European Parliament to offer suggestions to both Commission and Council which are essentially constructive, even perhaps idealistic. Occasionally this has meant that our suggestions may not have seemed at first sight politically realistic, though often in the event justified later, but it is of undoubted value to have a level of comment and suggestion which is to some extent divorced from the immediate and practical problems of national or political arenas, and your Rapporteur hopes that even in a directly elected Parliament it will be possible to preserve this role.

II. SUMMARY OF SECOND ANNUAL REPORT FOR 1976

5. In this section it is intended to consider briefly some more significant parts of the Commission's Report.

Your Rapporteur would like, however, to start by congratulating the Commission for the punctual publication of the Report, the first to cover a full year's Fund activity, and also for the admirable clarity and concision with which it is written and presented.

The Economic Situation in 1976

6. The first point to be made, and indeed this is done as early as paragraph 4 of the Commission's Report and at length in Chapter II (paragraphs 8 to 21), is that 1976 was a year in which the general economic situation of the Community 'remained serious'. Given this situation where unemployment rose in most countries in 1976 (see Graph II) and GDP was falling, notably in the case of Ireland, Italy and the United Kingdom (see Graph I), it is not surprising that the divergence between the economies of the Member States has tended to increase since 1973 and was, perhaps, still increasing in 1976. What is certain is, as the Commission points out (para. 14), that since 1974 in no region of Ireland, Italy or the United Kingdom has product per head risen above the Community average.

7. It is against the background of the continuing economic crisis, or of the slow and uncertain recovery from the crisis, that the Regional Development Fund must be judged. As defined in the Commission's proposed amended Fund Regulation 'The European Regional Development Fund is intended to correct the principal regional imbalances within the Community'. This intention, admirable though it is, was undoubtedly not achieved in 1976 and indeed your Rapporteur doubts that the Regional Fund alone could ever achieve this aim. In fact, he would ask whether the definition would not read better as follows: 'The European Regional Development Fund is intended to provide one of the means of correcting the principal regional imbalances within the Community'.

The size of the Fund

8. The question of the desirable size of the Fund is clearly outside the scope of this Report which is dealing with the application of money already allocated in 1975. In fact in 1976 the Fund had available 359.3 mua, of which 300 mua represented payment appropriations as provided for in the 1976 Budget out of the 500 mua available as commitment appropriations, and 59.3 mua was brought forward from 1975¹. Clearly such a sum was inadequate 'to correct the principal regional imbalances within the Community', and the most that can be claimed, which is not, given the economic circumstances, by any means a wholly negative claim - is that without the existence of the Fund the situation might in certain regions have been worse and the imbalances greater. As indicated in paragraph 3 of the Report commitments in 1976 to projects in the industry and services sectors created or maintained 55,000 jobs.

9. Your Rapporteur does not wish to consider the question of the size of the Fund beyond re-making the comment, which is now virtually a cliché, that it is far too small. He would illustrate this by one example taken from the Report. In 1976 Denmark made 70% of its allocation from the Fund available to Greenland; this came to 4.52 mua: the total investment by the Danish Government in Greenland in 1976 amounted to some 60 mua. Comparable examples could be cited.

10. In any event the size of the Fund, important though it is, is in some ways irrelevant since it is generally accepted that no Regional Development Fund could of itself, given the limited resources of the Community, ~~ever~~ be sufficient to correct the Community's regional imbalances. This is recognized by the Commission both in the Introduction to the Report (paras. 6 and 7) and in the section dealing with Co-ordination with other Community policies and financial instruments (paras. 71 to 79 of the Report) which will be examined in paras 32 to 37 below.

¹ Total payments for 1976 amounted to 277.33 mua.

Assistance for Industry and Services and for Infrastructure

11. One of the striking aspects of the Report is its demonstration of the increased emphasis in 1976 on assistance to infrastructure projects at the expense of industrial and service projects. In 1975 42% of total national investment was in infrastructure projects whereas in 1976 it had risen to 55%. In terms of grants made to infrastructure the percentage had risen from 60% of all assistance in 1975 to 75% in 1976. Thus assistance to industrial and service projects had fallen, in 1976, to 25% as compared with 40% in 1975. This question is analysed in paragraph 28, Table 4 of the Commission's Report, and your Rapporteur agrees with the Commission's comments that there is a natural tendency for assistance to infrastructure to exceed assistance to industry because of the lower level of grant available to industrial projects (20% of total investment cost as compared with 30% for infrastructure). Apart from this, however, there is no doubt that 1976 saw a falling off in industrial investment in addition to cut-backs in public expenditure. Inevitably then 1976 was marked by an increase in assistance to infrastructure projects and there is no reason to suppose that this tendency will not continue in 1977. On the other hand it is encouraging to note that the proportion of grants to projects of 10 m.u.a. or more grew in 1976 from 43.4% in 1975 to 52.9% though this is not necessarily - particularly in current circumstances - without certain disadvantages (see para 14 below).

12. The whole question of aid to industry versus aid to infrastructure is central to any concept of an overall regional policy whether at Community or national level. In a way it can be a "chicken and the egg" problem; without adequate infrastructures there is little hope, or purpose, in investing in industry; without industry there is little use in providing supporting infrastructures. This is a problem which affects urban centres of industrial decline as much as it affects rural regions which it is intended to industrialise; and in turn it presupposes the question of what is meant by 'infrastructure'.

13. Under the present Regional Development Fund Regulation investments in infrastructure are limited to 'infrastructures directly linked with the development of' investments in industrial, handicraft or service activities (Article 4(1)(b)). The Committee on Regional Policy, Regional Planning and Transport have consistently expressed the view that this definition was too narrow since the 'social' infrastructures, such as schools, hospitals or even the improvement of the environment by the removal of the scars of previous industry, may be as important as the provision of roads or advance factories. Without wishing to trespass into commentary on the proposals

for the Fund for 1978 onwards, your Rapporteur must record his satisfaction that the Commission's new proposal seeks to amend Article 4(1)(b) so that the definition of infrastructure investment is widened as follows: 'Investment in infrastructure which contributes to the development of the region in which it is located

Employment

14. The present economic recession has caused not only a fall off in industrial investment but also a substantial increase in unemployment which is unlikely to be reversed in 1977, except in the case of the Federal Republic of Germany and the Netherlands. The inevitable emphasis on investment on infrastructure has not helped resolved this problem since as far as employment is concerned work in this field is likely to provide only a temporary alleviation of the situation rather than a long term solution to the structural problems. Equally the tendency to invest in large scale projects referred to in para. 11 above does not help since, as the Report points out (para. 33), 'fewer jobs are created, proportional to the volume of Fund assistance and/or investments, by large than by small projects'.

15. This is reflected in the evidence that whereas 60,000 jobs are estimated to have been created or maintained in 1975 the estimate for 1976 has fallen to nearly 55,000. Clearly this decline may be related to the decrease in industrial investment and the increase in investment in larger projects.

16. In paragraph 31 of the Report the Commission have faced this problem squarely without commenting on it in detail. Clearly at a time of severe unemployment it will be a priority of Member States most affected to alleviate it, if necessary by short-term solutions. While this is of course an essential it is equally important, as the Report well emphasises, to seek long-term solutions to the structural problems of the regions. These two aims are by no means incompatible, but it is important from the point of view of Regional Policy that they should be compatible.

17. By this your Rapporteur means that while it is perfectly proper to deploy resources on, for example, the construction of advance factories which, though creating temporary employment, may thereafter under present conditions remain unoccupied, such infrastructure development must look to the future and be capable of providing permanent jobs when the economy recovers.

18. It would be inappropriate in this Report to go into the philosophical arguments concerning the scale of industrial development and the arguments concerning labour and cost intensive industry. Equally it will be for subsequent reports of the Committee on Regional Policy, Regional Planning and Transport, particularly perhaps in that on the peripheral maritime regions of the Community to consider the extent to which large scale industrialisation can provide satisfactory answers to the problems of the remote rural regions, and your Rapporteur mentions this subject because it brings him to the question of tourism which is touched on briefly in the Report.

Tourism and the Environment

19. To quote in its entirety the passage in the Report which covers this important matter: 'The number of applications for tourist infrastructure has been small; the reason here is that discussions in the Fund Committee have not yet led to an agreed definition of eligible projects in this sector.'

20. Your Rapporteur finds this unsatisfactory. The second paragraph of Article 4(1)(a) of the present Fund Regulation provides as follows:

'Service activities qualifying for assistance shall be those concerned with tourism and those which have a choice of location. Such activities should have a direct impact on the development of the region and on the level of employment.'

To that paragraph the proposed amending Regulation will insert at the end the words 'provided that at least 10 jobs are created or maintained.'

Passing reference has been made in paragraph 18 above to the particular problems of industrialisation in remote or underdeveloped regions and obviously in such areas the question of assistance to investments connected with the development of tourism may assume a particular significance.

21. It is clear that for a number of reasons certain areas of the Community may either not be suitable for extensive industrial development or ought not to be so developed. At a time when there is an ever-increasing emphasis on leisure and leisure activities and a greater concern for preserving an unspoiled and unpolluted environment, as this becomes an ever decreasing asset, the role of tourism becomes increasingly important.

Your Rapporteur has deliberately associated the question of tourism with environmental preservation because it cannot be doubted that only too often the very qualities that encourage tourism - uncrowded beaches, attractive scenery, a simple and unspoiled way of life - are often themselves spoiled or destroyed by the tourism they attract.

22. This is not a matter susceptible of easy solutions, and it may well be essentially a matter for national governments; but bearing in mind, for example, the efforts made to preserve such of the coastline of the United Kingdom as has remained unspoiled by "Project Neptune", it is possible to envisage a Community role, since such natural assets must, within the Community, be regarded as part of the common heritage of all the peoples of the Community.

23. A further reason for stressing the importance of tourism is that since the concept of annual holidays began in the nineteenth century they have tended to be taken, throughout Europe, on the sea-coast. This has meant, since the growth of industrial or 'tourist' pollution which destroys the very qualities which originally made the area attractive, that the peripheral maritime regions, both of the present Community and of the potentially enlarged Community, have become steadily more tourist orientated.

24. The development of tourism in such regions is complicated not only by the inbuilt problem of tourist pollution, to which reference has been made in the preceding paragraph, and that of the fully understandable desire to increase employment in the region by means of industrialisation, but also - and this is a structural problem - by the fact that in most cases tourism is highly seasonal. Only a limited number of favoured regions can cater for tourism throughout the year.

25. Despite the problems outlined above, the development and successful exploitation of tourist resources is of cardinal importance for certain regions. It is for this reason that your Rapporteur regrets that there has apparently been so little progress in the Commission towards facilitating assistance to tourist projects.

Complementarity and Additionality

26. There has been much discussion, both within the European Parliament and outside, of the questions of complementarity and additionality. As far as complementarity is concerned, your Rapporteur does not wish to examine this question in any detail. The existing Fund is designed to be complementary to existing national schemes and programmes of regional development, and the Commission's new proposals for the Fund do not seek to alter this. This again is an area into which your Rapporteur does not wish to venture since it forms part of the long term analysis of Community Regional Policy which will be undertaken in other reports. He would, however, observe, as Mr Delmotte has stressed in his reports, that any genuine overall Community Regional Policy will have to contain elements which go beyond complementarity as it is at present understood, and will have to include a genuine Community dimension. This is a matter where political considerations are likely to assume considerable importance.

27. The size of the Fund has already been considered in paras 8 to 10 above. Given the fact that it is so small it is important that, wherever possible, assistance should be given to projects which have a "multiplier" effect. If this can be achieved then a valuable element will be added to complementarity.

28. Additionality is another subject which has been the focus of considerable debate. Broadly speaking a distinction can be made between 'topping up' or individual additionality and overall additionality. The former, which applies only to industrial, service and handicraft projects, means that Community assistance is paid specifically in addition to national aid given to a specific investment. Overall additionality, however, should represent the addition of Community assistance to the totality of national assistance given to regional development investments.

29. Quite rightly both Commission, Parliament and potential recipients attach the greatest importance to this concept, and the Commission is proposing a new Article to the Fund Regulation to ensure (a) that the national budgets of the Member States and the budgets of their public bodies will clearly identify 'all monies received from the Fund', and (b) that Member States shall provide the Commission with information indicating 'the complementary character of the Fund'.¹

¹Doc. 183/77, page 48, Article 19

30. Clearly this is to be welcomed as is the information provided in paragraph 39 of the Report which sets out the various ways in which the Member States identified 'additionality' in 1976. Without naming specific countries, it would seem clear from this catalogue that certain countries have chosen methods which are more 'transparent' and give a more accurate picture of additionality than others.

31. Essentially this is a problem where it will be for the Commission to devise means of satisfying itself that true additionality is being achieved. Your Rapporteur would, however, offer two comments. Firstly, it will become easier to identify additionality when all the national regional development programmes, required by Article 6 of the 1975 Regulation, to be presented to the Commission by the end of 1977, have been received (see paragraphs 64 and 65 of the Report). Secondly, it will always be difficult to arrive at an accurate estimate of additionality as long as Member States can estimate in advance the volume of assistance they are likely to receive from a Fund based on a system of national quotas. To some extent this problem may be made easier by annual budgeting of the amount of the Regional Development Fund, and also by the presentation of long term national regional development programmes referred to above. In this respect the Commission's proposal to set a part of the Regional Development Fund aside from national quotas, while not departing from the principle of complementarity, may make additionality more apparent.

Co-ordination of Regional Development Fund with other Community Financial Instruments

32. Paragraph 87 of the Report states: 'The exceptionally high rate of inflation experienced by the Community in 1975 and 1976, especially in the main beneficiary countries¹, has however had unfavourable consequences for the real value of the resources of the Fund and has seriously reduced the possibilities of Fund assistance'.

33. This summarises much of what has been said above (see in particular paras.6, 7 and 11), and the acceptance of the inadequacy of the Regional Development Fund as a means, in itself, of correcting regional imbalances implies that other possibilities must be considered. Here the co-ordination of other Community resources having a regional impact is of crucial importance. Your Rapporteur notes with satisfaction those passages of the Report which deal with this². During the course of 1976 real progress was made in this field, the general aim of which is, to quote the Report, to 'ensure that financial assistance and particular policies should not only not be contradictory, but as far as possible contribute to implementing the same purposes'.

¹ Ireland, Italy and the United Kingdom

² Notably paragraph 6 and paragraphs 71 to 79

34. In 1976 the Commission charged the working party on co-ordination on financial instruments to examine the regional aspects of structural agricultural policy, and the report of the working party makes proposals concerning the increase of the impact of the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) in the regions of greatest need. The Committee on Regional Policy, Regional Planning and Transport have already been informed by the then Commissioner responsible for Regional Policy, Lord Thomson, of the tendency for the less favoured agricultural regions to do less well than the more prosperous ones under existing systems of assistance. Your Rapporteur welcomes therefore the statement that steps are being taken 'to increase the impact of the Guidance Section of the EAGGF in regions of greatest need'.

35. Progress has also been made either towards co-ordinating assistance from the European Investment Bank, the facilities of the European Coal and Steel Community, the Social Fund and the Guidance Section of the EAGGF or of orientating such assistance towards regional ends. Thus in 1976 the European Investment Bank concentrated its activities on the less favoured regions, making no less than 75% of its loans to projects of regional interest, often in the less favoured regions. The fact, which the Commission regrets, that no Member State made use of the possibility, under the present Fund Regulation, of seeking interest rebates on loans from the Bank for investment in infrastructure projects may, to some extent, be alleviated by the current Commission proposal concerning interest rebates¹.

36. Equally the report reports progress in the orientation of the Social Fund towards giving assistance to the less favoured regions; in 1976 over 50% of all aid went to help such regions². Progress has also been made in emphasising the regional implications of assistance to the steel industry which has suffered particularly from the present recession.

37. The fact that Mr Giolitti, the present Commissioner responsible for Regional Policy, has been given the specific task of coordinating all Community instruments with a structural role is, therefore, to be welcomed. A useful development would be the introduction of a statement attached to any relevant Commission proposal which clearly identified its regional implications. Such a statement would clearly help to implement paragraph 6 of the Report where it calls for an increased coordination of 'all Community policies which have regional implications'.

¹ Doc 183/77

² And 82% of the grants made under Article 5(1).

Statistical Information

38. The Committee have often emphasised in their reports on the necessity of having adequate comparable statistical information available in order to facilitate the comparison of the regional problems as between Member States . It is with regret, therefore, that your Rapporteur notes that, as the Report states "statistics are often lacking in uniformity"¹. On the other hand the Commission is well aware of the importance of this problem, which is being considered by the Regional Policy Committee and which is one which will have to be solved as a preliminary step towards the achievement of any genuine Community Regional Policy.

Publicity

39. Related to the problem of additionality and complementarity discussed in paras. 26 to 31 above is the question of publicity. In your Rapporteur's opinion it is of the greatest importance that the public should be made aware that a particular project in their region has been assisted, or made possible, by the Regional Development Fund. The delegation of the Committee which visited Scotland and the North-West of England were impressed by the evidence they saw of how this can be achieved by the use, for example, of hoardings. The Commission's Report pays tribute to successful publicity in the United Kingdom and Italy, and the fact that the Commission has insisted that hoardings should be erected systematically in all Member States in 1977 is to be welcomed.

Concentration of Assistance

40. From 1973 onwards the Committee have consistently stressed the importance of concentrating assistance from the limited resources available on the areas of greatest need, and this is a matter which will undoubtedly continue to be raised in subsequent reports. It was our opinion in 1973² that the original proposal concerning the regions eligible for assistance was cast too wide, covering as they did fifty per cent of the land mass of Europe. This view was not changed by the provisions of the Regulation which was finally adopted by the Council in 1975³, under which (within certain clearly defined criteria) it became in essence the task of the

1 Paragraph 69

2 Doc. 276/73

3 Council Regulation (EEC No 724/75) of 18 March 1975, OJ No. L 73, 21.3.1977

Member States to define those of their regions which would be aided by the Fund. A comparison of the regions eligible for aid under the Commission's original proposals and those actually aided in 1976¹, does not reveal any significant inconsistencies though it does indicate a slightly greater degree of concentration; for example, in the case of Italy all assistance in 1976 went to Sardinia or the Mezzogiorno, whereas under the 1973 proposals the greater part of the country, apart from the industrialised regions, would have been eligible for assistance. When, however, a comparison is made with assistance given from the Fund in 1975, there is evidence, to quote from paragraph 43 of the Report, that 'one can detect a slight tendency to concentrate less in some Member States'. It is, however, satisfactory to note that the Commission do not accept this situation and that the Report stresses that 'efforts to concentrate Fund assistance must be continued, given the limited resources available'.

Analysis of impact of assistance from the Fund

41. The Committee on Regional Policy, Regional Planning and Transport were agreed in the course of their preliminary discussion of the present Report that it was regrettable that while the Second Annual Report contained a great deal of useful factual statistical information, no effort was made to provide an analysis of the information which could indicate the impact of Fund expenditure in the regions and sectors concerned.

42. Such an analysis would also make it possible, not only for the European Parliament, but also for the general public to assess whether Fund expenditure is being made in a way most suited to assure effective assistance to regional development.

43. This omission will presumably be rectified, to some extent, by the biennial report on social and economic trends in the regions of the Community² which the Commission is proposing should be submitted to the Council. In paragraph 18 of the Commission's Communication concerning guidelines for Community regional policy³ the purpose of the two-yearly report is explained as follows:-

'This report is intended to indicate the principal regional problems at the Community level, to assess the results achieved by the joint actions of the Member States and the Community against these problems and show the

¹ See the map on page 28 of the 1976 Report and that annexed to doc. 205/73

² See Doc. 183/77, p. 25, Proposal for a Council Decision amending Council³ Decisions 74/120/EEC and 75/185/EEC

³ Doc. 183/77

conditions for an effective coordination of the regional problems of the Member States.' (Rapporteur's underlining)

44. However, this report, which will provide the sort of analysis lacking in the present Annual Reports, will only appear at two-yearly intervals. Once in every two years there will be no need to duplicate the information in the Annual Report, but in the other year no analytical information will be available unless the Commission provide it in addition to the statistical information already presented.

45. Your Rapporteur considers that it is insufficient to have an assessment of the impact of assistance from the Fund only at intervals of two years, and he has therefore proposed a paragraph in the Motion for a Resolution calling on the Commission to ensure that in the years when the two-yearly report does not appear, the Annual Report will include an analytical "impact" statement. As far as the two-yearly report is concerned, he would stress that it would need to be available to the European Parliament no later than the Annual Report, that is to say by 1 July.

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman : Mr Michael YEATS

On 21 September 1977 the Committee on Budgets appointed Mr Yeats draftsman.

It considered the draft opinion at its meeting of 2 November 1977 and adopted it unanimously.

Present: Mr Aigner, acting chairman, (deputizing for Mr Yeats, draftsman); Mr Albers, Lord Bessborough, Mr Calewaert (deputizing for Lord Bruce of Donington), Mrs Dahlerup, Mr Dalyell, Mr Dankert, Mr Schreiber, Mr Terrenoire and Mr Würtz.

Introduction

1. The Committee on Budgets is consulted for its opinion on these Annual Reports from the Commission. Since the Reports are essentially financial, it is therefore incumbent upon the Draftsman of the Committee to take the opportunity to present some analysis of the effectiveness of the Fund. Your Draftsman had the honour to present the opinion of the Committee in the 1975, First Annual Report¹. The principal conclusions of the Committee on Budgets² were included in the Motion for a Resolution tabled by Mr DELMOTTE on behalf of the Regional Policy, Regional Planning and Transport Committee³.

2. Those conclusions, calling for an improvement in the control procedures, as well as for the strengthening of coordination with other Community funds, have to some extent been borne in mind by the Commission in the presentation of their proposals for renewing the present Fund⁴.

3. It is the intention of your Draftsman not to impinge on those questions of the future development of regional policy which will be covered by Mr MASCAGNI, Draftsman for the Opinion of the Committee on Budgets on the Commission's proposals for the future Fund.

4. However the Second Annual Report under examination is useful, in as much as it points to any improvements within the Regulation and in current practice that have been made, following the first full year of the running of the existing Fund.

¹ Doc. 440/76/Ann.

² Paragraph 25.

³ Doc. 440/76.

⁴ Com. (77)195 final.

The Problem of the Effectiveness of the Fund

5. The current economic situation and its evolution indicate the massive obstacles confronting any attempt to achieve economic convergence in the Community. It will be recalled that the aims of Community policy have been particularly ambitious. The desire to achieve balanced growth in the Community, and to create the conditions in which an economic and monetary union might be possible, has been hindered, if not thwarted, by the stubborn nature of the gap between richest and poorest regions, and indeed richer and poorer Member States. As is clearly shown in the tables in the annex to the Second Report (pages 53 onwards) three Member States (Italy, United Kingdom and Ireland, occasionally joined by others) consistently suffer from adverse economic conditions (slow growth rate, low or even negative investment rates, high and rising unemployment, very high inflation rates and unsatisfactory balance of payments performance). This situation is mirrored and indeed accentuated when an examination - region by region - is made. The alarming fact, that no region within the three Member States mentioned above has a gdp per head higher than the Community average, remains valid for 1976, and shows no likelihood of becoming invalidated in the future.

6. Confronted with this problem the means available to the Community, through its Regional Fund, seem grossly inadequate. It will be recalled that the Parliament sought a higher Regional Fund (2,250 m u.a.) than the 1,300 m u.a. which was agreed to in the European Council in December 1974.

7. The breakdown for the financial years 1975 and 1976, in commitments and payments, and by Member State and by budget year is reproduced below¹.

¹ Reproduced from page 65 of the Commission Report.

TABLE (. Commitments and payments by Member State and by budget year

	COMMITMENTS			PAYMENTS													
	1975		1976		Total		1975		1976		Total 1975 + 76						
	m.u.a.	%	m.u.a.	%	m.u.a.	%	m.u.a.	%	committed 75 m.u.a.	%	committed 76 m.u.a.	%	m.u.a.	%	% commit- ted 75 + 76		
Belgium	4.044	1	6.667	1	10.711	1	-	-	3.492	3	2.622	2	6.114	2	6.114	2	57
Denmark	3.877	1	6.416	1	10.293	1	1.556	2	1.972	2	2.011	2	3.983	1	5.539	2	54
Germany	9.467	3	19.882	4	29.349	4	-	-	6.143	5	7.205	5	13.348	5	13.348	4	45
France	46.006	15	76.464	15	122.470	15	16.126	18	15.633	13	13.234	8	28.867	10	44.993	12	37
Ireland	19.928	7	34.546	7	54.474	7	6.996	8	5.223	4	12.809	8	18.032	7	25.028	7	46
Italy	123.942	42	204.230	42	328.172	42	44.296	48	41.190	35	71.675	45	112.865	41	157.161	42	48
Luxembourg	0.750	-	-	-	0.750	-	0.227	-	0.406	-	-	-	0.406	-	0.633	-	84
Netherlands	5.586	2	10.002	2	15.588	2	2.849	3	2.629	2	2.819	2	5.448	2	8.297	2	53
United Kingdom	86.178	29	141.915	28	228.093	28	18.618	21	43.212	36	45.057	28	88.269	32	106.887	29	47
Community	299.778	100	500.122	100	799.900	100	90.668	100	119.900	100	157.432	100	277.332	100	368.000	100	46

Budgetary Aspects of the Report

(a) Schedule of Commitments and Payments

8. As set out in the previous table, by the end of 1976 more than 99% of the total commitments for 1975 and 1976 had been authorised, and some 46% of payments had been made. As is pointed out in the Second Report, the rate of payment depends largely on the speed with which Member States pay their regional aids related to the investments concerned, while this in turn is closely linked with the rate of progress of the project itself. Only after the Member States have paid their own regional aids can they make application for payment from the Commission.
9. The Committee on Budgets can welcome the assurance given by the Commission that payment applications have generally been settled within two weeks of receipt, and that only in exceptional cases have delays been caused by failures to supply supplementary information. This apparently satisfactory situation compares favourably with the rhythm of payments in the Social Fund for the same period.
10. The particular problem alluded to in the previous report namely the financing of projects started and compensation of expenditure incurred by Member States, before 1 January 1975, seems to have been improved somewhat, and the Commission concludes that 'the situation can be considered relatively satisfactory since only 20% on average of national public expenditure eligible for fund assistance had been paid prior to 1 January 1976¹. The Commission however, must continue to put the emphasis on financing new projects.

(b) Nature of the Projects, and their Value

11. The position of Parliament has been that the projects submitted under the Fund should be of such a size as to increase the effectiveness of the Funds. As stated above, it is the view of both Parliament and Commission that the project should be new. Furthermore the Commission should indicate the quality of the projects that are submitted since the previous Commissioner responsible for the budget cast certain doubts in the minds of members of the Budget Committee as to the real value of those projects in the solution of regional problems, leaving the impression that only items of lesser importance were submitted by national authorities.

¹Page 19 of the Second Annual Report.

12. The Commission points out that the proportion of grants made to projects of 10 million u.a. or more rose from 43.4% in 1975 to 52.9% in 1976. This development must be welcomed, even though less immediate employment tends to be created by large, than by small, projects. This is the reason for the small reduction of jobs created in 1976, compared with the previous year.
13. There is an attempt in the Commission's Report to estimate the number of jobs created as a result of the projects carried out in the industrial and services sector (such a calculation is not possible with regard to infra-structural projects). The Commission's estimate is some 55,000 jobs created, in a sector that absorbed 45% of regional investment in 1976. It is perhaps worth pointing out that this figure of new jobs created, represented no more than one per cent of total unemployment throughout the Community. This underlines the self-evident fact that the meagre size of the Fund remains the principal obstacle to its effectiveness.

(c) The Issue of Complementarity

14. The Commission deals at some length with this problem, and distinguishes between individual additionality ('topping up') and overall additionality, that is, the addition of total national and Community resources available for regional development. The Commission, like Parliament, stresses the great importance of the latter, as the only means of making any real contribution towards the correction of regional and structural imbalances. Community resources must be added to the Member States' own regional development efforts, and must not replace them either wholly or in part.
15. The Committee on Budgets approves the efforts of the Commission to persuade Governments to introduce special headings in their own Budgets, thus demonstrating the degree of additionality achieved. It will be interesting in due course to know what progress has been made on this front.

(d) The Administrative Structure

16. The reservations of the Committee on Budgets as regards the functioning of committees such as the Regional Fund Committee are well known. It is worth pointing out that, according to the Commission, the Fund Committee has even yet not tied up all the loose ends: it has not yet agreed a definition on eligible projects in the tourism sector - one which is of considerable importance to many declining regions¹. If the Fund is to play any important role in the tourism sector, there must clearly be an early decision on this point.
17. In contrast the Committee on Budgets welcomes the improved publicity given to Community projects: the Commission is insisting that hoardings be erected systematically in all Member States during 1977². There has also been an improvement in the presentation of information to the Community institutions and in particular to the European Parliament.
18. It is also to be welcomed that the Commission now publishes full lists of projects after each series of grant decisions. It is vital that the public be well informed as to the use of Community expenditure.

(e) Control Aspects

19. In view of the importance of adequate control of the manner in which the regional funds are being spent, it is satisfactory to learn that the number of on-the-spot inspection visits made by the Commission doubled in 1976 as compared with the previous year. The Commission states that representatives of the Board of Auditors took part in these checks on several occasions. It would be interesting to know on how many occasions this direct collaboration took place.

¹ Page 19 of the Second Annual Report.

² Paragraph 82 of the Second Annual Report.

20. The Commission points out that problems have arisen in some Member States, because Fund assistance to industrial projects is considered as a partial repayment of national regional aids, and is not passed on to the investors concerned. It seems, indeed, that some Member States do not even themselves possess the power to carry out detailed checks on such industrial projects. It seems that in such cases these countries pay their national aids on the basis of reports from independent auditors. The Commission adds, rather vaguely, that "a method of this kind could possibly be useful for checking industrial projects." Some more definite details would be welcome, in particular a statement as to whether the Commission can enforce this practice.

21. The Commission concludes in this chapter that 'no irregularity was ascertained, in this respect, in the course of inspection and checking in 1976'¹. If after checking it is proved that the European Regional Development Fund is 'water-tight', and as such is very different from the EAGGF, then no one will welcome this more than the Committee on Budgets. However the Committee will await the outcome of the 1976 Board of Auditors' Report, and the discussions in its control sub-Committee, before pronouncing definitively upon this.

(f) The 1976 Supplementary Budget Number 1

22. It will be recalled that as part of the Emergency Aid Programme for Friuli the European Parliament adopted a supplementary budget which included some 15 million units of account to be ear-marked for this under the Regional Development Fund, over and above the total voted for the Regional Fund in 1976. The Commission does not refer to this in its chapter on Control Aspects, and a further statement would be useful.

¹ Paragraph 61 of the Second Annual Report.

(g) Coordination of Funds

23. Partly as a result of pressure from the European Parliament, the Commission now seems to recognize the importance of coordination of all Community instruments with any regional impact. These can be summarized as follows:
- European Regional Development Fund;
 - European Social Fund;
 - Guidance Section of the EAGGF;
 - EIB loans;
 - ECSC budget and loans (certain provisions).
24. The giving of a mandate to the Commissioner with the responsibility for the Regional Fund, to coordinate all the funds, was particularly important. He should give a report to the Committee on Budgets at an early stage as to the work of the task force that he has set up.
25. Greater use should be made of the instruments available. It is to be greatly regretted that no Member State has made any use of the possibility provided for by the Fund Regulation to grant interest rebates on loans from the European Investment Bank. Greater publicity for the range of instruments available should be a priority.
26. It is clear that the totality of Community instruments is still far from sufficient to many of the tasks laid down. A more imaginative approach is still required and in this context your Draftsman believes that the proposed 'Ortoli' loans could serve a useful purpose, as adding an extra weapon in the Community's armoury to confront the vast regional disparities which blight the Community.

Conclusions

27. The Committee on Budgets,
- (a) notes with satisfaction the improvement in the quality and presentation of the Commission's Second Annual Report on the European Regional and Development Fund;
 - (b) calls for continuing vigilance as regards the control procedures in order that the Fund will not be brought into disrepute; and asks its sub-Committee to coordinate the examination of the relevant chapters of the Report of the Audit Board with the Annual Report;

- (c) calls for increasing coordination of the instruments available to the Community in the carrying out of regional policy; in particular invites the Commissioner responsible to report to the Committee on progress so far;
- (d) asks the Committee on Regional Policy, Regional Planning and Transport to take into consideration the elements mentioned in this Report in connection with the concentration of aids, size of projects, the role of the Management Committee and the failure to take up the interest rebates in its preparatory work on the Commission's proposals for the renewal of the Fund;
- (e) recognizes that at the present level of appropriations it will not be possible for the Fund to contribute successfully in the fight for balanced growth in the regions;
- (f) calls for increased Community financial support for regional policy.

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Letter from the chairman of the committee to Mr EVANS, chairman of the Committee on Regional Policy, Regional Planning and Transport

Luxembourg, 16 November 1977

Dear Mr Chairman,

At its meeting of 18/19 October 1977 the Committee on Economic and Monetary Affairs considered the Second Annual Report on the European Regional Development Fund (doc 224/77).

The Committee attach great importance to the operations of the Regional Fund as a means of bringing about a convergence of Member States' economies and therefore a balanced economic development in the Community. They would point out that in the present economic crisis where certain regions of the Community have a particularly high level of unemployment, the Regional Fund's role is vital. It is of course only one of the Community's financial instruments which can be used to combat structural problems in those individual sectors such as shipbuilding, steel and textiles hardest hit by the current crisis, and the Committee are pleased to note in the Second Annual Report the reference to the need for increased coordination of the Community's financial instruments having a regional and structural impact: the European Investment Bank, the financial facilities of the European Coal and Steel Community, the Social Fund, the Guidance Section of the European Agricultural Guidance and Guarantee Fund, and the Regional Fund.

The Committee on Economic and Monetary Affairs called in their resolution on the fourth medium-term economic policy programme, adopted on 10 March 1977, for the Commission to submit to the Council in the near future for the improvement of the Regional and Social Funds and the Guidance Section of the European Agricultural Fund as regards their institutional and operational aspects and also cooperation between them in the light of structural and regional policy requirements¹, and will presumably be referring again to this matter in the report they are currently preparing on sectoral/structural policy. They hope, therefore, that the Commission will be able to refer to some concrete proposals for achieving this vital coordination and improvement in the use of the Community's financial instruments when the Third Annual Report is drawn up.

¹ OJ No. C 83, 4.4.1977, pp.27-30

As far as regional aids in general are concerned, the Committee would reiterate their attachments to the principles of coordination and transparency, with which they will deal more fully in their report on the Sixth Report on Competition Policy.

Please consider this letter as the unanimous¹ opinion for your committee on this annual report (Doc. 224/77).

(sgd) Ernest GLINNE

¹ Present: Mr Glinne, chairman; Lord Ardwick, Mr Cousté, Mr Delmotte (deputizing for Mr van der Hek), Mr Evans (deputizing for Mr Haase), Mr Fletcher-Cooke (deputizing for Mr Jakobsen), Mr Lange, Mr Müller-Hermann, Mr Normanton, Mr Ripamonti and Mr van der Mei.

