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The development of the European Regional Fund since 1972.

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THE DEVELOPMENT OF THE EUROPEAN REGIONAL FUND
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CONTENTS

SUMMARY

The thesis traces the development, significance and impact of the European Regional Development Fund (ERDF) from its early conception through its establishment in 1975 to its subsequent administration and reform. The role of regional policy and the development of the ERDF are assessed in the context of theories of European integration and academic studies of the decision-making process of the European Community.

The study of the ERDF's establishment and the subsequent first phase of administration (1975-79) includes an assessment of the Commission's behaviour vis à vis the national government representatives in COREPER, the Council of Ministers and the European Council. It also gives consideration to the influence of events external to the immediate forum of discussion and the role of national and European pressure groups. Particular attention is devoted to the role of the European Parliament, and especially to the nature and implications of its budgetary disputes with the Council of Ministers involving the ERDF.

A survey is made of the Fund's administration in various EC member states which draws attention to some of the general problems that have been faced by the Commission with regard to ERDF operations.

The debate preceding the Fund's amendment in 1979 is analysed and the consequences for the Fund's administration of this agreement are assessed.

The operations of other Community financial instruments in the EC's problem regions are considered in a separate chapter. The Commission's 1981 proposals for further amendments to the Fund regulation are surveyed, as are the initial Council reactions to these suggestions.

The thesis concludes that intergovernmentalist attitudes prevail in the Fund's operations, and demonstrates that national governments

firmly control the distribution and administration of Fund aid. Moreover the size and impact of the ERDF have been restricted by limited resources, by national governments' suspicion of the Commission and reluctance to cede power, and by the anti-regional policy effects of the CAP. However, it is claimed that national dominance, and the consequent inefficiencies in the Fund's administration, are open to increasing pressure from local and regional authority criticism and indeed from those member states who are net-contributors to the Fund, who wish to see their contributions disbursed in a more efficient manner.

CHAPTER ONE : INTRODUCTION

The aim of this study is to trace the development and the significance of the European Regional Development Fund from its early conception through its establishment in 1975 to its subsequent administration and reform. The issues and debates surrounding the setting up of the ERDF will be reviewed and analysed. The role of regional policy and the development of the ERDF will be assessed in the context of theoretical and practical concepts of European integration. Finally the characteristics of the decision-making process evident in the treatment of the issues at stake in this policy field will be analysed against previous research findings published by authors writing about the European Community.

Sources

Owing to the ongoing nature of this study and not least to the fact that the issues under observation were, to a large extent, still in an embryonic stage during the period of research, a heavy reliance was placed upon primary sources of information. This necessitated much field-work in member state regions and capitals and in Brussels and Luxembourg. Moreover, many different strands of information had to be analysed and pieced together which at times proved a somewhat difficult and complicated procedure.

Officials in the European Commission's Directorate General responsible for regional policy (DG XVI) readily provided details of the Commission views, ideas and proposals on the issues at stake. The same was true of the European Parliamentary officials and of officials of the Economic and Social Committee (ECOSOC) and European 'umbrella' organisations such as UNICE and ETUC. Information acquired directly from officials in these institutions was supplemented by secondary sources in the form of Community documents, published by the Commission, Parliament and ECOSOC, readily available upon request, and by the reports and bulletins of Agence Europe, and the national press of the member states.

Primary information from the Council of Ministers was, not surprisingly, less readily forthcoming since the detailed contents of debates and documents remain closely guarded secrets. Nevertheless, a vital source was provided by officials of the UK Permanent Representation in Brussels, a department of which carries out the ground-work before the UK ministers discuss the ERDF in the Council forum. Whilst remaining somewhat guarded in their revelations, an insight was provided into the views and stances adopted by all member states in the Council sessions and not merely that of the UK ministers and representatives. Again primary information was supplemented by the same secondary sources.

The views of officials at the national level in the government departments responsible for dealing with ERDF matters in certain member states were sought and provided. Less secondary documentation was available at this level (though the recent House of Lords Sub-Committee Report on the ERDF provided a notable and valuable exception).[1] However, this source also furnished details of the Fund's administration in the member states, though more open and illuminating information on the Fund's administration was provided by officials, either employed by regional departments of central government, or by bodies responsible for the economic promotion of a particular region.

Organisation of Thesis

Chapter two of this study will provide a more detailed background to the establishment of the EEC. The Treaty of Rome will be studied, in particular the provisions laid down for the Community's institutions and for relationships between them. A further assessment will also be made of the development of inter-institutional relations, particularly the evolution of the Commission-Council dialogue and the relative rise in importance of bodies such as COREPER, the European Council and the European Parliament.

Chapter three will provide an history of the ERDF's establishment, from the lack of firm commitment for a Community regional policy contained in the Treaty of Rome, through attempts to establish such a policy in the 1960s to the Paris Summit Meeting of 1972 and the subsequent Thomson Report on the EEC's regions. The reasons behind the failure to meet the deadline for the Fund's establishment at the end of 1973 (as laid down by the Paris Summit) will also be discussed as will the bargaining and trade-offs which took place before the final agreement was concluded in March 1975.

Chapter four will assess the ERDF's establishment within the framework of the European Community decision-making process using concepts and ideas drawn from previous literature on the Community. For example, consideration will be given to the Commission's behaviour vis à vis the Council, the influence of events external to the immediate forum of discussion, the influence of pressure groups, European and national, and of Trade Unions, Employers' Federations and Local Authorities. The role of the European Parliament in the debate will also be assessed.

Chapter five will provide a survey of the first phase of administration of the ERDF (1975-79). A description will be given of the mechanics laid down for the Fund's operation. The details of the Fund regulation will be assessed, including the eligibility criteria, who was to be responsible for grant applications in member states, who should deal with them in Brussels, who should look after payments and how these should be made. Moreover general problems such as that of additionality will be highlighted. Consideration will also be given to how member states deal with the Fund administration in the UK (North West region), France, Italy, West Germany and Ireland. Again conclusions will be drawn about the characteristics of the decision-making process.

Chapter six assesses the guideline proposals produced by the European Commission for the renewal of the ERDF (June 1977) and the debate which preceded the eventual renewal of the Fund and amendments to the regulation which governs its operation.

The details of the guideline proposals will be described and the nature and implications of the amendments to the Fund regulation suggested by the European Commission will be considered, including an attempt to move towards some measure of coordination of the various Community financial instruments, the Ex-Quota section of the Fund and the new definition of eligibility criteria for infrastructure projects. A survey will be made of the reactions to the Commission's proposals in the Council of Ministers, the member states and the European Parliament. Moreover, the way in which the size of the ERDF became inextricably linked with the Budgetary question and dispute between the Parliament and Council will be considered.

Chapter seven attempts to disentangle the controversy surrounding the renewal of the Fund regulation and of the Fund itself, to analyse the implications of the Ex-Quota section of the Fund for the ERDF's administration and to look at the nature of the final agreement and the debate which preceded it in the context of the concepts and ideas provided by writers on the Community process in general and surveys that have been made of other policy-areas. In particular, the active role and influence of the European Parliament will be considered.

Chapter eight provides an updating of developments in the Fund's administration to mid April 1982, including the inspection of projects receiving finance from the ERDF and publicity provided in the EEC regions for projects benefitting from Fund aid, the drafting of regulations for five pilot projects proposed for the Ex-Quota section and the consequences of Greek entry for the ERDF. Again the European Parliament's role will be the focus of attention, in particular its rejection of the 1980 Budget and the issue made of totals set for the ERDF by the Council in the non-obligatory section of the budget. Finally the new Commission Guidelines on Regional Policy will be considered as will the proposed amendments to the Fund regulation.

Chapter nine considers the effect of various EEC policies and financial instruments which operate in the less developed regions of the EEC, namely the European Investment Bank (including the New Community Instrument), the operation of the European Coal and Steel Community, the CAP and the Guidance Section of FEOGA, the European Social Fund, Competition Policy and attempts to coordinate the financial mechanisms of the EEC. An attempt will be made to assess the regional impact of these funds and policies and the scale of their activity will be compared with that of the operations of the ERDF.

Chapter ten will draw together conclusions from the issues and debates considered in the previous chapters concerning the ERDF's establishment and administration. Moreover, possible developments in the operation of the ERDF and in the EC regional policy-area in general will be discussed critically. Finally, the theories and concepts used and developed in previous works on the Community will be applied to the issues of the ERDF under discussion in this study.

Review of recent general studies of the European Community

Economic literature on regional problems and policies in the member states has provided background information about the nature and causes of the economic problems in certain Community regions.[2] Arguments and details assimilated from these works will be included in the survey of the ERDF where relevant.

The most detailed account of the European Regional Development Fund's establishment was provided by Ross Talbot[3] during his research in Brussels. The background to the Commission's attempts to establish some kind of regional policy for the Community in the 1960s, and the eventual agreement on the ERDF in March 1975, have been well documented by commentators and the arguments and details put forward will again be highlighted during the course of the study.[4]

Certain authors, for example Roger Morgan and Richard Mayne, have described the historical background to the establishment of the European Coal and Steel Community (ECSC), EURATOM and the European Economic Community (EEC). They are united in the opinion that at the end of the Second World War in 1945, the status of the nation-state in Europe, as a viable and indeed desirable political entity, was at an all-time low ebb. Mayne[5] posed the following questions of the nation-state:

1. Had it satisfied people's economic needs?
2. Had it provided for security against war or conflict?
3. Were the existing political leaders still credible?
4. Were the institutions of the nation-states still intact?
5. Did the state still have moral legitimacy?

He concluded that, in the continental West European states, the answer to all of these questions was in the negative and went on to trace the developments of the 1950s which resulted in the establishment of the ECSC in 1952 and the EEC in 1958. He likened the faltering progress in these years to the 'Echternach Dance': three steps forward and one step backwards!

Numerous other authors such as Palmer, Lambert and Robertson, monitored the moves towards the birth of the EEC in a mainly chronological, descriptive way,[6] which concentrated on the extent of pro-European feeling amongst certain leading European politicians of the time such as Jean Monnet, Robert Schuman and Konrad Adenauer. Additionally, episodes such as the failure of the Pleven Plan to set up a European Defence Community in 1954 in response to the Cold War[7] and the influence of the Americans on European integration[8] are well documented, as are comparisons between the path taken by the Six towards the establishment of the EEC and that taken by the Seven towards the setting up of the European Free Trade Association (EFTA).[9] Comparisons were also made between the institutions of the EEC and those of the Council of Europe.[19]

Chapter two of this study looks in detail at the institutional background of the European Community. Therefore, it is not appropriate to dwell upon the topic at great length at this point. Nevertheless an assessment will be made of three main streams of literature on the European Community and its activities.

Review of the change in the institutional balance of the EC

Authors such as Roy Pryce and David Coombes have assessed the institutions of the European Communities and their relationship with one another in a chronological manner. The starting point is the Treaty of Rome and the provisions laid down for the mechanics of decision-making and the development of this process was followed and analysed. Particular emphasis was placed, in the early years, on the

Council-Commission relationship as this represented the focal point of the national versus the supranational debate.[11]

Following the 'crise de la chaise vide'[12] in 1965, when General de Gaulle effectively halted French participation in the European Community for several months over the suggested linking of majority voting in the Council of Ministers, increased budgetary powers for the European Parliament and proposals for financing the Common Agricultural Policy (CAP), it was generally accepted by informed observers such as Karlheinz Neunreither[13] that an end had been put to any pretensions that the Commission had to becoming a supranational, federal executive. The trend was now to consider the Commission's role as becoming progressively more bureaucratic as the affairs with which the EEC was dealing became more complex and as the specific mandate for progress laid down in the Treaty of Rome, such as the setting up of the CAP, the Common External Tariff and the Customs Union, was fulfilled. Dahrendorf commented:[14]

> As Europe gains in importance, so the Commission proportionally seems to decline in stature. The fiction of an uncontrolled European government free from national direction as well as parliamentary doubts, was bearable to member states, so long as only very little was to be decided at the European level. As European matters became proportionally more important to member states, so they proportionately withdrew these matters from the Commission or immediately dealt with them elsewhere.

As the affairs of the European Communities grew more detailed and complex, so the relative roles and importance of the institutions changed; academic observers such as Fitzmaurice, Herman and Lodge began to concentrate more on bodies such as the Committee of Permanent Representatives (COREPER)[15] and the European Parliament, particularly with the prospect and eventuality of direct elections,[16] and upon the role played by pressure groups in the Community.[17] Thus it was recognised that the idea of a Commission forwarding ambitious European proposals and a Council being pressed to accept them by supranational forces no longer described adequately the European Community process. A much more intricate and complicated system was evolving, which involved inputs of pressure and resistance from many quarters: the Commission-Council dialogue was merely the tip of a large iceberg.

Wallace, Niblock and others have also concentrated on the measures that had been taken in the member states, by governments, to deal with the increased output of decisions and regulations from Brussels and on the way in which national parliaments were dealing with Community affairs.[18]

The 1969 Hague Summit brought a new initiative for European integration: Economic and Monetary Union by 1980, embodied in the Werner Plan. The failure to make much progress in this direction, which led to the abandonment of the Werner Plan, along with the issue of enlargement of the Communities to include the UK,[19] Ireland and Denmark and the consequences of the Yom Kippur war in 1973 and the energy crisis, were the objects of much attention, including a report by Leo Tindemans (former Belgian Prime Minister) commissioned by the Paris Summit of 1974, on the 'State of European Union'.

The evolution of summit meetings of Heads of State and Government into three-monthly meetings known as European Council meetings and the role of the EEC presidency were also developments which were seen to be significant.[20]

During the 1960s and early 1970s, several works were produced on individual policy-areas of the European Community, notably those under the aegis of the PEP/Chatham House series, some of which have already been cited. These works studied areas such as the CAP, transport policy, regional policy and external relations. More recently several authors like Lucas and Drew have attempted to assess a policy-area against a background of the nature and evolution of the Community institutions and decision-making process.[21] With increased attention being placed upon the budgetary problems of the European Community and the efforts being made by the European Parliament to increase its role in the Community budgetary process and the decision-making process in general, an assessment of the finances of the European Communities has been made by Helen Wallace.[22] Moreover with talk of a need to reform the CAP and to cut back the high proportion of the Community budget committed to agriculture, a reappraisal of the CAP has been carried out by Marsh and Swanney.[23] and others ?

Application of the tools of integration theory to the European Community

The second stream of literature on the European Communities has been provided largely by American political scientists and concerns the application of the tools of integration theory to the European Community. The theories and concepts that have been forwarded by these authors needed to be appreciated and understood before a decision could be taken upon the appropriate research methodology for the purposes of this study.

It is impossible to provide one overarching framework to discuss the writings of theorists on integration in the European context since the concept of integration means a different thing to all men. Pentland has provided a lowest common denominator definition which strives to incorporate the many views held on the subject.[24]

International political integration is 'a process whereby a group of people, organised originally into two or more independent nation-states, come to constitute a political whole, which can in some sense be described as a Community.' However two major questions arise from this definition concerning firstly the dynamics of the integration process itself and secondly regarding the nature of the political whole or Community envisaged as the outcome of the integrative process. The views forwarded by theorists can be categorised into those which lay stress on the indirect socio-economic and technical variables as constituting the motivating force behind integration and those which consider direct political variables to be of prime importance. Furthermore a distinction can be made between those theorists who see a state model as the end product of integration and those who envisage the development of a Community model.

Functionalist and neofunctionalist theories of integration consider economic and technological factors to be of prime importance in the integration process.

David Mitrany, the major proponent of the functionalist approach,[25] saw the concept of the nation-state as the main danger to World peace and regarded the development of international organisations performing human welfare tasks as a means of eroding popular support for the nation-state, thus diminishing the risk of war. It was perceived that in the modern political system there was a growing range of technical, politically neutral functions which governments had to perform, for example the control of air transport, of disease - and many of these could not be carried out effectively at the national level, rather they required international collaboration. Mitrany stated that the functional approach: 'seeks, by linking authority to a specific activity, to break away from the traditional link between authority and definite territory'.[26]

Functionalists emphasised that their ideas on the integration process were non-political and that their strategy was to encourage governments to entrust the performance of technical tasks to non-political experts within the framework of an international organisation. If tasks were carried out successfully, then governments might be encouraged to permit similar collaborative attempts in other fields and in addition general public support for such international collaboration would be increased. In this way a transnational web of international welfare organisations would gradually be created and nationalism would be replaced by allegiance to the World Community - a process which Mitrany called 'federalism by instalments'. Nevertheless, Mitrany was against a supranational European Union because: 'experience suggests that such aggregations would be flushed with a new sense of power, and they would be provided with a greater ability to use it'.[27]

The main neofunctionalist criticism of functionalism is that welfare tasks involve the allocation of scarce resources between competing demands and that this process is a political one involving the exercise of power; power being thus inseparable from welfare. By contrast, the neofunctionalist argument follows the line that political integration comes about less through pressures arising from functional needs or technological change as such, and more through the interaction of political forces, interest groups, parties, governments and international agencies seeking to exploit these pressures in pursuit of their <u>own</u> interests. Thus neofunctionalists broke with the monolithic view of the nation-state and perceived it as a complex of interests and issue-areas, some of which have more implications than others. Haas, a major proponent of the neofunctionalist view, described integration as resulting from: 'An institutionalised pattern of interest politics, played out within existing international organisations'.[28]

The concept of spillover is central to the neofunctionalist argument and Ernst Haas[29] saw the integration process as involving the 'gradual politicization' of the actors' purposes which were initially considered 'technical' or 'non-controversial'. The group of national actors, having decided to collaborate at the international level to further their individual and collective interest in the performance of some technical function, would then discover that the fulfilment of the original purpose depends on a widening of the range of means available to them.

If an agreement is to be reached to broaden the spectrum of cooperation, this will increase the 'controversial component' - that is the field of action requiring political choices to be made about the amount of national autonomy to be delegated to the international organisation. If such politicisation is successful and the national actors perceive their interest to be best served by delegation of national decision-making powers to the new supranational body in one field, then it is likely that they will apply the lesson to integration attempts in other areas. In this way, political loyalties following in the wake of economic interests gradually attach themselves to the new supranational entities.

Thus the neofunctionalists see integration on the systems level as the actual process of change from a rudimentary international political interdependence, by means of creating common institutions, to a 'developed' supranational political system characterised by a high degree of common authoritative decision-making.

The consensus amongst neofunctionalists is that the economic sector provides the most appropriate functional area to start the integration process of spillover, and that this process is most likely to occur in an international system characterised by a strong system-wide political and bureaucratic élite, by complex, interdependent socio-economic structures, a stable ideological and cultural consensus and by some commitment on the part of its members to common, long-term goals.

Lindberg,[30] himself a neofunctionalist, defined political integration as:

> ... the emergence or creation over time of collective decision-making processes - i.e. political institutions to which governments delegate decision-making authority, and/or through which they decide jointly via more familiar intergovernmental negotiation.[31]

Together with Scheingold he made an attempt to plot the future course of European integration; using concepts such as spillover, spillback, forward linkages, side-payments and output-failure, the Community's political system was assessed by looking at the policy areas of agriculture and transport, the former being 'a story of action and success' and the latter 'a story of inaction and failure'.[32] The authors also analysed the achievement of the customs union and activities in the coal sector as well as the unsuccessful British attempts to join the European Communities in the 1960s.

Haas, having laid down his theories about the gradual and incremental integration process at work in Europe in the early 1960s, was overtaken by events in 1965 when de Gaulle threatened to pull France out of the EEC over arguments concerning the CAP and other adjoining Commission proposals. Haas recognised that there were built-in limits to pragmatic interest politics concerned with economic welfare, that pragmatic interests, simply because they are pragmatic and not reinforced with deep, ideological or philosophical commitment, are ephemeral. Thus[33] he concluded that a political process built on such interests is bound to be a frail process, susceptible to reverse, with integration capable of developing into disintegration.

It also became clear that the notion of spillover had economic limitations in Western Europe. Hansen[34] pointed out that economic developments in the EEC have shown that the Common Market operates so as to produce major economic gains without moving from a customs union to a political union. He distinguished between negative and positive integration. Negative integration comprised: 'The removal of discrimination as between economic agents of the member countries'. Positive integration he defined as: 'the formulation and application of coordinated and common policies on a sufficient scale to ensure that major economic and welfare objectives are fulfilled'. Despite removal of trade tariffs, the achievement of a customs union and a common external tariff, even in the sphere of negative integration, he pointed out that it can still not be said that integration is complete. For example there are still problems of harmonising professional qualifications. Moreover, in terms of non-tariff barriers to trade, it can still not be said that no member state discriminates in favour of economic agents from among its own nationals and against those from other Community countries. Economists such as Krause have made statements on economic integration with implications for the logic of spillover. The latter said:[35]

> Economic integration requires coordination of many economic policies and this involves essentially political decisions, but formal political institutions may not be needed to bring this about.

He added:

> What is certain is that political integration will occur only as a result of a positive political decision to bring it about, not as a result of economic pressures alone.

Haas[36] eventually concluded that theories on regional integration were becoming obsolete. He admitted that theories describing, explaining and predicting the course of regional integration had a tendency to predict events inaccurately and considered the amendment or formulation of better theories not to be worthwhile. The major reason for his final conclusion on European integration lay in what he termed 'turbulent forces', which he claimed were at work in the EC. He defined turbulence as a policy space in which confusion about trade-offs etc. dominates discussion and negotiation. In such a policy space, according to Haas, it is very difficult for organisational actors to develop stable expectations of mutual behaviour and performance. Moreover he claimed that, if one is unsure of one's own goals, then it becomes hard to adjust one's behaviour to the goals of negotiating partners who are no more certain of their objectives. Thus it had, according to Haas, become impossible to describe, explain or predict the European integration process using the neofunctionalist concepts of regional integration, although their inherent ideas were still useful for analyses of the European Community.

Whereas neofunctionalist theories have been amended to take account of events and changes in the European Community, federalist concepts have remained constant. The Founding Fathers of the Communities, supported by many former resistance workers from the Second World War, dreamt of the creation of a kind of United States of Europe with the Commission acting as a supranational executive in the political system. Thus the federalist strategy entailed a decisive act of collective political will by the governing élites of the various West European states.

Central to the federalist approach to integration is the primacy of politics but also the notion that political consensus does not depend for its success upon the prior resolution of social and economic differences; the nation-state should be accepted as a 'political given' to be accommodated rather than abolished or circumvented in any scheme to reorganise World politics.

Advocates of a European federation see the coming into being of a constitutional arrangement of supranationalism as balancing the advantage of size and uniformity with those of smallness and diversity, and as providing the twin criteria of efficiency in the central bodies and democracy in the decentralised activities.

Three events in 1952 formed what was termed by Spinelli as 'Europe's federalist phase'.[37] At this time it seemed possible that federalism might be brought about by a piece-meal strategy, starting with the establishment of the ECSC and then with the European Defence Community (EDC) and European Political Community (EPC). However, the failure of the EDC and EPC marked the end of Spinelli's federalist phase and showed that if there existed a common political will in Europe, it was to maintain the existing framework of national governments rather than to create supranational institutions. More recently the same author has claimed that the EC is suffering from an institutional disease, namely the Council of Ministers' increasing laxness and paralysis.[38] He maintains that the proof of the viability of the Community system came after the transition period (i.e. after the fulfilment of specific tasks laid down by the Treaty of Rome's mandate). The Council and COREPER, when confronted with new propositions not contained in the Treaty, or contained only in vague terms, had to debate not just on details of a policy but on whether a major proposal should be accepted at all. Spinelli goes on to point out that the Council has developed the Conference of Ministers for political cooperation, the periodic organisation of summits of Heads of State and Government and their institutionalisation in the European Council. The Council, he claims, hoped that this would provide the needed political impulses and global programmes for the various specialised

Councils and for the Community as a whole. This has provoked a worsening of the institutional crisis because of the Council of Ministers' tendency to transfer matters which it has difficulty in agreeing upon to the European Council, which sends back 'worse and empty commentaries with no solutions'.

Spinelli advocates a reform of the Commission and the drafting of a Constitution by the European Parliament to be ratified by the European Parliament and laid before member states. This would be a powerful document, according to Spinelli, since it would have the backing of a body which had been democratically elected by the peoples of the EC.

Some authors have interpreted the European Community decision-making process in an intergovernmental framework. The incompatibility between neofunctionalist ideas and the growing assertiveness of national governments, in addition to failure to make rapid progress in many policy areas, stimulated Hoffman to argue that national governments are anything other than obsolete.[39] The views of Ralf Dahrendorf have also been mentioned earlier in the chapter.

Hoffman considers that national governments are the central actors in any process of international cooperation. According to his analysis, the EC may successfully create common procedures for resolving low key issues between states but it has made no impression on issues and areas of diplomacy and strategy where governments jealously guard their sovereignty. Thus intergovernmentalism rejects the claim that the national political, economic and social systems of the member states are so interdependent and so penetrated by the Communities that governments cease to be sole arbiters of their country's external affairs. Governments carefully aggregate domestic positions at the national level.[40] In this way the Commission is faced: 'not with a flood of separately articulated sub-national demands but with a well constructed dam, with the governments holding the gates between the Commission and their domestic politics'.[41]

Thus the institutional evolution of the Communities has strengthened the role of national governments in the decision-making process; the Commission-Council dialogue has been surrounded by a range of intergovernmental Committees under the overall control of COREPER and the Council which tend to squash ambitious Commission proposals. Most officials working in committees under the Council are instructed by their governments and cannot depart significantly from their brief. 'The process increasingly resembles a type of zero sum game with governments inclining to the definition of their positions in rigid terms'.[42]

Thus when an issue is seen as vital by a government it will seek to prepare its internal position so as to leave no gaps which could be exploited and it will strive to settle any inter-departmental or interest group conflict at the national level. Also governments will try to make certain that their interest is stubbornly defended in the policy formation stage between national representatives and the Commission and in the discussion stage in COREPER. Moreover, governments may enter into bilateral discussions with another government in order to strengthen its position.

Stanley Hoffman[43] distinguished between 'High Politics' and 'Low Politics'. He used this as an argument against the neofunctionalist view that integration would spillover from the technical, functional areas, where little political conflict was stimulated, (low politics) into the more politically charged spheres such as foreign policy and defence (high politics). Hoffman claimed that this spillover effect would not take place and gave as evidence the jealously guarded national positions of most member states. Whilst this point may be a valid one, it is important to guard against the over-simplification of the process implicit in this distinction between high and low politics since political arguments, impasses and compromises have characterised many debates in supposedly low political areas such as transport or industrial policy.

Ideas on the European Community classed as transnationalist take the view that nation-states remain important but have to share the international arena with multinational corporations, transnational pressure groups, international organisations and 'trans-governmental' bureaucratic alliances.[44]

The development of transnationalist perspectives stems from the view that increased economic and technological interdependence of the World, plus the increased level of global communication, transport, movement of finance and people, has 'increased the sensitivities of societies to one another and thereby altered the relationship between governments'.[45] Hence governments must increasingly modify their policy formation to take account of the views held in other states. '... This may ... create opportunities for international organisations to play significant roles'.[46]

Keohane and Nye have distinguished two areas of transnational activity at work in the European Community; firstly the formation of transnational, non-governmental alliances amongst interest groups, whose sectional interests attract them to similar groups in other member states and with whom they can identify more easily than with rival interests in their own country. Examples of this type can be found in COPA,[47] which brings farmers together, UNICE, the industrialists' transnational federation, COMITEXTIL, the European organisation of textile producers, and the European Trade Unions.

The second form of transnational activity is that which brings sub-units of member state governments into transnational coalitions against their Cabinets at home in the domestic capitals. For example, national agricultural officials try to maximise their efforts to resist the attempts of their national treasuries to limit expenditure by holding down prices or by pressing for reforms in the CAP. Naturally, the degree to which transnational coalitions are successful will depend on an awareness of common goals and a mutual sense of being disadvantaged by the national systems.

A transnational interpretation of the Community process suggests that national officials working in the network of Committees in the Community under COREPER are to a certain extent inescapably influenced, by regular contact and communication with officials of the member states, to modify their views. Despite pressure from the member governments to prevent a loss of control over the views of these officials, transnationalists would argue that it is impossible for these efforts to be wholly successful because of the communication required by increased economic interdependence in the EC.

> Individual governments are no longer able to act as coordinators in sectors such as agriculture where the administrative centre has shifted to Brussels, or in managing the operation of common rules for competition throughout the EC. In these policy sectors the Commission is able to place itself at the centre of an increasingly complex communications network with governments being able to monitor only a limited area.[48]

Thus transnationalism implies growing decentralisation with national governments losing power, but without that power accumulating in the hands of international organisations, or for that matter in any one place. Moreover, it is dependent upon the existence of a network of transnational relations and on the presence of government or non government groups which are sufficiently motivated and capable of applying pressure upon member state governments.

A different view of integration is taken by authors who assess the European Community in a pluralist framework. According to Deutsch,[49] what is essential for integration is not a particular kind of formal institutional change, but the attainment of peace and security in the international system. He defines integration as:

> attainment within a territory of a sense of Community, and of institutions and practices strong enough and widespread enough to assure for a long time, dependable expectations of peaceful change among its population.[50]

Thus the key to improving the system must be sought in quantitative and qualitative changes in the interactions and communications between a Community's units. Thus integration involves the end, not of the states, but of the 'state of war' among them, the process therefore involving what Deutsch calls a development of 'we-feeling' or a sense of common-culture based on intense interactions and communications between all levels of societies in question.

The pluralists would advocate the examination of regions such as Western Europe in order to see if there existed the sort of 'core-area' around which a process similar to the growth of nations could occur. This would be judged by such methods as mapping out the intensity of communications by mail between member states of the European Communities - the greater the volume and frequency of communications and interactions between states, the more salient each is to the other. (A highly questionable measurement since increased mailflow between firms in member states could imply increased problems!) The more aware each member state becomes of the others' actions and interests, the more that transactions are seen by each state as beneficial, then the more its relations with the others gain in trust and confidence. In this way, economic integration, which is stressed by neofunctionalists as the key to political union, is judged by pluralists to be effective in so far as it has a favourable influence on communication flows and hence on mutual images.

In short, for pluralists, the progress of integration depends primarily on the nature, perceptions and actions of policy-makers in the states in the system; and according to these theorists the growth of a Community of states is potentially limited not only by political will and capacities of national governments, but by a significant and persistent core of national identity in each state, in whose service governments may feel obliged to act in ways which prove unproductive for integration.

<u>The comparative case study approach</u>

Two major works have been produced which have studied the workings of the Community institutions in a comparative manner by looking at different issues and policy-areas and their characteristics. Goldstone-Rosenthal[51] surveyed the role of the European Commission by way of taking five case studies and using three different approaches to her case studies:

1. intergovernmental;
2. grass-roots, interest groups and Parliamentary pressures;
3. élite networks.

Thus she was provided with fifteen 'conceptual lenses' through which to assess the decision-making process. She concluded from her findings that there was not just one but many different processes of decision-making at work in the EC and subseqently there was not just one method but many different ones of influencing decisions. Rosenthal found that inter alia personalities, national and European interest groups, small groups within the Commission and the timing of proposals all played a prime role in the functioning of the Commission, facts which have been glossed over in most of the literature on the body.

A second volume of case studies was produced by Wallace, Wallace and Webb,[52] again with the aim of plugging the gap in literature left by generalisations about the Community procedure. Having introduced the various theories and concepts that have been applied to analyses of the European Community, the authors of the case studies use these tools to assess various policy-areas before trying to come to general conclusions about which model of integration is most apt to describe the functioning of the Community. They end by stating:

> Our own conclusion is that it is mistaken to look for a single theory or model to describe the complex and varied reality of politics within the Community framework. No single model, after all, can encompass the full complexity of domestic politics within developed societies.[53]

Thus it was important to analyse the mainstreams of literature on the European Community, and in particular the application of different integration theories to the decision-making process, in conjunction with the research for this study. It has been shown that it is no longer sufficient to consider the Commission-Council dialogue. Other bodies must be considered as they have progressively increased in importance in the decision-making process, such as the European Parliament, COREPER, the European Council and the Council Presidency. Also consideration of Community affairs at the national level is significant. Furthermore, no single theory of European integration is applicable to every policy-area in the European Community, and as one author has pointed out: 'The rather uneven pattern and balance-sheet of integration in the EC over the last ten years, make generalizations about its overall policy-making capacity extremely difficult'.[54]

Theorists have recognised the short-comings of their own predictions and explanations of European integration; nevertheless, each theory has provided a framework against which issues and debates in any one Community policy-area can be assessed. Indeed this has been attempted in the case studies cited above.

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CHAPTER TWO : INSTITUTIONAL BACKGROUND

In Chapter one, the development of the Community decision-making process was described, as were the concepts considered important by theorists for European integration. The conclusion was drawn that, despite it being unwise to generalise, the trend has been towards increased intergovernmentalism. Certainly it is no longer satisfactory to look at the decision-making process as a single Council-Commission dialogue: a much more intricate and complicated system has evolved and the Council-Commission relationship is merely the tip of a large iceberg.

The aim of this Chapter is to consider more closely the institutional framework of the European Community, as provided by the Treaty of Rome, and the increased significance of certain bodies, either considered in the early years to be on the fringe of the decision-making process or not even recognised by the original Treaties. Only then will an adequate background have been provided for an assessment to be made of the issues surrounding the debates of the ERDF and for the application of the ideas of the integration theorists to these issues.

When the European Coal and Steel Community was established by the Treaty of Paris (18th April 1951), the desire was totally to integrate the key industries of coal and steel of the six participant nations (France, West Germany, the Benelux countries and Italy) so as to render war between France and West Germany an impossibility in the future:

> Europe will not be made all at once or according to a single general plan. It will be built through concrete achievements which first create a de facto solidarity ... The pooling of coal and steel production will immediately provide for the setting up

> of common bases for economic development as a first step in the federation of Europe.[1]

Within the framework of the European Coal and Steel Community an independent High Authority (the equivalent of the EEC Commission) was granted wide-ranging powers of decision over the affairs of the Coal and Steel industries of the six member states. This could have been seen as the first step (in neofunctionalist terms) along the piecemeal path towards economic and political integration, with a gradual spillover to other, more sensitive areas of government, coupled with more wide-ranging powers being granted to an independent European body, such as the High Authority.

Nevertheless, with the failure in 1954 of attempts to establish a European Defence Community, immediate hopes for a European Political Community were defeated. In 1955 following a conference at Messina, moves were made towards establishing the EEC and Euratom, the former organisation to involve the setting up of a Customs Union among the six and an eventual economic union.

Thus the Treaties of Rome (25th March 1957) established the European Economic Community along with EURATOM, a new organisation set up to develop peaceful uses for atomic energy.

Despite the fact that the system of grants and loans under the ECSC has had considerable regional implications, owing to the geographical concentration of the Coal and Steel industries, (see Chapter nine of this study), it is on the institutions and decision-making process of the EEC that most of this study concentrates since it is the Treaty of Rome and subsequent regulations agreed upon by the EEC's institutions which govern the operations of the ERDF.

The Treaty of Rome provides for a dialogue between the European Commission and the Council of Ministers, with the European Parliament (or Assembly) and the Economic and Social Committee being granted a subsidiary advisory role, with the power to pass non-binding decisions, opinions and resolutions on EEC matters.[2] The Court of Justice was given the task of ensuring that: 'in the interpretation and application of this Treaty, the law is observed' (Art. 164, Treaty of Rome). Additionally, interest groups (at the European, national and local level), independent experts, individual industries and professions act as subsidiary arms of the decision-making process, also providing information, opinions and resolutions on the Commission's draft proposals.

The Commission[3] was given responsibility by the Treaty of Rome for initiating proposals. It was also given the task of acting as 'the conscience of the Community', a task involving 'filling out' the provisions of the Treaty, constantly reminding the other Community institutions of fundamental objectives and suggesting new paths to follow. Moreover, the Commission was given the function of acting as the 'Guardian of the Treaty' in so far as it must ensure that the Treaty provisions and the rules laid down by the Community institutions, in accordance with it, are correctly observed.

Coombes lists the Commission's formal powers under four main headings, the first two being: initiative and normative (which includes the functions of 'Guardian of the Treaty' and the 'conscience of the Community'). Theoretically, such powers cast the Commission in the role of potential political leader of the Community, in contrast to Coombes's final two headings: administrative (the mechanical activity of implementing the Treaty provisions and issuing regulations) and mediative function (the need to bring about agreement between member states).

Thus the Treaty of Rome provided the Commission with a hybrid mantle, embracing both goal-setting, political leadership roles and bureaucratic, implementative functions within its terms of reference.

The Treaty of Rome provided for a Commission of nine (which became fourteen in 1967 after the merger of the executives of the ECSC, Euratom and EEC, and then thirteen when the UK, Ireland and Denmark joined the Community in 1973[4]). There are now two Commissioners from each of West Germany, France, Italy and the United Kingdom and one each from the five small member states.[5] The Commissioners are appointed by the governments of the member states for a renewable term of four years. The Treaty states that they should be chosen for 'general competence' and that they should take an oath of independence from the national governments. Commissioners are also required to act in: 'the general interests of the Community' and at the same time member states must undertake not to seek to influence Commission members.

The Commission represents the Community at the European Parliament to which it is responsible - (the Parliament, by a two-thirds majority, in a censure motion, can force the Commission to resign en bloc). The Commission also represents the Community in negotiations and relations with third countries and international organisations and has the duty of publishing annual reports on the Community's activities.[6] The Commission has no powers in the field of foreign affairs or defence and has no right to the use of force, internally or externally. Nevertheless, recourse can be had to the European Court of Justice.[7] It should also be noted that Commission members are not bound together by adherence to any common mandate other than their oath of independence, and are appointed by nine[8] different governments collectively. This factor has contributed to the compartmentalisation of the Commission, with communication and cooperation between Directorates General sometimes difficult, especially given the fact that nine civil service traditions and six different languages and ways of thinking are present in the Commission (seven now that Greece has become a Community language and Greek officials have been recruited to the Commission's ranks).

In the higher levels of the Commission's echelons there have always been battles over the allocation of portfolios to different nationalities at the beginning of the four year term of office, with much political weight being placed on the appointment of Commissioners to certain DGs, such as agriculture and industry.[9]

A national quota system operates for appointing Commission staff which makes a nonsense of the original aim of recruiting people with a firm commitment to the European idea.[10] Thus each member state is represented by at least one man on the College of Commissioners and each member state has a claim on a percentage of positions at the lower level of the hierarchy. The existence of this system places strong constraints on the staffing of the administration, a problem which is further complicated by attempts made to appoint officials of different nationalities to vertically adjacent ranks, particularly in the higher echelons.[11]

The practice, especially among the French, of seconding national civil servants to the Commission for a limited period of time, has hindered efforts to develop an independent body with a degree of self-identification. Indeed, despite the supposed oath of independence, one German author provides an example of Helmut Schmidt sending a letter: to '... all officials and employees in Brussels, wishing them every success for their important work in the service of the BRD'.[12]

The Council-Commission dialogue is summed up by the maxim that 'the Commission proposes and the Council disposes'. In other words, the Council acts upon the Commission's proposals. The Council of

Ministers is composed of delegated Ministers from within the member states' governments, the composition varying according to the subject under discussion, but with Foreign, Finance and Agricultural Ministers playing key roles.

The Treaties of Rome do not set out a general definition of the Council's powers: Article 145 states that: 'in accordance with the provisions of this Treaty, ... it shall ensure coordination of general economic policies of the member states' and '... have power to take decisions'. Certain Chapters of the Treaty, such as those dealing with agriculture, the right of establishment or transport, lay down that it is the Council which shall take the significant decisions. They also specify the way in which these decisions shall be taken: by qualified or[13] majority voting. (The issue of majority voting will be considered later in the Chapter.)

Certain developments in the Council's structure and operation since 1965 have strengthened its position vis à vis the Commission and have also posed questions as to the democratic accountability of the Council of Ministers. The outcome of the Luxembourg crisis agreement following the crise de la chaise vide[14] was that majority voting was effectively replaced by the need to search for unanimity in the Council before important decisions can be taken. This in turn has encouraged the Commission to take full account of the interests of all member states when drawing up proposals, rather than filing ambitious suggestions.

This need for unanimous decisions has obviously placed the Council under increased pressure to complete its work-load, and this, coupled with the rise in the number of decisions to be taken (as the Community completed the transition stage to a Customs Union in 1965 and became involved in decision-making in more policy-areas) has led to the increased role and significance of COREPER.

In 1965, the Council's administrative sub-structure COREPER was recognised for the first time by the Merger Treaty.[15] COREPER's task is to prepare Council decisions and to act as a link between national governments and the Commission. All decisions are officially taken at the ministerial level. Nevertheless, procedural or highly technical matters, which have been agreed between the permanent representatives, following the meetings of national experts, figure in a list submitted for formal approval at each 'Council' session. (These are referred to as 'A' points.) All other questions are debated by the ministers themselves. ('B' points.)

The Communiqué of the Paris Summit of December 1974 stated: '... greater latitude will be given to the Permanent Representatives so that only the most important political problems need to be discussed in the Council'.[16] Bieber and Palmer commented that this might give the impression that the heads of government wish to increase the efficiency of the decision-making process. But article four of the Merger Treaty of 1965 stated that COREPER was instructed to implement the tasks given to it by the Council of Ministers. Thus, according to these two authors, a great deal 'of completely undefined power has been handed over to the permanent representatives'.[17]

The original function of the President was seen as that of a chairman, with the job of convening meetings, preparing agenda and other such technical duties. The office of President is held in six-monthly rotations by the ministers of the member states.

In recent years, and notably because of the increase in the Council's power vis à vis the Commission, the President has gained in importance. The President, especially if he represents one of the small member states, enjoys a position of unprecedented status in international affairs, meeting and receiving in his capital, government heads and representatives from the major World powers, and negotiating on an equal footing with them, during his six months in office.

The role of the President has also become more significant with the increased number of meetings of representatives of member states to deal with highly political and contentious issues outside the formal structure of the Community institutions. These include the growth of summitry and its evolution and effective[18] institutionalisation into the European Council (though there is no Treaty provision for such a development), the regular meeting of Finance Ministers and the evolution of the political cooperation network.[19] The President has increasingly to carry out the task of coordinating Council of Ministers and European Council initiatives and has to act as mediator in discussions (both, according to the Treaties of Rome, functions to be carried out by the Commission).

One of the reasons behind the increasingly important role of European Councils of Heads of State and Government is the same increased pressure on the Council of Ministers to achieve unanimous decisions that led to the establishment of COREPER. Whereas COREPER deals with uncontroversial, technical matters, the Council of Ministers tends to pass problematic issues, on which agreement is proving difficult, up to the European Council, in search of a statement of intent or a settlement of the problem. Thus the European Council has increasingly tended to give a binding character to agreements reached between Heads of Government. For example the decisions taken at the Paris Summits of 1972 and 1974 to create and then to activate the Regional Fund, which under the Treaties should have been taken by the Council (see Chapter three).

The role of the European Parliament, on the other hand, is outlined in the most general way by Article 137 of the Treaty of Rome: 'The Assembly,[20] which shall consist of representatives of the peoples of the states brought together in the Community, shall exercise the advisory and supervisory powers which are conferred upon it by this Treaty'. Thus the main function of the European Parliament involves a consultative role in legislation; Article 149 of the Treaty of Rome permits the Commission to alter its original proposal on the basis of the European Parliament's opinion, if the Council has not yet made a decision. However, except for budgetary matters, the Treaties do not oblige the Commission to amend draft legislation in the sense indicated by the European Parliament and furthermore amendments made by the Commission to its original proposals in the light of consultation with the Council, do not have to be submitted to the Parliament (though they often are if they involve substantial changes). One author[21] demonstrated that the Parliament gave opinions on 246 Commission proposals, suggesting modifications in 61 cases. The Commission accepted 32 of the modifications (52%). In the first eleven months of 1977, the Parliament gave 273 opinions on Commission proposals. It suggested 44 modifications and the Commission accepted 30 (68%).

The most important weakness in the European Parliament's consultative function is that there is no obligation upon the Council to amend legislation in conformity with Parliament's opinion (except for the establishment of the non-obligatory section of the Community Budget - see below). The Council does not even have to explain why it has not taken account of the European Parliament's suggested amendments. Moreover, as more and more Community decisions come to be taken by COREPER (see below), or to be the result of the initiatives of the European Council, over which Parliament has no control, the consultative role seems even less significant. The European Parliament's powers of control have been described by one commentator as: 'truly modest'.[22] The Parliament does have the right to recommend action or policies on its own initiative, again, however, with no guarantee of acceptance by the Commission or more significantly the Council of Ministers.

The European Parliament has the power to pass a censure motion to dismiss the European Commission.[23] Nevertheless, no power is accorded for participation by the Parliament in the appointment of the next Commission. The Parliament has threatened on four occasions, but has never yet carried a censure motion against the Commission.

The European Parliament has the right to discuss the Commission's annual report and to table questions both to the Council and the Commission, in the form of oral questions, oral questions with debate and written questions.

In conclusion, the European Parliament does not play a legislative role in the Community decision-making process. Except with regard to a relatively small part of the Budget, the Parliament does not make or enforce laws, it merely has the power to approve or criticise them; it cannot initiate and pass binding acts of Parliament.

There have been suggestions for increasing the powers of the European Parliament vis à vis the other institutions including the Vedel Report on the enlargement of the powers of the European Parliament.[24] This report proposed a scheme whereby Parliament's powers would be increased in two stages; in the first stage, the Parliament was to be given powers of veto (described in the report as 'co-decision') over a limited range of subjects, and powers of delay (described as 'suspensory veto' over a wider range. In the second stage, Parliament's suspensive powers over the latter class of subjects were to be raised to a power of co-decision.

The Vedel Committee thought that in the first stage, Parliament should be given powers of co-decision only over legislation affecting either the Community's relations with other persons in international law, or its own constitution. These included: the revision of the Treaties, admission of new members to the Community, ratification of international agreements concluded by the Community and the interpretation of article 235 of the Rome Treaties which empowers the Council, acting unanimously on a proposal of the Commission, to take 'appropriate measures' to achieve one of the objectives of the Community even if the Treaty has not provided the appropriate powers.

The areas in which Vedel and his colleagues thought that Parliament should have delaying powers in the first stage and powers of co-decision in the second stage, were measures for harmonising national legislation and measures dealing with questions of principle arising out of the common policies which might give rise to harmonisation.

In a draft report[25] for the Political Affairs Committee of the European Parliament in 1975, the late Sir Peter Kirk put forward two proposals which would have taken Parliament some way along the road to the destination set out in the Vedel Report.

Firstly in the legislative field, he proposed that Parliament could be given a power of initiative, analogous to the right of a British MP to bring a Private Member's Bill before Parliament; a Parliamentary Committee would draft legislation, if the Bureau approved, the draft would be voted upon in the plenary session of Parliament. If it was approved at this stage, it would be sent to the Commission and the Commission would submit it to the Council in the usual way. Thereafter, the proposal would follow the normal course of Community legislation.

Kirk's second suggestion was that the 'concertation procedure', which exists in the budgetary sphere (see below), should be extended to all other Community legislation. Moreover, the Council should sit in public when considering Parliament's amendments to Commission proposals.

Despite proposals for increasing the European Parliament's influence in the field of Community legislation and whatever the merit of such suggestions, the Commission and, more important, the Council of Ministers, is unlikely to acquiesce willingly, at least in the short term, to such changes. Moreover, some national parliaments watch jealously to ensure that the European Parliament does not gain power at their expense. For example, in the UK and France, the legislation making it possible to hold direct elections contained explicit provisions to prevent the European Parliament from increasing its powers without the assent of the Westminster Parliament or the National Assembly in Paris.

One author claims that[26] so many decisions are now taken at the Community level by a process which is almost free of any Parliamentary scrutiny or control. He maintains that the only national Parliament which has more than a nominal control over its ministers' activities in the Council of Ministers is the Danish Folketing. Even then the Folketing is powerless to scrutinise them since the Market Relations Committee, which exercises the control function, meets in private and is debarred from divulging its proceedings to the Folketing at large.[27]

Marquand goes on to claim that if the European Parliament were to acquire a say in the activities of the Council and establish a machinery by which some of those activities were opened up to public scrutiny, the quantum of Parliamentary power in the Community would be increased at no cost to the power of any national Parliaments.

In conclusion, whatever the pros and cons of the arguments, the fact is that the European Parliament is unable to express more than a non-binding opinion on Community legislation, with the one exception of the non-obligatory section of the Budget (see below). Thus its legislative powers must be said to be minimal.

A characteristic of most Parliaments is that they represent the people. Indeed Article 138 of the Treaty of Rome states that: 'The Assembly shall draw up proposals for elections by direct universal suffrage in accordance with a uniform procedure in all member states'. In the meantime, however, the Assembly (as it was referred to until 1962) should consist of nominated delegations from the member states' parliaments, designated in accordance with the procedure laid down by each member state.[28] These delegations formed into party groups on a transnational basis. The major groupings consisted of Christian Democrats, Socialists, Liberals and Communists, with some independent members.[29]

The main work of examining proposals is undertaken by the specialised Committees of the European Parliament. The plenary session of Parliament then deliberates on the report of the competent Committee, the Committee having appointed a rapporteur who will have drafted a report as the basis for discussion. The Committee is a microcosm of the political composition of the Parliament in order to ensure that the appropriate breadth of opinion is represented in discussions.

With regard to direct elections, the Assembly moved with due speed to take up the lead provided by Article 138 of the Rome Treaty; in October 1958, its committee on political affairs and institutional questions set up a sub-committee (later to be termed a working party),[30] under the chairmanship of Fernand Dehousse, to study the problem of instituting direct elections. The work was completed in January 1960 and the plenary session of the European Parliament adopted a draft convention in March 1960 for submission to the Council of Ministers for approval.

The convention needed the approval of all member state governments and, following initial resistance by the French Government, the Council consistently refused even to discuss the convention.

However, at a meeting of the European Council in Brussels in July 1976,[31] the governments decided that direct elections should be held to the Parliament in May or June 1978, and that the directly elected Parliament should consist of 410 members[32] (between 1962 and 1973 the European Parliament had 142 members, increased with enlargement to 198). The convention that was approved by the Council in September 1976 (in the form of a 'decision' to adopt an 'Act') was largely founded on a new set of proposals adopted by the European Parliament on the basis of a report written by Mr. Schelto Patijn. Because of delays in ratification and enabling legislation in the member states, direct elections were not held until June 1979. Due to the refusal of the British government to adopt a system of proportional representation for the election, it was not possible to introduce a uniform electoral procedure for 1979 (the first past the post system being used in the UK). Thus it was, for this first election, left to the individual member state to decide upon its voting method. (Apart from in the UK, various kinds of proportional representation systems were used.)[33]

The Patijn Report claimed that direct elections 'would ... lend to the exercise of power by the Communities, a legitimacy which has hitherto been lacking'.[34] The Tindemans Report on European Union (commissioned by the Paris Summit of 1974) in 1975 said that direct elections would 'reinforce the democratic legitimacy of the whole European institutional apparatus'.[35]

Indeed, Parliament has gained legitimacy from direct elections, but the institutions which determine what happens in the Community: the Commission and the Council, are unaffected.

> Direct elections will make a difference to the process of integration and to the legitimacy of the Community, as such, only if Parliament's new weight can somehow be brought to bear in favour of integration and against the resistance of the national institutions whose positions are threatened by integration.[36]

There is no guarantee that this will happen, and it could only happen if the present institutional structure was radically changed.

One area over which the European Parliament does have some power in the Community decision-making process is the Community Budget.[37]

The Community budgetary procedure is governed by Article 203 of the EEC Treaty which has been significantly changed by the Budget Treaties of April 1970 and July 1975.

The 1970 Treaty agreed in Luxembourg[38] established the Community system of own resources.[39] Thereafter, Parliament had the right to suggest alterations to the draft budget, either as amendments in the case of non-compulsory expenditure,[40] or as modifications in the case of compulsory expenditure. It also compelled Council to take a formal decision on the points made by the Parliament and to enter into a dialogue with it on disputed points through a concertation procedure. Moreover, it was the President of the Assembly who was to declare the adoption of the budget.

A second Amending Treaty on finance was agreed in July 1975;[41] most important, it extended the role of the Parliament and created the Court of Auditors.[42] Parliament was now given increased control over non-obligatory expenditure and accorded the right to reject the budget as a whole. Moreover, a joint declaration of Parliament, the Commission and the Council in March 1975 introduced the Conciliation procedure. Although this is related to the budgetary procedure it is not formally linked to it.

Under the conciliation mechanism,[43] when, concerning a Commission proposal of general application which has 'appreciable financial consequences', there is a conflict between Parliament and the Commission on one side, and Council on the other, the procedure can be activated by either side. It consists of a meeting between nine members of the appropriate specialist Council and a delegation of nine members from the Parliament, led by its president and including the relevant Committee chairman and rapporteur. A maximum of three months is set for agreement. The working of the conciliation procedure gives Parliament an opportunity to arrive at a compromise with the Council and in effect gives it a power of (to use Vedel's terminology) 'suspensive veto' for the length of the procedure. If agreement is reached, a report is drawn up by the committee of Parliament directly concerned and this is adopted as a Parliamentary resolution and accepted by the Council.

Although there is no guarantee of agreement and the last word remains with Council, the conciliation procedure does provide the European Parliament with an opportunity to plead its case to try to convince the Council of the merits of its argument.

The Community budget amounts to 2.5% of total national budgets[44] - about £10 thousand million for 1979. The CAP accounts for over three-quarters of the total expenditure; the rest covers Commission expenditure and all other policies plus repayment to member states of the costs of collection of tariffs and levies on imports from non-

Community countries and the administrative expenses of the Commission and the other institutions. Expenditure of the European Investment Bank, the European Development Fund and the European Coal and Steel Community, are budgeted separately.

Since direct elections in June 1979 the European Parliament has consistently flexed its muscles over the drawing up of the Community Budget.[45] There has been pressure from the Parliament to reduce the budgetary allocation given over to agriculture and to increase non-obligatory expenditure such as on the ERDF. This attitude has provoked major conflicts between the Council of Ministers on the one hand and the European Parliament on the other with the ERDF a key issue in the debate (see below - Chapter eight).

Summary

From the above survey of the EEC's institutions it is obvious that the Community system does not conform with any standard pattern of democratic government; there is no clear distinction between executive, legislative and judiciary; the Court of Justice is given responsibility for ensuring that the law is observed in the interpretation and implementation of the Treaty, but nobody plays a clear legislative role; with the exception of certain budgetary powers the European Parliament has no control over Community affairs and despite providing an air of legitimacy through its direct election in 1979, it exerts no control or influence over delegates of the Council of Ministers. The only control on these delegates is imposed by their own domestic Parliaments.

The European Commission has a mixture of functions, ranging from political executive tasks to administrative functions. It has ultimate responsibility for decisions in some areas of Community policy-making, such as Competition Policy or Agricultural Policy and it also occupies the key legislative role in the Community. Nevertheless, its power and authority in most areas have been eroded by the intergovernmental arm of Community decision-making in the form of COREPER, the Council of Ministers and the European Council.

Thus having provided a background to developments in the European Community in the form of a survey of the institutional interrelationships and the relative powers and functions of the decision-making bodies, and having also analysed the developments in the decision-making process over the last twenty years and the concepts used by theorists to describe, explain and predict the course of European integration, the subsequent chapters of this study will concentrate upon the issues surrounding the establishment and operation of the European Regional Development Fund and seek to apply the aforementioned ideas and trends to these issues.

Notes

1. Robert Schuman - Declaration of 9 May 1950.

2. As will be seen, the European Parliament does have some limited control over the Community Budget which was increased by agreements of 21st April 1970 (O.J.L2, 2nd January 1971) and 22nd July 1975 (O.J.L359, 31st December 1977).

3. Art. 155-163 EEC Treaty of Rome, governed the power and structure of the EEC Commission until 1965, when the EEC Commission, Euratom Commission and the High Authority of the ECSC were merged into one executive by the Merger Treaty (8 April 1965) - Chapter II of this Treaty deals with the Commission.

4. There are now 14 Commissioners: 13 + 1 Greek Commissioner, since Greece joined the European Community on 1st January 1981.

5. Plus one from Greece since 1st January 1981 making 14 in total.

6. Articles 18 and 19 of the Merger Treaty of 1965.

7. The supremacy of Community law over national law was demonstrated in 1969 when the European Court of Justice imposed fines on firms in an analine trust, for operating concerted practices, including ICI, a British firm, before British entry into the EEC - see D. Swann, The Economics of the Common Market, Penguin (1973), p. 65 (revised edition 1981).

8. Ten with Greece.

9. For details see: U. Weinstock and H. Scheuer, Administrative Strukturen der Europäischen Gemeinschaft, Europa Union Verlag (1977).

10. See ibid.

11. Ibid.

12. Quoted in M. von Donat, Brüsseler Machenschaften, Nomos Verlagsgesellschaft, Baden Baden (1976) - letter written 11.10.74.

13. For qualified majority votes in the Council, the votes of member states were weighted as follows (prior to Greek entry): Belgium 5, Denmark 3, Germany 10, France 10, Ireland 3, Italy 10, Luxembourg 2, the Netherlands 5 and UK 10. To take a decision under this procedure, the Council required at least 41 votes in favour when decisions were taken on a proposal by the Commission, and 41 votes in favour cast by at least six member states in certain other cases. (Article 148 of the EEC Treaty.) Since Greek entry into the Community on 1 January 1981 the voting requirements have changed as follows: the Greeks have 5 votes in Council, making the total number of favourable votes required 45 for acceptance of Commission proposals and 45 votes cast by at least six member states in certain other cases.

14. See Chapter one.

15. Merger Treaty of the EEC, Euratom and ECSC - 1965 - Article 4: 'A Committee consisting of the Permanent Representatives of the Member States shall be responsible for preparing the work of the Council and for carrying out the tasks assigned to it by the Council'.

16. Paragraph 7 (Communiqué of the Paris Summit, December 1974) quoted in: R. Bieber and M. Palmer, 'Power at the top - the EC Council in theory and practice', World Today (August 1975).

17. Ibid.

18. At the Paris Summit, December 1974, a direct and constant link was established between Summits and the institutions of the EC.

19. See H. Wallace, 'Holding the Ring: The EEC Presidency', World Today (August 1975).

20. It should be noted that the Treaty refers to 'The Asembly'. In 1962, the Parliament decided that it should be 'the European Parliament', symbolising the wish of the institution to play an active part in the decision-making process and to gain the respect of the other instituions: the French Gaullist members of the European Parliament still term it an 'Assembly'.

21. D. Marquand, *Parliament for Europe*, J. Cape Ltd. (1979).

22. E. Ramussen, *Symposium on the European Parliament and European Integration*, Luxembourg (1974), p. 211.

23. Article 144, Treaty of Rome: '... if the motion of censure is passed by a two-thirds majority of the votes cast, representing a majority of the members of the Assembly, the members of the Commission shall resign as a body'.

24. G. Vedel, 'The Role of the Parliamentary Institution in European Integration', in *Symposium on European Integration and the Future of Parliament in Europe*, Directorate General for Research and Documentation of the European Parliament (eds.), Luxembourg, European Parliament (1975).

25. Draft Report on the powers of the European Parliament, PE 37065/ rev.

26. D. Marquand, *Parliament for Europe*, Cape (1979) in chapter on the institutional imbalances of the EC.

27. For an account of Danish Parliamentary control of Community affairs see: J. Fitzmaurice, 'National Parliaments and European Policy-making: the case of Denmark', *Parliamentary Affairs*, Vol. XXIX, No. 3 (Summer 1976).

28. For details of the structure of the European Parliament and the formation of party groups and specialised groups, see: J. Fitzmaurice, *The Party Groups and the European Parliament*, Saxon House (1975).

29. For the exact distribution of seats between political groups of the European Parliament since direct elections, see: M. Palmer, *The European Parliament: what it is, what it does, how it works*, Pergamon Press (1981).

30. See M. Steed, 'The European Parliament and the Significance of direct elections', *Government and Opposition* (1977).

31. See M. Palmer, ibid, p. 23.

32. Since Greek membership of the EEC the number of MEPs has increased to 434 (with 24 Greeks taking their seats.)

33. Appendix B: R. Jackson and J. Fitzmaurice, The European Parliament: a guide to direct elections, Penguin (1979).

34. Quoted in D. Marquand, Parliament for Europe, Cape (1979), p. 78.

35. Quoted in V. Herman and J. Lodge, The European Parliament and the European Community, Saxon House (1978), p. 75.

36. Ibid, p. 78.

37. For a Community publication providing details of the Budget, see: Purse Strings of Europe, Secretariat of the Parliament's Committee on Budgets, Information Office of the European Parliament (1979).

38. O.J. L2, 2nd January 1971.

39. Initially, the system of financing Community expenditure was by national contributions. This has been replaced progressively since 1970 by a system of self-financing, known as 'own resources'. These are composed of the customs duties provided by the common external tariff and from levies on agricultural imports, together with a percentage (maximum 1%) of VAT. To simplify the calculation of the Community Budget, a European Unit of Account (EUA) is calculated and published daily by the Commission (special rates of exchange are used for agriculture to take account of fluctuating rates of exchange between member states. Hence 'the green pound'.

40. The Community Budget is divided into obligatory expenditure: expenditure emanating directly from Treaty provisions (about 75% of the Budget); and non-obligatory expenditure which relates to expenditure not directly related to Treaty provisions (approximately 25% of the Budget).

41. This had effect from 1st June 1977 - O.J. L359, 31st December 1977.

42. The Court of Auditors started work in 1977 and is charged with examining 'the accounts of all revenue and expenditure of the Community' and with examining 'whether all revenue has been received and all expenditure incurred in a lawful and regular manner and whether the financial management has been sound'.

43. See M. Palmer, op. cit., p. 42.

For a discussion of the procedure, see: J. Forman, 'The Conciliation procedure', Common Market Law Review (16th February 1979), pp. 77-108.

44. M. Palmer, op. cit., p. 32.

45. For a review of the Community budgetary procedure see Appendix 2.I of this study.

APPENDIX 2.I

The main stages of the budgetary procedure

1. In the early months of the calendar year a preliminary draft budget for the next year is drawn up by the Commission on the basis of estimates made by the different institutions.
2. There is an initial discussion in April by the Council of Ministers (Foreign and Finance) on the strategy for next year with a paper from the Commission. Also around this time the Parliament's Committee on Budgets names its rapporteur on the budget who is responsible for coordinating Parliament's work on the budget.
3. During the spring the Commission establishes the 'maximum rate' and informs the other institutions. Thus it is the rate at which 'non-compulsory' expenditure can be increased. This is worked out from consideration of matters such as increases in national budgets and in the cost of living and trends in the Community G.D.P.
4. The preliminary draft budget is sent by the Commission to the Parliament in June and Parliament holds a debate on guide-lines for the budget in July.
5. The Commission sends the same draft to the Council in June, and the Council starts to draw up the draft budget itself.
6. Before the draft budget is finalised by the Budget Council, a meeting is held with a Parliamentary delegation, led by its President and composed of members of its Committee on Budgets.
7. Before the end of August, the Council sends the draft budget to Parliament, whose rapporteur and Committee on Budgets start work on the preparation of draft amendments.

8. After several meetings of the committee, the rapporteur tables 'preliminary draft amendments'. Parliament's other Committees examine their part of the draft budget and table their own amendments.

9. In October, the Committee on Budgets considers amendments that have been tabled. The Budget Minister of the country holding the Council chair and the Budget Commissioner attend this meeting. Also in October Parliament holds the 'first reading' of the budget and votes on amendments and modifications. For amendments to items of compulsory expenditure to be adopted a majority of those voting is required. For non-compulsory items, an amendment needs a majority of all Parliament's members for adoption.

10. In November, the Budget Council starts its second examination of the Budget. Council's Budgetary Committee and COREPER study Parliament's amendments. Around 20th November the Budget Council meets Parliament's delegation for an exchange of views and then the Council takes its final decision on the budget. Where Parliament's modification of a compulsory item suggests a decrease or no increase in expenditure, the Council can only reject or alter the change by a qualified majority vote. Where Parliament's amendments to compulsory expenditure aim at increasing expenditure the Council can only agree to them by a qualified majority vote. Where Parliament has amended non-compulsory expenditure (upwards or downwards) the Council requires a qualified majority to reject or change these amendments. After taking its decisions on Parliament's amendments the Council sends the amended budget back to Parliament.

11. At the end of November and in early December meetings are

held between the Committee on Budgets and other Committees of Parliament to consider Council's decisions and to decide whether to re-table amendments to non-compulsory expenditure. Parliament's delegation and the Budget Council meet now to try to reach agreement on as many of the remaining problems as possible (the concertation procedure), particularly on any proposals to exceed the maximum rate. (These require the joint agreement of Parliament and Council.)

12. Parliament's 'second reading' of the budget takes place in the December session. After the Committee on Budgets has adopted its final report a major plenary debate is held where the President of the Council and the Parliament's rapporteur defend their respective positions. The vote on amendments concerns only items of non-compulsory expenditure. Parliament cannot make further changes to compulsory expenditure. Parliament can amend the changes made by Council for non-obligatory expenditure by a vote of a majority of all its members and three-fifths of the votes cast.

13. The Parliament finally adopts the budget by giving 'the last word' on the whole of the Community budget.

CHAPTER THREE : THE ESTABLISHMENT OF THE E.R.D.F.

1. Treaty Framework

The authors of the Treaties of Rome recognised the evident disparities between the regions of the Community of six (the regional GDP in Hamburg was five times greater in 1958 than in Calabria). Indeed economists such as Herbert Giersch[1] and Maurice Byé argued that by reason of agglomeration economies, the abolition of restrictions on trade and factor movements would strengthen the attractiveness of highly industrialised centres for both labour and capital.

Similar views found expression in the publications of the U.N. Economic Commission for Europe. Using Italian unification as an example, the Commission argued that 'in the absence of positive intervention .. disparities in income levels, once established, have a vicious tendency to become more pronounced'.[2] With regard to European integration plans the ECE concluded that: '... this is tantamount to saying that the gap between levels of development in the high income and low income areas of Europe would continue to widen which could hardly be regarded as an achievement in economic integration'.[3]

However, the Treaty of Rome contained no chapter or title of specific relevance to regional policy, though several articles had regional implications. It was assumed that the national regional policies in operation in the member states combined with the benefits which would accrue from the larger markets and the increased competition of the EEC, would ease the problem of these disparities, to the benefit of all areas.

Thus the preamble of the Treaty of Rome spoke of the need:

> to strengthen the unity of their (the member states') economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less-favoured regions.

Nevertheless, it was not made clear whether the reduction of existing regional disparities was to be achieved by national or Community action or a combination of both.

Moreover, Article Two of the Rome Treaty spelled out the broad aims of the EEC, but was, however, worded much more vaguely than the preamble:

> The Community shall have as its task, by setting up a Common Market and progressively approximating the economic policies of member states, to promote throughout the Community an harmonious development of economic activities, a continued and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the member states belonging to it.

Article Three listed specifically future policies to be developed by the Community (various Common policies, the establishment of external tariffs etc.) but made no reference to regional policy.

Several provisions in the Treaty of Rome allowed for the possible modification of policies to take account of regional problems, the most important being Article 39(2), which stated that the CAP must have regard to 'structural and national disparities between the various agricultural regions'; Article 49(1) concerned with the free movement of labour, which called for machinery to supply information about job opportunities and thus to avoid threats to living standards and employment in various regions, and Article 80(2) which provided for the possibility of allowing support tariffs on the grounds of regional economic policy.

A general aim of the EEC is the removal of subsidies and restrictions of various kinds which distort or threaten to distort competition between member states, thus adversely affecting trade between these countries. Article 92 of the Rome Treaty, however, allowed exceptions under certain circumstances, namely, 'aids intended to promote the economic development of regions where the standard of living is abnormally low, or where there exists serious underemployment'. Also, '... aids intended to facilitate the development of certain activities or of certain economic regions, provided that such aids do not change trading conditions to such a degree as would be contrary to the Community interest'.

The regional significance of several sources of finance provided for in the Treaties of Paris and Rome will be assessed in Chapter nine of this study; these include the operations of the European Investment Bank and the New Community Instrument, financial assistance for the adaptation and conversion of areas included in the operations of the European Coal and Steel Community, the activities of the European Social Fund and the Guidance Section of F.E.O.G.A. The implications of the Community's competition policy for the less developed regions will also be discussed in Chapter nine.

2. Early Community views on regional policy

Despite the absence of a specific mandate for the development of a European regional policy in the Treaty of Rome, the European Commission claimed in 1962 that an active regional policy was necessary for the EEC to achieve the tasks laid down by the Treaties of Rome.[4] In 1959, in its second general report, the Commission had announced a programme of study to provide guidelines for the Community's responsibility for regional action to cover:

(i) the study and analysis of economic regions in the light of the need for long-term harmonisation of economic levels and more particularly to define priority areas for more detailed study;

(ii) analysis of regional policies in member states so as to permit the Commission to study their compatability with the Treaty and to suggest any corrective measures with a view to outlining a Community policy relating to regional matters.

In 1960 the European Parliament called for a common regional policy[5] in which the respective responsibilities of the member states and the Community would be set out. The Report argued that harmonisation of the member states' regional policies should be regarded as implicit in the Treaty obligations to coordinate their economic policies. The European Parliament thus requested that the Commission actively continue its inquiries into the regional structures of the Community.

A direct outcome of this request was the Conference on Regional Economies in December 1961, a conference of experts convened by the Commission in Brussels. At the conference, Commissioner Robert Marjolin[6] made a speech in which he stated that regional policy represented an ever-growing aspect of economic policy. This demanded that economic policy should take account of the regional perspective in the aim of establishing a balance between backward regions and areas of prosperous urban concentration. In this way the full economic potential of backward areas would be achieved, thereby releasing zones of concentration from inflationary pressure.

The conference recognised four main divisions in the Community economy:

(i) underdeveloped (mainly agricultural regions)

(ii) regions of basic industry in decline

(iii) prosperous urban concentrations

(iv) frontier regions.

The Community's problem was seen to be the imbalance between the 'golden triangle' made up of the Rhine-Rhône-Ruhr axis and the under-developed periphery. Marjolin accepted that the role of the Community institutions was ancillary to that of the member states but stressed that there were important tasks of harmonisation to be carried out at the Community level.

In the 'Action Programme for the Second Stage of Integration', published in October 1962, the Commission emphasised the need for an active regional policy and the Birkelbach Report of December 1963[7] stressed that unless regional disparities were reduced the idea of economic and political union in Europe would have no permanence. Thus the role of regional policy was beginning to be seen as a determining factor in the general orientation of social and economic policies for the whole Community.

By 1965, the Commission submitted its first Comprehensive Memorandum on Regional Policy.[8] Unfortunately the timing of the submission, coming as it did a few weeks before the Luxembourg Crisis (when the French refused to participate in Council of Ministers sessions for several months) meant that little was done by the Community institutions about the Memorandum, although the European Parliament considered a full critique of the document in the form of the Bersani Report[9] in 1966, which largely agreed with the Memorandum but stressed the difficulties of formulating and coordinating regional programmes. The Council of Ministers merely noted the Memorandum.

The Memorandum aimed to bring about agreement within the Community on the objectives and methods of regional policy and to coordinate the means of action of the member states. It stressed the need to promote agricultural and industrial regions suffering from structural difficulties and to reduce the disparities between those regions and the zones of industrial and urban concentration. The case of regional programmes for each 'ensemble socio-économique cohérent' was pressed on the grounds that such programmes would set out a coherent analysis of the economic structures of regions while promoting the necessary coordination of public interventions having regional effects. The division of the Community territory into backward areas, industrial areas in decline, frontier regions and congested areas was accepted as the basis for future action.

Finally, the Memorandum proposed that the institutions responsible for medium-term economic policy programmes should incorporate regional policy into their work.

In 1967, following the merger[10] of the executives of the three European Communities, the EEC, ECSC and Euratom, into one European Commission, a Directorate General with responsibility for regional policy was established headed by Commissioner Hans von der Groeben. Hitherto regional policy matters had been dealt with by one small division of the EEC Directorate-General of Economic and Financial Affairs.

In May 1968, Jean Rey, President of the European Commission, addressed the European Parliament on the new impetus which the merger of the executives had provided to certain essential sectors of community policy:

> La politique régionale doit être dans la Communauté ce que le coeur est dans l'organisme humain. De même que le coeur pompe le sang dans toutes les parties du corps, de même la politique régionale doit aboutir à ranimer la vie économique dans les régions qui en sont trop dépourvues.

Rey saw the development of a Community regional policy as a sine qua non of the Community's successful technical adaptation and international competitiveness.

In a speech also made to the European Parliament, in May 1969, Hans von der Groeben stressed that competition and coordination alone were insufficient to ensure the development of the Common Market: '... we have to recognise that the structural differences in our member states not only work to the detriment of the whole and the individual, but threaten the very development of the Common Market'. Therefore, he saw the establishment of a common structural and regional policy as essential to the Community's progress towards further integration and eventual economic union.

In a memorandum on Regional Policy in the Community in 1969[11] the Commission reiterated the four different types of regional problem which it had specified in the early 1960s and stressed once again the need to reduce regional disparities in order to progress towards economic and political union.

It was proposed that the Commission should carry out a regular examination with each member state of the situation of the problem regions and be empowered to issue non-binding opinions and recommendations to the member states. Moreover, the Commission proposed the coordinated use of the instruments at the disposal of the Community by virtue of the Treaties, the setting up of a Regional Development Rebate Fund to be managed by the Commission and replenished by budget contributions and the establishment of a Regional Development Committee in order to facilitate the achievement of converging regional policy solutions. Also in 1969, the Hague Summit meeting in early December issued a communiqué accepting the principle of economic and monetary union by 1980. This was a subject which was irrevocably linked with the question of regional disparities.

In 1971 the Commission published a document[12] in which it assessed the population trends, the employment trends and the income levels in the Community regions, in support of its demands for the establishment of a Community financial mechanism specifically to aid the regional problem. The European Parliament gave its unanimous support to the Commission's regional policy proposals on 16th March 1972[13] as did ECOSOC. Moreover, in answer to the Commission's repeated requests, the Council of Ministers passed a resolution on 21st March 1972 in which it undertook to come to some decision by 1st October 1972 on the regional policy issue. The Commission was directed to review and: 'choose between the mechanisms already advocated for regional development, or to advance new proposals'.[14] By 21st June the Commission had reiterated its support for the 1969 and 1971 proposals as they were considered to be '... interconnected and therefore form a coherent whole'.[15] However, French opposition to such proposals was voiced because of their fear of the Commission gaining any initiative in this area,[16] lest it provide them with a political tool for guiding and coordinating national regional policies. (The French favoured a concentration on the European Investment Bank as a purely financial and technical organisation.) Due to the above difficulties and because of the impending enlargement of the EEC to include UK, Ireland and Denmark, which would imply a new dimension for the regional problem, no concrete decision was made before the Paris Summit meeting of 19th-21st October 1972. Indeed, it was the Enlargement of the Community along with the political imperatives of Economic and Monetary Union which provided the impetus for progress towards the establishment of a Regional Development Fund. Despite the establishment of a Directorate General responsible specifically for regional policy matters and the statistics, surveys and memoranda produced by the Commission during the Sixties and early Seventies, no concrete advances had been made as a direct result of Commission initiatives.

3. The Paris Summit and the Preparation of the Thomson Report

The Paris Summit's final declaration contained a paragraph giving cause for optimism in the regional policy area:[17] 'The heads of state or of government agree that a high priority should be given to the aim of correcting in the Community, the structural and regional imbalances which mightaffect the realisation of EMU'. The final Communiqué directed that the nine member states '... undertake to coodinate their individual regional policies and invited ..... the Community institutions to create a Regional Development Fund before the 31st December 1973''.

The Commission was entrusted with the elaboration of an analysis of the situation of regional structures in the Community and with drawing up specific proposals.

With the Enlargement of the Community in 1973, the European Commission was re-shaped and the new Commission of thirteen established with the Briton George Thomson in charge of DG XVI - the Directorate General with the regional policy portfolio - taking over from Hans von der Groeben. His first task was to adhere to the Paris Summit charge '... to prepare without delay a report analysing the regional problems which arise in the enlarged Community, and to put forward appropriate proposals'.[18]

Thomson began a stock-taking operation of previous Commission proposals and visited the nine member state capitals to test the climate of opinion on the regional fund issue. At the same time he continually expressed the view that regional policy was crucial for the success of the Community as a whole and inter alia for the success of EMU.

The preliminary draft of the Thomson Report contained an analytical report of regional structures and imbalances in the EEC. Additionally, it contained guidelines for the Regional Development Fund and for the Permanent Committee for Regional Development which had been proposed in the 1969 memorandum (one of whose main tasks would be the coordination of regional policy). However, not all Commission members were happy with the eligibility criteria selected for the Regional Development Fund in Thomson's draft based on: unemployment rates, migration balances and per capita income levels.

No mention was made in the draft of a fixed sum for the Fund - the wording simply implied that the Fund would have to be large enough to complete the terms fixed by the Paris Summit. Moreover, the Commission viewed the coordination of member state regional policies (also advocated by the Paris Summit) to be at least as important as the other half of the proposals.

The final version of the Thomson Report on the regional problems in the Enlarged Community was presented to COREPER on 3rd May 1973.[19] It was a voluminous document of some 289 pages but most of the documentation was contained in its annexes which comprised three chapters.

4. The Thomson Report

Chapter one of the Report emphasised data on general demographic considerations, the working population and regional product and income; Chapter two gave an explanation of the 'degree and character of the principal forms of disequilibria ...'[20] and Chapter three was a review of the regional policies in member states. The main text of the report was only eighteen pages long: there was an introduction where considerable praise was heaped on the Community's economic accomplishments to date including a 5.4% average annual increase in the GNP during the decade 1960-70. However, it was stressed that there had been relatively little change in the per capita income situation based on regional location. The wealthy regions remained some five times as rich per person compared with those in the poorest regions.

Three types of argument for a Community regional policy were forwarded in the Report, based on moral, environmental and economic grounds. The moral argument was that a Community regional policy would demonstrate a 'common will' to assist those in relatively 'poor' regions. The environmental arguments were based on the fact that the 'physical poverty of the underprivileged regions (was) matched only by the mounting environmental poverty of the areas of concentration'.[21] Finally the economic arguments were backed up by the fact that the areas suffering from regional imbalances were in need of reconstruction and reutilisation so as '... to enable them to put themselves on a footing of more equal competitiveness'.[22]

According to Thomson the key characteristics of the regional imbalance were an inefficient agriculture or declining industries, a concomitant structural underemployment or unemployment, a slow rate of economic growth and an unsatisfactory social infrastructure.

On the basis of the analysis made in the Report, the Commission stated its intentions to use the following guidelines[23] as a basis for its specific proposals on regional policy:

(1) Community regional policy cannot be a substitute for national regional policies which member states have been conducting for many years. It must complement them with the aim of reducing the main disparities across the Community.

(2) Since overconcentration of economic activity in some regions is a major social and economic problem ... the Community as well as giving aid to the poorer regions, should seek ... to reduce concentration in the congested regions.

(3) If Community regional policy is to be successful it requires

not only new incentives and disincentives but coordination of the various common policies and financial instruments which exist at Community level with a view to their improved utilisation for regional objectives.

(4) It will also be essential to achieve the real coordination of national regional policies to which the summit conference pledged the Community. In order to facilitate this coordination, a Community Regional Development Committee should be set up.

(5) In the context of these guidelines, the proposals which the Commission will present at the end of June this year will concern mainly the Regional Development Fund and the Regional Development Committee to be set up by 31st December 1973. The Commission maintains its proposal to the Council on the use of part of the FEOGA Guidance Section for the creation of industrial employment in agricultural priority areas. Furthermore the Commission also intends to give full consideration over the coming months to other useful regional policy instruments which have earlier been suggested such as the establishment of a regional development company and a European guarantee system for loans.

(6) The principal vehicle for mobilising Community resources as a complement to actions presently carried out in the member states should be the RDF ...

(7) The RDF must be of sufficient size to contribute effectively to meeting the target set by the Heads of State or of Government ... The Commission will make its proposals to the Council about the size of the Fund at the appropriate time.

(8) The Fund will have to concentrate its expenditure very largely

in those regions which are the most in need in relation to the Community as a whole ... quite independent of any criterion of juste retour.

(9) ... a desirable flexibility in the use of the resources of the Fund should be introduced by retaining a proportión of them for financing of regional plans or projects by the Community concerning for example particularly intractable regional problems or transborder schemes involving more than one member state.

5. The Drafting of Specific Proposals

The major debate in the Council of Ministers would naturally follow the drafting of specific proposals by the Commission and it was recognised that the core of the dispute would centre on the size and distribution of the ERDF along with the connected issue of the eligibility criteria.

The basic problem for Thomson was not to frighten the Germans (the key financiers of the ERDF) by proposing too large a Fund. In addition, he had to be careful not to antagonise the French by proposing an administrative structure with such powers as would excessively augment the Commission's authority. And finally Thomson would have to moderate the enthusiasm of the British, Irish and Italians for a Fund of a size likely to alleviate some of the more serious regional problems.

The European Parliament was persistently (although not unanimously backing the Commission) insisting that the Commission and the Council adhere to the deadlines set by the Paris Summit.[24]

After much discussion in the college of Commissioners, revolving mainly around the size and eligibility criteria of the ERDF, and following a lengthy meeting, there was agreement on a series of texts on the 25th July 1973. These corresponded to the mandate of the Paris Summit.[25]

The size of the Fund suggested was 2.25 mua for three years - (500 mill. ua 1974, 750 mill. ua 1975 and 1000 mill. ua 1976 - plus 150 mill. ua on the basis of a formal proposal retaken up by the Commission from the FEOGA Guidance Section for the financing of regional development projects in priority agricultural regions). The operations envisaged were of a community nature, linked with Community objectives and the idea of 'juste retour' was rejected. The general aim was to eliminate the most serious regional imbalances which were holding back the attainment of E.M.U.

The Commission opposed a system of national quotas for the Fund's distribution and they decided that the Fund should not be used in areas where the average income per person exceeded the average income for the whole Community. Moreover it should not be used in areas not already receiving domestic regional aid.

The Commission proposed that with respect to the seriousness of regional imbalances the following factors should be considered: in priority agricultural regions considerable dependence on agricultural labour was taken as a yardstick, in declining industrial areas the dependence of employment on old industries was to be taken into account and in areas suffering from structural unemployment, the high rate of depopulation, the high rate of unemployment and low income were to be considered.

Once the eligible regions had been determined according to these indicators, the Fund would be allocated on the basis of the population in these eligible regions and 'national entitlements' would be calculated.

The Commission proposed that once the 'objective indicators' had been adopted by the Council they would, by the Autumn, present in a draft, complementary regulation, a list of regions in the enlarged Community which would be eligible for assistance from the Fund.

6. Discussions and Problems Surrounding the Fund's Establishment

Following the publication of specific proposals, attempts were made at forming a common front between the potential main recipients from the Fund: UK, Italy and Ireland. It was going to be necessary to establish an alliance to counter opposition in the Council of Ministers and there were bilateral meetings between the Ministers of the three countries during September 1973.[26]

The Council of Ministers' Economics questions working group began examining the draft regulation and decision on 14th September 1973 and thus began the most difficult part of the negotiations. Due to the secrecy surrounding such negotiations and the closed nature of meetings it is impossible to provide details of the deliberations. However, by mid-October the working group had reached the following situation:[27]

(1) UK, Ireland and Italy considered that the Fund should be larger than the Commission proposals.

(2) West Germany favoured a small Fund as did the Belgians.

(3) Several delegations were holding back concrete judgement on Commission proposals until they saw proposals covering the eligibility criteria. (These delegations included West Germany, Ireland, Netherlands and Luxembourg.)

(4) Luxembourg was anxious that it should receive some of the aid.

(5) Ireland and Italy favoured a variable rate for Community participation (varying according to the degree of imbalance).

(6) All delegations were aware of Community regional policy

being important for E.M.U. - Italy and Ireland considered the elimination of regional imbalances to be a prerequisite for EMU, whereas Denmark considered that the achivements of EMU would contribute towards the solution of the problem of regional disparities.

(7) The majority of delegations accepted the principles laid down by the Commission for the coordination of regional policy and the complementary nature of Community action.

On the 11th October 1973[28] the Commission approved and submitted to the Council two proposed regulations laying down:

(a) a list of regions and areas likely to benefit from FEOGA intervention in accordance with the proposal of 12th December 1972 relating to the use of FEOGA Guidance Section in priority agricultural regions;

(b) a list of regions and areas likely to benefit from the ERDF. This list did not reflect the serious degree of regional imbalance which the Fund was supposed to eliminate; it consisted of a maximum list of an area covering a good one-third of the Community's population (all the UK's Special Development Areas, Development Areas and Intermediate Areas: 55% of UK area).

Thomson considered it important to have a nine-nation Fund. He considered that the German idea for a small concentrated Fund would be damaging to the creation of a real Community whereas a nine-nation ERDF would allow the mobilisation of opinion in all the member states.

ECOSOC and the European Parliament both called, in October and November 1973, for the concentration of the Fund's resources.[29] Moreover, at subsequent Council meetings in 1973 the Irish and Italian delegations called for special attention and for a two-tier Fund.[30]

The UK however considered it to be vital to establish a Fund before every last detail was settled, but at the Council meeting of 4th December 1973 they formally proposed 3000 mill. u.a. (£1,250 mill.) for the first three years. No agreements were forthcoming at this meeting nor at the Council sessions of 17th and 18th December following the Copenhagen Summit, because the positions of the member states in the Council remained diffuse and conflicting, particularly with regard to the proposed size of the Fund and whether it should be concentrated or widely dispersed in the Community regions.

The Summit itself (14th, 15th December 1973) was dominated by the OPEC boycott of oil shipments to the Dutch and the decrease of oil exports to the other eight member states. Additionally, five Arab oil Ministers descended 'without formal invitation' on the meeting and asked to be heard (it was rumoured that Jobert, the French foreign minister, invited them[31]). Consequently, the regional policy debate was overshadowed.

Nevertheless the communiqué from the Summit confirmed an agreement that a Fund 'should' be set up on 1st January 1974 and stated that 'Heads of State would recommend to their Foreign Ministers that the Council should take the necessary decisions for doing so at the next meeting in Brussels the following week'.

Thus there was total deadlock in the Council of Ministers on the 17th December and it was decided to 'stop the clock' and draw up the Community timetable in the hope of a solution being found by the 7th January at the latest. The UK proposal for 3000 mill. ua (£1,250 mill.) was backed by the Italians and the Irish, whereas the West Germans proposed 600 mill. ua (£250 mill.) for three years (adding two sets of 150 mill. ua for hill-farming) and a concentration of aid on UK, Ireland and Italy. There was some support for the German proposal from the Benelux but it was rejected, not surprisingly, by the UK, Ireland and Italy because of its small size.

1974 was a year of further obstacles largely external to the EEC:

(1) The Washington Energy Conference demonstrated the lack of unity amongst EEC member states: the French favoured an effort to confer and hopefully conciliate and cooperate with the oil-producing states and to formulate a 'European stance' vis à vis the Arabs. Indeed, they were largely supported by the other EEC members at an EEC foreign ministers' meeting on 5th February 1974.[32] However, this apparent unity dissolved at the Washington Energy Conference. The Germans,[33] supported by the Benelux and Denmark, now adopted a position of support for cooperation with the United States and for the establishment of an International Energy Agency. These polarised opinions of the French on the one hand and the Germans, Benelux and Danes on the other, led to complete disunity at the Conference.

(2) The two British General Elections in 1974, in February and October, and the subsequent renegotiation issue, diverted UK and indeed European attention away from issues such as the Regional Fund. The Labour government was brought to power with a mandate and commitment to renegotiate the terms of British membership of the European Community. The Labour Party did not share the Conservatives' enthusiasm for the ERDF as a financial recompense for UK contributions to the CAP.[34] It was far more concerned with securing major concessions on the whole Budget and with guarding against

any Community interference with UK sovereignty and domestic economic management. Thus the ERDF discussions lost a major backer, leaving the Irish and Italians to battle alone for the Fund's establishment.

(3) In May 1974 Giscard d'Estaing was elected President of France following the death of Georges Pompidou, and Schmidt became Chancellor of West Germany in the same month following Willy Brandt's resignation as a result of a spy scandal. The tougher attitude which Schmidt adopted towards the EEC coincided with the period of erosion of the myth of the 'guilt complex' which meant that West German ministers became tougher bargaining partners in Community discussions.

At a meeting of the full Council of Ministers on 14th January 1974 there was still no agreement and a special ministerial meeting was fixed for 30th January, to be solely devoted to the Regional Fund. However, there were signs that more flexibility was being shown in the Council. For example, Sir Alec Douglas-Home, the UK Foreign Minister, was reported to have acknowledged that the Commission's proposal represented a 'substantial' starting point (2,400 mill. ua)[35] - in other words, he put aside the original UK idea of a Fund of 3,000 mill. ua - and the Germans did not repeat a figure of 600 mill. ua for three years.

At the 30th January meeting, the Germans proposed to double their contribution to the Fund which would enable a Fund worth 1,250 mill. ua (1,400 mill. ua with guidance section money). There was French opposition to this because they would be net debtors (200 mill. ua over three years) to the Fund (c.f. under the original Commission proposal they would have had a zero balance). Thus the French reverted to supporting the original Commission proposal.[36]

The Commission began drawing up a draft solution somewhere between its original proposal and the compromise suggested by the Germans. The next full Council session of 18th February was cancelled because of the UK election and following the full Council meeting of 4th March (where no progress was made) the regional Fund issue was pushed into the background by the renegotiation issue which paralysed any hope of progress. By October 1974 there had been no further progress and in the build up to the Paris Summit (9th-10th December 1974) the Italians and the Irish issued an ultimatum to the other member states, in November 1974, to the tune that if an agreement on the Regional Fund was not promised at the Summit meeting then there would be no Summit at all.

It became apparent that the size of the Fund or its duration were not the subject of much argument. The most controversial issue was still that of the Fund's distribution and the eligibility criteria.

At the full Council meeting of 3rd December 1974, there was a general consensus that a reasonable certainty should be in evidence for agreement on the Regional Fund before the Summit began.

Hans-Dietrich Genscher, West Germany's Foreign Minister, favoured the Commission proposal for making the Fund operational from 1st January 1975 for an experimental period of three years and involving around 1,400 mill. ua.

There would be three net beneficiary states: UK, Italy and Ireland, and six net deficit countries with the possibility of regions in the latter states being eligible for aid. Additionally, the Commission's proposals for allocating Fund aid according to entitlements calculated by its 'objective indicators' should be substituted by a system of fixed national quotas.

7. The Final Agreement

It was the Heads of State and Government meeting at the Paris Summit of 9th-10th December 1974 who worked out the final agreement on the European Regional Development Fund. It was agreed to set up a Fund of 1,300 million ua for three years (1975-77); 300 million for 1975, 500 million for both 1976 and 1977, and of the 1,300 million ua 150 million ua was to be financed from FEOGA's Guidance Section. The Commission's entitlement figures were adjusted to reach the following figures:

Belgium	1.5
Denmark	1.3
France	15.0
West Germany	6.4
Ireland	6.0
Italy	40.0
Luxembourg	0.1
Netherlands	1.7
United Kingdom	28.0

Ireland was allotted an additional 6 million ua to be subtracted from the other member states except Italy. According to the communiqué, the Fund was '... designed to correct the principal regional imbalances in the Community resulting notably from agricultural predominance, industrial change and structural underemployment'.

Nevertheless, agreement on the implementing regulations proved to be less than a foregone conclusion. There were three drafts submitted to the Council:

(1) regulation for the ERDF;

(2) particular provisions to be introduced in the financial regulations of the Communities for the ERDF;

(3) the decision to set up the Regional Policy Committee.

One problem concerned the wording 'experimental' nature which was used to describe the Fund's status in the draft Regulations:[37] Italy and Ireland insisted that this did not refer to the existence of the

Fund itself but to the method by which it functioned. On the other hand, the French insisted that the Fund itself was experimental.

There was also a problem[38] concerning the British objection to the section in the draft Regulation which ruled that EEC aids should either help to maintain present jobs or create ten more new ones. The UK raised an objection because this particular link did not exist in national regional policy in the UK.

However, the major difficulty for the Commission had much wider implications for EEC decision-making in general and surrounded the budgetary powers of the European Parliament: Parliament claimed that the ERDF should be categorised as 'non-obligatory' expenditure as opposed to 'obligatory' since it did not emanate from within the Treaty of Rome mandate. Classification under the non-obligatory heading would mean that the European Parliament would have the last say on the budgetary allocation, and discussions on this point were to prove significant in future debates on the ERDF's renewal (see Chapter 8). Nevertheless, despite disagreement at this stage, the European Parliament did not want to hold up the establishment of the ERDF and having opened up conciliation procedures with the Council over the budgetary powers it raised no objection to the Commission's texts at its March 1975 session.

Therefore the Council of Ministers was able to agree on the three implementing regulations at its session on 3rd and 4th March and these were formally adopted on 18th March 1975.[39]

Notes

1. See B. Balassa, The Theory of Economic Integration, Unwin University Books (1961).

2. Economic Survey of Europe since the war, p.218.

3. Ibid, p. 220.

4. C. Flockton, Loughborough Journal of Social Studies, No. 8, November 1969.

5. Report of the European Parliament's Economic and Financial Committee, May 1960 (Motte Report): 'Regional Problems and ways and means of implementing such a policy in the Community of Six'.

6. Ibid, p. 37.

7. Ibid, Flockton p. 39.

8. Commission Memorandum on Regional Policy, 1965.

9. Ibid, p. 41.

10. Merger Treaty of the three executives was passed in 1965 and became operative in July 1967.

11. 'Memorandum on Regional Policy in the Community', Supplement to Bulletin No. 12 of E.C. (1969).

12. 'Analytical Survey of Regional Development in the Community' - Commission of the E.C., 1971.

13. See Ross Talbot, 'The EEC's Search for a Community Regional Policy' - Mimeograph, Brussels, and Europe Daily Bulletin, 4 October 1972.

14. Agence Europe, Europe Documents, No. 687, 28 June 1972, p. 1.

15. Op.cit., p. 2.

16. See R. Talbot, mimeograph op.cit., p. 22.

17. Point 5, Official Communiqué, Paris Summit, October 1972.

18. Commission of the European Communities, 'Report on the Regional Problems in the Enlarged Community', Introduction, COM(73)550 final, Brussels, 3 May 1973, p. 1.

19. Report on the Regional Problems in the Enlarged Community, COM(73)550 final, Brussels, 3 May 1973.

20. Ibid, p. 121.

21. Ibid, p. 5.

22. Ibid, p. 6.

23. Ibid, p. 12, Section V, 'Guidelines for a Community Regional Policy'.

24. See for example European Working Documents - 120/72, pp. 12-15, and report of European Parliament debate of the Thomson Report in Official Journal of E.C., July 1973 - synopsis of report in Europe, 6 July 1973, pp. 5-6.

25. For details of draft Regulation for creation of ERDF and for draft decision by Council concerning creation of a Permanent Committee for the coordination of national regional policies - see Official Journal L86:16:1 - 1973.

26. See R. Talbot, mimeograph op.cit., No. 2.

27. Europe Daily Bulletin, 12 October 1973.

28. See Europe Daily Bulletin, 12 October 1973.

29. European Parliament Working Document 1973-74 - Doc 228/73, 13th November 1973, PE 34.605 final.

30. See Europe Daily Bulletin reports during November 1973.

31. See for example The Guardian, 18th December 1974.

32. Europe Daily Bulletin, 7 February 1974.

33. Financial Times (editorial), 14th February 1974.

34. See H. Wallace, Chapter 6 in Wallace, Wallace & Webb, Policy Making in the EC (1977).

35. See R. Talbot, mimeograph III op.cit, p. 50.

36. See The Financial Times, 15 January 1974.

37. Europe Daily Bulletin, 13 February 1975.

38. Op.cit.

39. Regulation (EEC) No. 724/75 of the Council of 18 March 1975 establishing an ERDF; Regulation (EEC) No. 725/75 of the Council of 18 March 1975 on the transfer to the ERDF of 150 mill. u.a. out of the appropriations held in reserve by the Guidance Section of FEOGA. Financial Regulation of Council of 18 March, and Council decision of 18 March setting up a Regional Policy Committee. All published in Official Journal, 21 March 1975, No. L73, pp. 1-8 and 45-49.

CHAPTER FOUR : THE ESTABLISHMENT OF THE E.R.D.F. : ASSESSMENT OF THE DEBATE AND CHARACTERISTICS OF THE DECISION-MAKING PROCESS

1. Introduction

This chapter aims to analyse the debate which led to the establishment of the European Regional Development Fund, as described in Chapter Three. The tactics and stances of the Commission and the member states during discussions on the Fund issue will be assessed against claims that intergovernmentalist attitudes and agreement now dominate Community decision-making. In addition, attention will be focussed upon the importance of events external to the immediate issue under discussion. Finally the rôle and influence of the European Parliament, the Economic and Social Committee and other European pressure groups on the fringe of the decision-making process will be considered.

2. Background

Commission documents and proposals[1] in favour of the establishment of a financial instrument, designed specifically to assist member states with their domestic regional policies, had experienced no concrete success during the 1960s and early 1970s. The Council had failed to agree upon the principles, let alone the details, of a regional fund, no specific mandate having been provided for the establishment of such a mechanism by the Treaty of Rome.

Therefore, it was not surprising, given the aim of Economic and Monetary Union by 1980, and with British and Irish accession providing increased pressure amongst the member states, that the move which finally set the wheels in motion for the setting up of the European Regional Development Fund, was provided by the Heads of State and

Government at the Paris Summit meeting of October 1972, whose final communiqué[2] instructed the Commission to take the necessary steps to create a Regional Development Fund before 31st December 1973. It was decreed that the Commission should carry out an analysis of the situation of regional structures in the Community (which was produced by the Commission in the form of the Thomson Report in 1973) and then draw up proposals for the establishment of the R.D.F.

3. Commission Tactics

The responsibility for preparing this analysis of the regional problems of the enlarged Community fell upon George Thomson,[3] Commissioner at the helm of DG XVI.

Thomson toured the nine capitals during the preparation of his report, to hear as many views as possible on the issue, and he and his director-general, Renato Ruggiero, also received deputations in Brussels.[4] Furthermore, consultations were held with European organisations such as the Standing Conference of the Community's Chambers of Commerce and Industry, the European Parliament's Committee of Regional Policy and Transport, and the European Trade Union and Employers' Organisations.

The College of Commissioners made a first reading of the Thomson Report on 11th April 1973;[5] there was a general acceptance of its statements of principles and aims, but disagreements did arise over the criteria to be used in the determination of eligibility for funding regional projects.[6] However, on 3rd May 1973, the Commission approved the Thomson Report.[7]

From the outset Thomson had realised, when drawing up his Report, that because financial contributions on the part of the member states would be at stake, along with increased Community activity and influence on the running of member state economies, the debate on the establishment of the Regional Development Fund would be elevated into the realms of 'high politics', despite the supposedly economic, technical and thus non-controversial issues at stake. Therefore Thomson was aware that the size of the Fund, its distribution and eligibility criteria, would be key issues in the debate.

The Thomson Report however, as published in May 1973, contained no specific proposals; it merely stated that the Fund would need to be of sufficient size to contribute effectively to meeting the target set by Heads of State and Government. In addition, there were vague statements of the necessity of concentrating the Fund's resources in the regions most in need in the Community as a whole.

Thomson made no pretence that Community regional policy would be a substitute for national policies; it was merely to act to complement them. The implication was, therefore, that the European Regional Fund would be nothing more than an additional bonus to member states; there were no aspirations, on the part of the Commission, to take over the running of national regional policy.

In the period between the publication of the Thomson Report in May 1973 and the submission by the Commission to the Council of Ministers of specific proposals appertaining to the Regional Fund on 25th July 1973, Thomson continued his efforts to cultivate support for Community regional policy. On 4th July the European Parliament debated an 'interim report'[9] produced by its Committee on Regional Policy and Transport. The report was based largely on an evaluation of the Thomson Report. Despite criticism being raised during the debate over the Commission's failure to understand the importance of the rôle of infrastructure in regional development, the vote was unanimously in favour of the Thomson Report, though the Italian

Communist delegation abstained.

Thomson developed further contacts in the national capitals and consulted with UNICE and representatives of the Community trade unions. There was continued positive support from these channels for Thomson's policy.[10] Moreover, in July 1973, the Permanent Conference of the Community's Chambers of Trade and Industry stressed its continued support for a Community regional policy.[11]

It was also vital for Thomson to gain the support of the 'college' of Commissioners for Commission specific proposals on regional policy; differences of opinion within the 'college' centred[12] around the issues of eligibility criteria, the principle of juste retour for the Regional Development Fund (a system whereby member states would receive an amount of money from the Fund equal to the sum contributed by them) and the size of the Fund. Nevertheless, following a marathon session of Commissioners, when the 'college'[13] was in session from 9.00 a.m., 25th July 1973, until 4.00 a.m. the following morning, unanimous agreement was reached on specific proposals concerning the size of the Regional Fund, the eligibility criteria and the Committee for Regional Policy, whose functions were to include overseeing the policy implications of the administration of the Fund.[14]

Thus, during the drafting of the specific proposals for setting up a European Regional Development Fund, Thomson had adopted tactics and faced constraints common to those inherent in many Commission decisions: firstly he had pursued a policy of openness to opinions from many quarters, in an attempt to mediate between differing points of view and to compromise disagreements. In this respect Thomson attempted to present proposals to the representatives of the member states, in the Council of Ministers, which incorporated the ideas of organisations and bodies based both at the European level in Brussels and at the national level in the member countries themselves.

Secondly, however, Thomson realised that with financial contributions and Commission involvement in domestic economic policies at stake, he would have to steer a cautious path between the aims and aspirations of the poorer member states and the reticence shown by potential net-paymasters, in the face of a sizeable Fund. Hence, in addition to adopting a Commission policy of taking account of as many shades of opinion as possible, Thomson had to beware of the constraints imposed upon his proposals by the vested interests of the member states.

Thus (see Chapter Three), Thomson had to provide proposals which, while not seeming too ambitious, did not signify a pitifully small Fund of no benefit to any member state. Therefore, it proved necessary for him to court the alliance of three potential net-recipients from the Fund, namely UK, Italy and Ireland, whilst showing caution vis à vis the West German paymasters. At the same time, the additional constraint had to be faced of not antagonising the French by proposing an administrative structure for the Fund which would excessively increase Commission authority towards which the French showed unequivocal hostility.

Hence, the situation facing Thomson represented the kind of position in which the Commission increasingly finds itself with regard to Community decisions; a situation which leads often to a watered-down, least common-denominator, decision after a lengthy, arduous, haggling process in the Council.

This Council haggling process was initiated by the submission of the Commission's proposals for the Regional Fund in July 1973. The details of these proposals were described in the previous chapter: these included the proposal for a Fund consisting of 2.4 billion units of account for three years, the rejection of the principle of juste retour, and equally the rejection of a national quota system of distribution. Additionally, the Commission proposed that the Fund should not intervene in areas not receiving national aid from domestic governments. However, it was rumoured that there had been a 'secret map'[15] in circulation at the Commission marathon-session on 25th July 1973, which specified the favoured regions and it was claimed that there had also been an agreement reached, whereby the Council could impose a national quota system for the Fund's distribution without much of a fight from the Commission. Therefore, the Commission had laid down proposals which left much leeway for discussion but which provided an acceptable starting point for debate for the member states. The figure proposed for the Fund was larger than some member states would be willing to accept and the proposals were not sufficiently detailed to suggest that the Commission was confident of a smooth passage through the Council. Furthermore, the gradualist policy adopted by Thomson, whereby no list of eligible regions was published, implied that the Commissioner himself preferred to win agreement on his proposed eligibility criteria before generating more conflict in the Council by producing a map of eligible areas: a policy of building-up of a final package by hammering out agreement stage by stage on various aspects of the Fund.

When the map was published on 11th October 1973, it covered 52% of the Community's territory and included 32% of the Community population. Thus the Fund's meagre resources were to be spread thinly over the Community's area with each member state having at least one eligible region. This Commission proposal made the aim of eliminating the most serious regional imbalances, which were holding back the attainment of Economic and Monetary Union (the aim expressed in the

Thomson Report[16]), even more overambitious.

The funds requested for the RDF did not match the problem to be solved, especially given the proposed widespread distribution of the meagre resources. This suggests that the Commission was willing to pursue the tactic of winning stage-by-stage agreements one step further, in that they would consider it better to establish some kind of fund, even if compromises had to be made, so that once the fund had been established the Commission would be able to set about improving it.

4. Member State Attitudes

The views expressed by the member state governments in the Council of Ministers were described in Chapter Three. The general positions can be divided into those who favoured a large fund, endowed with greater resources than those proposed by the Commission, namely UK, Italy and Ireland, and those who favoured a figure lower than the proposed 2.4 billion u.a., namely West Germany, France and Netherlands.[17] The above positions were further complicated by views expressed on how the Fund's resources should be distributed. It would appear that the balance of opinion favoured a concentration of RDF spending in a small number of Community regions. However, the reasons for adopting this viewpoint, as opposed to the alternative suggested by the Commission, of a wider distribution, were diffuse: West Germany, Denmark and the Netherlands, as potential net-payers into the Fund's coffers, held the view that, if the established eligibility criteria for the Fund were sufficiently rigorous, then the Fund might be reduced to as little as 100 million u.a.[18] for each of the three years to be covered by the initial agreement. On the other hand, Italy and Ireland adopted the 'concentrationist' viewpoint but demanded a larger Fund than the

Commission was proposing. Finally the UK favoured a large Fund but adopted a flexible attitude on eligibility criteria, provided at least 25% of RDF resources were concentrated in their regions.

Thus the size and distribution of the Fund were to remain the key issues of the debate and the major sources of disagreement, particularly between the member states with a vested interest in the outcome of the matter in hand. The latter numbered, for the most part, five: the UK, Italy and Ireland pushing for aid for their backward and depressed regions, West Germany as the paymaster and France opposing any excessive contribution to the Fund on their part and excessive Commission interference in domestic economic policies.

The British premier, Edward Heath, had negotiated British terms of entry to the Community during 1972 on the basis that the establishment of a Regional Development Fund, from which the British would visibly gain, would be a good selling-point to the public in Britain, who were already well aware and sceptical of the extent of British net-contributions to the CAP. Thus, the RDF was seen by the British government as a counterbalance to the high levels of expenditure on the CAP.

At the other end of the scale, the West Germans, by the start of the 1970s, were gradually outgrowing their 'guilt-complex' from World War Two, which had made them soft bargaining-partners during the early years of the Community's life. Thus the German government, especially Hans Apel (who stood in for the ill Foreign Minister Walter Scheel as German representative in many of the Council of Ministers meetings which discussed the RDF), and the then Economics Minister Helmut Schmidt, adopted a very tough stance towards the Fund, in that they insisted on the size of the Fund being restricted and being distributed in the most economic and concentrated manner possible.

The above extreme positions highlight the complexity of the Community's decision-making process; in order to reach some form of agreement such contrasting positions must be compromised. Moreover, the process becomes even more complicated when it is realised that beneath the tip of Community politics lies the iceberg of domestic political climates and opinions in the member states; in the same way that Mr. Heath saw the setting up of the Regional Fund as a provider of good press at home, so the German ministers were sensitive to the potential adverse reaction in their country to yet more German taxpayers' money being spent in the peripheral regions of the Community, mainly outside the borders of the Federal Republic.

The influence of events external to the debate on the RDF, both in other policy-areas, and outside the direct Community policy-making arena, will be considered below. However, this additional complicating factor to an already complex decision-making procedure made the fact that the Commission had been obliged to wait until the Paris Summit meetings of Heads of State and Government of October 1972 for guidelines on the Regional Fund issue all the more understandable; the Commission's task of providing viable initiatives, which stood a chance of working their way through the Community decision-making machinery, had been rendered impossible. Indeed, the same willingness to pass matters on to the shoulders of the Heads of State and Government during Summit meetings was in evidence in the Council of Ministers at the end of 1973. The Fund was due to become operational, according to the Communiqué of the 1972 Paris Summit meeting, not later than the beginning of 1974. Thus, with no sign of agreement at the Council of Foreign Ministers on 4th and 5th December 1973, the matter was to be passed on to the Copenhagen Summit meeting ten days later on 15th December 1973.

At the Council of Ministers meeting[19] in early December the polarised stances remained unchanged. The British still claimed 3 billion u.a. for the Fund for three years and were backed by Italy and Ireland. The Belgians and Luxembourg favoured the Commission proposals but Hans Apel (still sitting in for the ill Foreign Minister, Walter Scheel) stressed that the Germans considered the figure too large. However, the German minister did moot the possibility of a two-part fund: one section for the regions with the severest imbalances (in Ireland, Greenland, Mezzogiorno and parts of the UK) and the rest of the fund to be distributed on a juste retour principle. Hence, the Germans were still stressing that they favoured a concentration of the Fund, but with an eye to as small a Fund as possible, in order to cut back their own losses. The Dutch and the Danes showed some support for this idea; they stood neither to gain nor lose much from the outcome. Moreover, as the Germans made no mention of the size of the Fund involved, the Irish and Italians hinted at possible support for the proposal. Nevertheless, the British opposed the idea as they did not, in their eyes, stand to gain sufficiently, the French were opposed to it because they would be net-contributors and the Commission did not favour any suggestion which would lead to a small non-Communautaire and divisive Fund. Thus, the Commission was still left with the task of appeasing the expectations of the major recipients, of satisfying the Germans and appeasing the French, and the matter was passed on to the Copenhagen Summit.

The failure of this Summit meeting (14th-15th December 1973) to make any headway on the issue of the Regional Development Fund was largely due to the predominant shadow of the OPEC oil embargo crisis (see below). However, this failure meant that the matter had to go before the meeting of the Foreign, Economic and Financial Council of

Ministers on 17th-18th December 1973,[20] with little hope of agreement before the end of year deadline. Not surprisingly, the unwillingness of the major actors to compromise, plus the fact that no initiative or agreement had been forthcoming from the Copenhagen Summit, produced a void in the search for progress.

At the Council meeting (of 17th-18th December 1973) the Germans countered the UK proposal of 3 billion u.a. for three years with a suggestion, made by Hans Apel, of 600 million u.a. for three years with an additional 150 million u.a. to be dedicated to the Guidance Section of FEOGA and the Hill Farming Directive. According to the proposal, only regions with an average Gross Domestic Product of 10% or more below the Community average GDP would be eligible for Fund aid. The outcome was to be expected: support from the Benelux countries and opposition from the UK, Italy and Ireland because of the paucity of the suggested resources. In addition, the French and Danes were against the proposal because they would be net-contributors. The Economist[21] made the sarcastic comment that 'it is a mortal sin of EEC life to turn France into a net payer for anything...'.

As is often the case[22] in difficult situations in the Council of Ministers, the Council President, the Danish Foreign Minister, attempted to gain acceptance for a compromise proposal. This consisted of a three year Fund of 800 million u.a. (including 150 million u.a. for the FEOGA Guidance Section), with 400 million u.a. to be allocated in the first year. Additionally, it was suggested that the Council should review the situation around mid-1975. This package was acceptable to five Foreign Ministers but not to the UK, Italy or Ireland.

It is also characteristic of Community decision-making for one of the small member states with no vested interest in the issue to attempt to mediate between the conflicting viewpoints of the major actors when the decision-making machinery is confronted with such rigid, uncompromising viewpoints. Thus at this stage in the debate the Luxembourgers strove to act as mediators.[23] The Luxembourg government had no vital interest at stake, except for the wish to see one of their regions eligible for Fund aid. They favoured the German proposal but suggested a two year Fund which was to be reviewed in 1975. This proposal received even less support than the Danish President's.[24] Sir Alec Douglas-Home insisted that the British had accepted, with enthusiasm, the Paris Summit agreement in 1972, and he made the UK intention of linking progress on the RDF issue to any agreement on Community energy policy quite clear.

Hans Apel countered the British arguments by claiming that the British were trying to buy friendship, and he compared the Community to a marriage-contract, in which neither partner should expect payment for one's faithfulness. He stated: 'it is like paying my wife to be faithful...!'.[25]

Therefore, it was inevitable that by the end of 1973 no agreement on the Fund's establishment had been reached and in traditional fashion the clocks were 'stopped'.

On 1st January 1974 the Germans took over the Council Presidency from the Danes. There were unfruitful bilateral meetings between Hans Apel and Sir Alec Douglas-Home on 3rd January, and Thomson met with Scheel and Apel in Bonn in early January and found them in an uncompromising mood.[26]

Moreover, no agreement was reached on the Fund at the Council session of 14th-15th January 1974 involving foreign ministers and ministers responsible for regional policy. Nevertheless, Sir Alec Douglas-Home did concede some ground by stating that the proposed Commission figure for the RDF of 2.4 billion u.a. represented a 'substantial starting point'.[27] However, the UK should not receive less than 25% and the British Government still maintained their link between the Regional Fund and energy policy.

At the other end of the scale, the German cabinet-meeting of 23rd January 1974[28] announced that they would be willing to double their offer on the ERDF to 1.25 billion u.a. over three years with 150 million u.a. in addition, for the FEOGA Guidance Section. Under this new proposal, the most depressed and backward regions would receive almost the same amount as under the Commission's proposal but only the regions whose GDP was at least 10% below the Community average would be funded. Under this system the net-contributors to the RDF over the three years would be: West Germany 300 million u.a., France 200 million u.a., Netherlands 100 million u.a. and Belgium 70 million u.a.[29]

The Germans declared this latest concession as their last word, but despite the lifting of the UK link between energy and the Regional Fund[30] the following week, no agreement had been concluded by the end of January. The French, in particular, opposed the latest German suggestion because they would be heavy net-contributors.[31] They now expressed support for the Commission's original proposal of 2.4 billion u.a., a demonstration of the perversities of the Community bargaining process. The French had a net-payments' balance of zero under the Commission proposal and thus, although their new position implied support for a larger Fund than the Germans were proposing, at least the French would be cutting back their losses!

5. Significance of Events External to the Immediate ERDF Issue

As explained above, events external to the immediate debate on an issue in a particular Community policy-area often exert a significant influence on the course and outcome of the matter; they may have both a push and a drag effect upon the progress of discussions.

Indeed the former was true of the link made between the achievement of Economic and Monetary Union in the Community and the prerequisite of reducing regional disparities.

It has been argued above that hopes were high at the end of the sixties, in the EEC, for the achievement of Economic and Monetary Union. This was seen as the natural progression from the customs' union stage of integration. However, it was also recognised that the achievement of total economic integration would be rendered impossible unless the regional disparities existing in the Community were reduced.[32] Thus, there was a strong push for the establishment of a Community regional policy from a separate and distinct, if closely linked, policy-area.

In addition, fuel was added to the arguments in favour of Community regional policy by the imminent enlargement of the EEC to include UK, Ireland and Denmark (and prior to their negative referendum, Norway), all countries with problem-regions and peripheral to the main bloc of EEC countries. Moreover, the British negotiations concerning their terms of entry had proved problematic in the vital area of agriculture: the idea of a Regional Development Fund of net-benefit to the UK provided a strong selling-point in Britain for Prime Minister Edward Heath, striving to convince a sceptical British public about the merits of UK membership of the EEC.

In contrast to the above push-factor, events during 1974 had the opposite effect of rendering agreement on the Fund issue impossible until the Paris Summit meeting at the end of the year. The energy issue which began with the OPEC boycott of oil shipments to the Dutch and a reduction in oil exports to the other eight member states was of prime significance. This issue had dominated the Copenhagen Summit of 14th-15th December 1973 and tension had been heightened by the unexpected appearance of the five Arab foreign ministers at the Summit meeting (see Chapter Three). The disunity shown by the nine member states in the ensuing months and at the Washington Energy Conference[33] was described by the Economist[34] as 'the worst Community crisis since the EEC began'. There is no doubt that this issue adversely affected the Commission's attempts to achieve agreement on the Regional Development Fund.

In addition to the energy issue, the RDF debate was clouded by the two British General Elections of 1974 and the subsequent renegotiation of the Terms of Entry, as pledged by the Labour Government on assuming power in February 1974.[35] In Britain, Community politics were pushed into the background by the elections and moreover the very essence of British membership was challenged by the Labour Party's commitment to renegotiation. In addition, the change of personnel at the helm of French and German politics was of great signifiance for the Community decision-making process; the election of Giscard Destaing as President of France in May 1974, following the death of Georges Pompidou, and the election by the German Bundestag of Helmut Schmidt (the former Economics Minister, who had already driven some hard bargains in the Regional Fund debate) after Willy Brandt's resignation on 6th May 1974, distracted the attention of the Council of Ministers in Brussels, and member state governments at home, away from the problem of setting up the ERDF. According to the Economist,[35] 'Herr Schmidt has much about him of a modern Bismarck. But so far he has used Germany's financial power only to reject what Germany will not pay for'.

The issues and events described above cannot be separated from the intricate web of conflict and disagreement which had been spun around the Commission proposal to establish a Regional Development Fund during Council of Ministers' debates in 1973. Furthermore, the drag factors contributed to the situation where, prior to the Paris Summit (9th-10th December 1974), the Italian and Irish governments took the drastic measure of issuing an ultimatum: no Fund, no Paris Summit meeting! This proved to be the final impetus for agreements on the outstanding points of contention, which centred mainly upon the distribution of the Fund's resources.

As described in the previous chapter[37] the agreement at the Paris Summit distributed the RDF widely over the Community regions, with relatively larger shares provided for Ireland, Italy and the UK.

6. The Rôle of the European Parliament and Other Bodies on the Fringe of the Decision-making Process

The Commission policy of openness to the opinions of all, during the drafting of proposals, meant that Thomson consulted with organisations and bodies in the member state capitals and at the European level before submitting his Report and later his proposals on the Regional Development Fund. Thus (see above), he sought the viewpoints of bodies such as the Standing Conference of the Community's Chambers of Commerce and Industry, the European Trade Unions, UNICE and, at the national level, the various equivalents of the CBI and TUC. However, most vociferous and influential of the organisations and institutions consulted were the Economic and Social Committee and the European Parliament.

The above bodies, without exception, expressed unanimous support for the Commission's proposals and for the idea of a European Regional Development Fund. Nevertheless, it is doubtful whether their backing of the Commission made much impact either upon the bargaining-stances of the member state governments or the development of the debate. Thus, the Commission consulted the national and European organisations but was well aware that their specific proposals had to be tuned to the sensitivities of the Council of Ministers.

The exception to the above situation was provided by the European Parliament with its institutionalised status in the Community decision-making arena. Although this status involved merely an obligation, on the part of the Council and the Commission, to seek non-binding advice and opinions, the European Parliament was composed of representatives from the member state Parliaments and was pushing for increased budgetary powers vis à vis the Council of Ministers - an issue with which the RDF was to become inextricably linked (see below). Thus the European Parliament's voice carried more weight than that of the other subsidiary bodies but even so probably had little effect on the fixed viewpoints of member state representatives in the Council of Ministers.

Nevertheless, the European Parliament had been a source of steady support for the Commission during the 1960s. For example, the Motte Report,[38] issued by the Parliament's Economic and Financial Committee, stressed the need for harmonisation of Community regional policies with those of the member states. Moreover, in 1963 the Birkelbach Report again emphasised the urgent need for a Community-wide regional policy: 'Unless the individual areas share equally in its accomplishments ... an economic and political union will have no permanence'.[39]

In 1966 the Bersani Report[40] on the Commission's 1965 regional policy memorandum gave full support to the Commission proposals. In addition, Parliament provided unanimous backing for the Commission's 1971 document.[41]

In the same vein, there was overwhelming Parliamentary support for Community regional policy and for the general features of the Thomson Report, expressed on 4th July 1973[42] despite certain disagreements and criticism on points of detail, such as the rôle of infrastructure in regional policy. Furthermore the European Parliament also unanimously supported the Commission's specific proposals for the RDF.[43]

However, once the debate proper, between the member state representatives on the Council of Ministers and the Commission, began, after the submission of specific proposals, the European Parliament had little impact on the proceedings though events were followed closely, and criticisms voiced about delays in the Fund's establishment; the nature of the Community decision-making process is such that, once the real debates between the Council and Commission have begun, no accommodation is made for a Parliamentary input.

The same was true of other organisations which had expressed support for the Commission's proposals; these included the Permanent Conference of Community Chambers of Trade and Industry who added their support for Community regional policy in late July and November 1973.[44] ECOSOC and the CBI also stressed their support for Thomson in 1973[45] and pressed for an annual Fund of 500 million u.a. In October 1973, ECOSOC gave full endorsement to the regional policy proposals by a vote of 67-0 (2 abstentions).[46]

Thus there was considerable evidence of support by interest groups. In addition to those cited above,[47] the Federation of German Industries, the Young European Left, the Conference of Local Authorities, the European Movement, the EEC Savings Banks' Group and COPA expressed support for the Fund. However, this support was lacking in intensity and audacity. In contrast to the agricultural policy-area, no 1500 farmers 'besieged' the European Parliament building in support of the Regional Fund.

In conclusion, therefore, the Commission gained the support and opinions of many organisations and bodies but the latter exerted minimal influence upon the outcome of the debate on the specific Regional Fund proposals.

The European Parliament had constantly urged the Commission and Council to establish the RDF and became involved again with debate after agreement on the Fund; in the context of the RDF's status in the Community Budget, the Parliament claimed that the Fund should be categorised as non-obligatory expenditure, since it did not emanate from within the Treaty of Rome mandate. (This would mean that the Parliament would have the last say on the budgetary allocation.) Nevertheless, the Parliament did not want to hold up the establishment of the ERDF and, having opened up conciliation procedures with the Council over budgetary powers, raised no objection to the Commission's texts at its March 1975 session. Thus, the Parliament, like the Commission, considered the Fund's establishment per se to be of prime importance; once the RDF was operational it could push and gnaw away at the Council's powers, particularly in the budgetary sphere, to increase its own influence in the policy-area.

7. Conclusions

The Regional Development Fund was established in March 1975, some fifteen months late. The 1,300 million units of account allocated for the first three years of the Fund amounted to a figure approximately half of that originally proposed by the Commission. The Fund was widely distributed over the Community regions whereas the majority of member states had favoured a concentration of resources in the worst-off areas, by a system of national quotas.

Thus, once again, failure to agree in Council had produced a watered-down decision, providing a paltry Fund whose thin resources were sprinkled over the member state regions. Moreover, the agreement had been reached only after the threat to boycott the Paris Summit of 1974 by the Italians and the Irish. The agreement made a mockery of the Commission's original aspirations, as laid down in the Thomson Report, of solving regional disparities which were blocking Economic and Monetary Union. In no way could this Fund correct the Community's principal regional imbalances; it could, at best, alleviate them slightly.

Nevertheless, in the eyes of the European Commission and indeed the European Parliament, the most important step of all had been taken, namely a Fund had been established and a foundation provided upon which the Commission and Parliament could build and seek improvements.

Thus, the Commission contented itself with the setting up of the Fund, which was, despite its watered-down size, based largely on Thomson's original proposals.[48] This was in spite of the fact that the debate in the Council of Ministers had been dominated by the sensitivity shown in those member states with a vested interest in the final decision. The major actors had adopted rigid and uncompromising stances vis à vis each other and the Commission's proposals. Therefore, the Commission had to content itself with the fact that, albeit long overdue and watered-down, a Fund had been established at all.

The West Germans had given way on their original proposal of a small concentrated fund and settled for a fairly small, widely distributed fund with some German regions eligible for aid. During 1975, the Germans would pay[49] 84 million u.a. into the Fund and receive 19 million u.a. Therefore, West Germany was indeed the paymaster of the new Fund.

The French did well from the Fund. They had, throughout the debate and discussions, insisted on a decent share of the Fund and had stressed their aversion to being net-payers. Despite France being slightly out of pocket, according to the agreed figures (they were to contribute 69 million u.a.[50] in 1975 and receive 45 million), their 15% share of the Fund's resources was better than their relatively strong economic position in the Community should have permitted.

The British share of the Fund was 28% which was more than the 25% figure on which they had insisted. Nevertheless, the size of the Fund was considerably less than the original British demand of 3 billion u.a., though the UK stood to gain a considerable net-benefit from the RDF:[51] it would pay 41 million u.a. into the Fund and receive 84 million u.a. from the RDF coffers during the first year of Fund operations.

The Italians and the Irish, the other two main beneficiaries from the RDF, received 40% and 6% of Fund resources respectively. In addition, the Irish received an extra 6 million u.a. to be subtracted from the other member-states, except Italy. Relatively speaking, these two countries did well from the final decision although the size of the Fund was smaller than they would have wished and the distribution of resources was far too wide.

In conclusion, the intergovernmentalist aspects of Community decision-making had predominated. The conflicts in the Council of Ministers and the uncompromising attitudes of the major actors, had swamped Commission attempts to mediate between differing viewpoints and to achieve agreement on the Fund issue. At no time in the debate did Thomson strive to exert Commission authority; he pursued a gradualist policy of trying to appease the member states stage by stage.

The European Parliament, ECOSOC and other European and national organisations and bodies, backed the Commission and voiced their support for the establishment of a Regional Development Fund. Their influence, however, was negligible.

The debates and discussions between member state representatives, both inside and outside the forum of the Council of Ministers, were hard and uncompromising. Finally, they were overtaken by events external to the immediate RDF issue. Thus a final initiative and agreement was required by the body which had initiated the debate in October 1972. The Paris Summit meeting in December 1974 provided the details of the RDF which was to be established three months later after even more disagreement between the Commission and European Parliament on the one hand, and the Council of Ministers on the other, over the details of draft regulations for the Fund and of the RDF's status in Community politics.[52]

Notes

1. See Chapter 3.

2. Point 5 - Official Communiqué, Paris Summit, October (1972).

3. George Thomson, along with Sir Christopher Soames, had been appointed as one of the British Commissioners. Thomson had been a longstanding pro-European labour M.P. who had held responsible positions in the Wilson Cabinet from 1964-70 and had been a member of the Shadow Cabinet until April 1971 when he resigned because of the Labour Party Conference's opposition to the terms of the UK Treaty of Accession - see U. Kitzinger, Diplomacy and Persuasion. How Britain joined the Common Market, Thames & Hudson, London, 1973.

4. Europe Daily Bulletin, 10th March 1973, pp.5-6.

5. Europe Daily Bulletin, 18th April 1973, p.8.

6. The Economist, 14th April 1973, pp.61-62; 21st April 1973, pp. 55-56.

7. Europe Daily Bulletin, 4th May 1973.

8. See Neofunctionalist arguments as expressed above (Chapter 1).

9. European Parliament Documents (1973-74); Interim Report, Committee on Regional Policy and Transport on Community Regional Policy, Document 120/73, 4 July 1973.

   For full coverage of the debate see: Official Journal of European Community, Debates of European Parliament : Report of Proceedings (Strasbourg), pp.175-197, 198-206.

10. Europe Daily Bulletin, 2/3 July 1973, p.5.

11. Europe Daily Bulletin, 21 July 1973, p.10.

12. Europe Daily Bulletin, 13 July 1973.

13. Europe Daily Bulletin, 26 July 1973.

14. The Committee was to be composed of two members from each of the member states and the Commission, who were to be senior officials responsible for regional policy.

15. See Europe Daily Bulletin, 28 July 1973, p.56, and the Economist, 30 July 1973.

16. Op. cit.

17. Europe Daily Bulletin, 10/11 December 1974.

18. Europe Daily Bulletin, 10/11 December 1974.

19. For reports on the meetings see: Europe Daily Bulletin, 5th December 1973, p.8 and 6th December 1973, pp.7, 8, and the Economist, 8th December 1973, p.62.

20. See Europe Daily Bulletin, 19th December 1973, pp.4-5, and the Economist, 22nd December 1973, pp.49-51.

21. The Economist, 22nd December 1973, p.5.

22. See the Economist, 8th December 1973, p.62.

23. Ibid.

24. Europe Daily Bulletin, 19th December 1973.

25. The Guardian, 18th December 1973.

26. Europe Daily Bulletin, 7th, 8th January 1974, pp. 4 and 5.

27. Financial Times, 15th January 1974.

28. Europe Daily Bulletin, 24th January 1974.

29. Europe Daily Bulletin, 24th January 1974.

30. Europe Daily Bulletin, 31st January 1974.

31. Europe Daily Bulletin, 24th January 1974.

32. As has been pointed out above. Point 5 of the final communiqué of the Paris Summit (19-24 October 1972): 'The Heads of State or Government agreed that a high priority should be given to the aim of correcting in the Community, the structural and regional imbalances which might affect the realisation of E.M.U.'.

33. See Chapter 3 for details.

34. The Economist, 26th January 1974, p.59.

35. See above, Chapter 3.

36. The Economist, 23rd February 1974, pp.14-15.

37. See Chapter 3 for percentage shares of the Fund.

38. See 'European Parliament, the First Ten Years, 1958-68', Strasbourg : General Secretariat.

39. Quoted in: C. Flockton, Community Regional Policy, PEP European Series, No. 15, November 1970, pp.34-35.

40. EEC Bulletin, August 1966, No. 8, pp.83-84.

41. Europe Daily Bulletin, 17th March 1972.

42. Official Journal of European Communities - Debates of the European Parliament : Report of Proceedings (Strasbourg), July 1973, pp. 8, 175-197, 198-206.

43. See European Parliament Working Documents, 1973-74.

44. Europe Daily Bulletin, 21st July 1973, p.10; Europe Daily Bulletin, 29th November 1973, p.9.

45. Europe Daily Bulletin, 18-19 June 1973.

46. ECOSOC Opinion (Dossier: 14/Reg) Brussels, 25 October 1973, p.23.

47. See R. Talbot mimeograph on establishment of Regional Fund, op. cit.

48. See Chapter 3.

49. The Economist, 14th December 1974, p.46.

50. Ibid.

51. Ibid.

52. See Chapter 3 for details.

CHAPTER FIVE : EUROPEAN REGIONAL DEVELOPMENT FUND OPERATIONS 1975-79

Introduction

This chapter surveys the first period of the ERDF's administration between 1975 and 1979 as agreed by the Council of Ministers in March 1975.

The framework for the Fund's operations was laid down in the Council Regulation of 18th March 1975,[1] the main details of which are described below. An analysis is made of ERDF administration at the national level, in the U.K., France, Ireland, Italy and West Germany. The details of this section were gathered, in the main, during interviews conducted in Brussels and the member state capitals and regions, between 1977 and 1979 and, where possible, the date and place of the meetings are cited.

The final section of this chapter attempts to draw conclusions about the general features of ERDF administration during the period in question.

Following the establishment of the ERDF on 18th March 1975, the responsibility of administering the Fund fell upon the Commission. It was to be assisted by two Committees: the Regional Policy Committee was given the task of considering applications for infrastructure aid of a cost exceeding 10 million u.a.[2] However, the Committee's main role was to be that of encouraging and examining ways of coordinating member state regional policies.

> It is important to ensure that the measures envisaged by Member States in regional policy matters are in accordance with the Community's objectives, and that options are selected and priorities established, in a manner compatible with the gradual alignment of the economic policies of Member States.[3]

The aim was also expressed of progressively setting up Regional

Development Programmes for member state regions which would eventually constitute the framework for ERDF intervention.

A further task of the Regional Policy Committee was that of providing information about development prospects in priority regions and the aids available to them.

The Regional Policy Committee was to be composed of two appointed members from each member state selected from among senior officials responsible for regional policy and two Commission appointees.[4] The European Investment Bank was to appoint an observer to the Committee. The Committee was to be served by a secretariat provided by the Commission and to elect its Chairman and Vice-Chairman from among its members by majority vote for a period of two years.[5] Finally, the Committee was empowered, in pursuit of its tasks, to take evidence from interested parties from the regions and from trade union and business organisations.[6]

Article 15 of the Council Regulation establishing the ERDF[7] set up the Fund Management Committee. It was to be composed of representatives of the member states and chaired by a representative of the Commission. The votes of the Committee were weighted according to the provisions laid down in the Treaty of Rome.[8] The Chairman was not given the right of voting.

It is the responsibility of the Commission representative on the Committee to submit drafts of documents to be taken on Fund aid and the Committee must deliver its opinion (adopted by the above voting procedure) within the time-limit specified by the Chairman.

The Commission adopts Committee decisions which apply immediately.[9] However, if these decisions are not in accordance with the opinion of the Committee, they are sent to the Council of Ministers. In these cases the Commission defers application of the decisions which it has adopted for two months and the Council has the right to take a different decision within this period.

Thus the main task of the Fund Management Committee is to formulate opinions on the Commission's draft decisions to grant aid from the ERDF. In this respect it examines all applications for Fund assistance from member states. However, it is also empowered to discuss any other matters connected with the management of the Fund.

The Commissioner responsible for Regional Policy and his senior officials were to hold regular meetings with the European Parliament's Committee on Regional Policy, Regional Planning and Transport, to discuss the operations of the Fund. In addition, the Commissioner was to hold consultative meetings with the Economic and Social Committee, the E.T.U.C., UNICE and the Standing Conference of European Chambers of Commerce.

The Regulation stipulated that the Fund could only intervene in areas benefitting from domestic regional aids within the framework of national regional policies and which were accorded the status of priority regions under these domestic policies. Thus a close coordination was foreseen between the operations of the ERDF and national regional aids,[10] an aim which was to be furthered by the Regional Policy Committee (see above).

Article 4[11] of the Fund Regulation listed the types of projects eligible for assistance and stated that the Fund could contribute to the financing of investments which individually exceeded 50,000 u.a. provided they could be classified under one of the following categories:

(i) Industrial, handicraft or service activities which are economically sound and which benefit from state regional aids, provided that at least ten new jobs are created or that existing jobs are maintained.

(ii) 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.

(iii) Investments in infrastructure directly linked with the development of activities under categories (i) and (ii) and totally or partially financed by public authorities or by any other agency responsible, on a similar basis as a public authority, for the creation of infrastructures.

Article 4 also designated the amount of the Fund's contribution:

(i) Industrial projects. 20% of the investment cost, without, however, exceeding 50% of the aid accorded to each investment by public authorities.

(ii) Infrastructure projects. 30% of expenditure incurred by public authorities when the investment is less than 10 million u.a. and between 10% - 30% maximum for investments of 10 million u.a. or more.

Article 6 of the Fund Regulation stressed the importance of Regional Development Programmes and the need to develop them into a frame of reference for project selection. This was consistent with the Regional Policy Committee's specified role and aim of achieving the maximum consistency between Community and national assistance and the most rational use of resources. The Fund Regulation stated that a standard outline for Regional Development Programmes was to be drawn up by 31st December 1975.

The Programmes, covering all the regions eligible for Fund aid, had to be notified to the Commission by the end of 1977. Meanwhile, annual information sheets were to take their place.

According to the Fund Regulation applications could only be submitted by the member states. This was clearly necessary as it would have been impossible, given the Commission's limited resources, to examine ab initio, thousands of projects. Thus, the Commission decided on Fund aid grants on the basis of applications sent in periodically by the relevant government department in the member states. The Commissioner responsible for regional policy was authorised to approve, for the Commission as a whole, the draft decisions submitted to the Fund Management Committee.

Within the Community Budget, the Fund's resources were divided into Commitment and Payment appropriations: for example, the Commitment appropriations of the Fund for 1975 amounted (in conformity with the Fund Regulation) to 300 million u.a. The estimated 1975 payments provided for were, however, only 150 million u.a. This discrepancy occurred because payments from the Fund were linked to patterns of national public expenditure on the projects approved by the Fund, domestic payments being made in stages over a period of time.

Authorities or organisations likely to benefit directly from the ERDF's contribution to investment in member state regions will be surveyed by considering the way in which certain member states have dealt with the task of administering the Regional Development Fund. Since the Regulation provided for close cooperation between Community and national officials on matters such as eligibility criteria, applications for aid and the distribution of Fund aid, then the role played by potential beneficiaries of the Fund will vary.

Since the Regional Policy Committee and Fund Management Committee had the tasks of coordinating member state regional aids and monitoring requests for ERDF assistance, member states' methods of implementing national regional policies would be under constant review as would their administration of Fund quotas in the regions eligible for aid.

Local and regional authorities will only have the scope to play an active role in Regional Fund matters to the extent permitted by their member state's system of government and according to the general attitude shown by the national government towards the European Commission and EEC affairs.

The problem of additionality has dogged the administration of the ERDF since its inception; the preamble to the Fund Regulation stated that: 'the Fund's assistance should not lead member states to reduce their own regional development efforts, but should complement these efforts'.[12] This is of obvious importance to authorities and organisations likely to receive Fund aid: whether they are in fact receiving additional aid, over and above what would have been spent anyway, by the national government on regional policy, in the absence of the Fund.

There has been, since the Fund's establishment, much questioning of whether member states adhere to their commitment to the Council Regulation, or whether they merely use the Fund's resources to reduce their own financial burden in the regions. It is almost impossible to prove the matter one way or the other, but officials in the regions of at least one member state are, to say the least, dubious about their national government's commitment to the principle of additionality.

Administration of the ERDF in its first phase: the UK and the North West Region

In the UK, applications for Fund aid for infrastructure projects are dealt with by the Department of the Environment, as are applications concerning infrastructure projects linked with tourism though with the participation of the Department of Trade. On the other hand, industrial project applications pass through the hands of the Department of Industry. Industrial or infrastructure projects must be sited within the boundaries of the UK's domestic Development Areas to be eligible for aid from Brussels and in this respect, projects in Special Development Areas have priority over Development Areas whose projects in turn have priority over Intermediate Areas.

It is very difficult to assess the activities of regional authorities, organisations or industries in receipt of Fund aid for industrial projects because this section of ERDF financial assistance is paid directly into the Treasury's coffers and used (theoretically, at least) to 'top up' the amount of money available for financing Regional Development in the UK. There has been a widely-publicised questioning of whether the British Government does in fact use money from the ERDF in Brussels additionally to the amount that would otherwise have been spent;[13] whatever the case, there is no distinction made between Regional Fund money and domestic resources when projects are being financed by the Department of Industry.

A different system operates, however, for infrastructure projects which have been put forward for ERDF assistance. Infrastructure aid, moreover, accounted for 65% of the Fund's resources in the first phase (1975-77).[14]

Local authorities or sectoral bodies such as the Gas and Electricity Boards and Water Authorities put forward projects as candidates for Fund aid. (If the project is sited in a Special Development Area (SDA) or a Development Area (DA) and meets the eligibility criteria then it is likely to be accepted; the procedure followed is that local authorities submit their project applications to the appropriate regional office of the Department of the Environment, for example the North West Economic Planning Board in Manchester, from where they are sent on to the Department of the Environment in London, if it is considered that they are likely to be accepted there for submission to the European Commission in Brussels.

Before submitting project applications to the regional office, local authorities will try to ensure that their proposals satisfy the Regulation's requirements, and may possibly seek the advice of bodies such as the North-West Industrial Development Association, which act as 'information banks' on EEC matters, in the context of their expressed aim of developing industry in the regions.

When project proposals reach the regional office they are assessed to ascertain that they conform to the eligibility criteria. With this purpose in mind, regional officials seek out the opinions of people in various ministries, for example the Department of Industry, Employment or Environment. Eligible projects are then submitted to the Department of the Environment in London along with a back-up case for the project, through which the regional office attempts to strengthen the case for Fund aid as much as possible.

The regional offices do not like to see themselves as the 'regional arm' of the Department of the Environment in London,[15] but rather prefer to be seen by local authorities as a projection of themselves. Thus, the regional offices prefer to be considered distinct from their head office in London and have developed a close working relationship with the local authorities. This attempt to work closely with local authorities has, according to sources in the Department of the Environment[16] in London, been particularly successful in the North West of England, where local authorities do in fact need as much backing as possible for their projects, given that most of the Planning Region is designated as an Intermediate Area, and thus at the bottom of the priority rankings for Fund aid.

The regional office has encouraged local authorities to see the ERDF as an 'on-going' concern; they tried, during the first phase of Fund administration, to acquire a pool of projects in the form of schemes which could be sent to London in the form of a package to demonstrate how they promote the region. This was in preparation for the production of Regional Development Programmes which had to be drawn up and submitted to Brussels by the end of 1977 and which would require the future linking of eligible projects to a specific programme for the region.

The procedure is different for project applications from sectoral bodies such as the Water Boards, who submit their applications directly to London. They first forward a preliminary group of project-proposals, then receive a reply from the Department of the Environment, (thus bypassing the regional level), which expresses an opinion on the suitability of the various projects, or criticises them by pointing out, for example, any gaps in the information provided on the application form.

A final amended block of applications is then sent back to London for consideration in Brussels. It is interesting to note the tactics sometimes employed by the Department of the Environment, when for some reason they do not view a particular project favourably; the North West Water Authority, for example, applied for Fund aid for a sewerage project[17] in Lancashire on the standard application form, whereupon they received a reply from London stating that inadequate information had been supplied. The omissions were rectified and the project was sent back to London with the Water Authority's next package of proposals. However, the response of the Department of the Environment was that the project was now 'too retrospective to justify application for a grant'!

The Department of the Environment draws up a package of projects which it considers suitable for submission to Brussels, and submits them every three months to the European Commission. It judges the suitability of projects very much upon ideas gained, and precedents that have been set from past experience; if a particular type of project has found favour in Brussels in the past, then it is likely to be a good candidate for future applications. However, the Department does also submit 'test cases' in fields which have not been viewed too kindly by the Commission, the Regional Policy Committee and the Fund Management Committee in the past. For example they were successful in being granted aid for two such applications in the field of tourism, which were sent to 'test the water' for future applications. These two projects involved requests for aid for two projects in the North West and concerned a leisure centre in Morecambe and a museum in Lancaster.

Once the Commission receives the packages of projects, they are studied and a draft decision is drawn up before the projects are put before the Committees.

Large projects (total expenditure exceeding 10 million u.a., £4.2 million) are sent to the Regional Policy Committee, which gives an opinion, whereas all projects, large and small, go before the Fund Management Committee (see above).

If a project is approved by the Commission then the appropriate sum of money is paid to the Department of the Environment which passes this on to the local authorities or sectoral bodies; money from the ERDF is intended for part cancellation of funds already borrowed by these authorities for infrastructure projects, thus it cancels out part of the original debt incurred for the project.

Project-applications emanating from Wales and Scotland are not tendered via the Department of the Environment in London but are sent directly from the Welsh and Scottish Offices to the Department of Industry before being submitted to Brussels. Sources in Welsh and Scottish Offices claim that their countries have done well in terms of Fund aid which they have received.[18] They make claims of being much more active and aware of the Fund and the eligibility criteria than their counterparts[19] in the English regions. Whether this claim is justified or not, the Scottish Office apparently caused considerable embarrassment within the Department of the Environment in London in 1976 by issuing a guideline document to the Scottish local authorities, informing them how the Regional Fund operated and about its eligibility provisions. At this time London had made no moves at all in this direction and thus the Scottish Office provided its regions with a head start in terms of information on how to submit projects in the form of proposals for Fund aid. Indeed, as the above figures show, the Scottish Office spent 25.54% of the total UK allocation during the ERDF's first phase.

The Scots and Welsh also claim to enjoy a more informal relationship with their local authorities and they endeavour to operate an informal submission of applications, meeting and exchanging ideas with local officials about possible projects. The Scottish Office have developed the viewpoint that it is beneficial (particularly under the new Regional Fund criteria (see below) to submit large sections of local authorities' programmes, rather than merely operating on a scheme by scheme basis. Indeed one such programme has received ERDF aid in Scotland: the Rural Electrification Programme, which has linked up small groups of houses to the national electricity grid.

Officials at the Department of the Environment when questioned thought it to be a wasted exercise for local authorities to lobby the European Commission in Brussels on the subject of Regional Fund aid and indeed they admitted to discouraging such liaisons. By contrast Commission officials stated that they were only too pleased to see local authority representatives visiting their offices to discuss the Regional Fund and various projects. Nevertheless, it was also admitted by Commission officials[20] that it was in London, at the Department of the Environment, where local authorities needed to apply pressure if they were demanding increased aid, since it was the national department which manipulated the character and shape of the English quota by their decisions on whether or not to submit a project to Brussels. Thus the Commission had no jurisdiction over decisions taken on a project at this crucial initial stage. Therefore, the main purpose of regional and local authority visits to Brussels seems to be for gaining information on the operations of the Fund and the general work of the European Community. Furthermore, Commission officials frequently visit the UK regions to attend seminars or conferences on the ERDF and its operation, in this way again serving an educational function.

In so far as authorities and organisations need to focus their attention upon the national level, namely Whitehall or the regional offices of the Department of the Environment, this is largely constricted by the Fund Regulation and by the geographical position of the local authority: whether it is situated in a Special Development, Development or Intermediate Area under the provisions of domestic regional policy.

The UK's Fund allocation for the first phase (28% of the total Fund resources) was oversubscribed. Given the increasingly tight financial strait-jacket in which local authorities are finding themselves, any source of finance available takes on an increasing importance. Thus it is not necessarily the fact that the ERDF provides a source of finance from Brussels which stimulates interest in the Fund, but, to an ever-increasing extent, a lack of funds from other domestic sources due to cut-backs in public expenditure.

French administration of the Fund

Whereas two separate government departments are responsible for administering the UK quota of the ERDF, the French share is handled by D.A.T.A.R.[21] in Paris, the institution responsible for Regional Development ("L'Aménagement du Territoire") in France. The method of Fund administration typifies the centralist system of French government, with the regions having no powers or choice in matters concerning the destination of ERDF aid.

Officials in the French regions are forbidden any direct contact with the European Commission, and if a representative from Brussels visits a French region, he must be accompanied by a central government official, such is the French mistrust of the Brussels "Eurocrats"' interference.

Sources in the Conseil Régional[22] in Lille (Nord-Pas-de-Calais) provided an example of an attempt and a failure by regional officials to intervene, at the level of the French government, to obtain aid from Brussels; the Conseil Régional endeavoured to get aid for textiles, steel, and more recently for a large project involving the transportation of ethylene. The latter project (for which the decision to invest was made in 1973-74 in Dunkirk) posed the question of how best to transport the ethylene to Rotterdam - either direct from Dunkirk to Antwerp, or alternatively taking a route through Valenciennes on the Franco-Belgian border. The Conseil Régional naturally favoured the second alternative, but because the matter is of an international nature involving the Belgians, Dutch and French the interests of the Nord-Pas-de-Calais region may well not equal those of the French government in Paris, which is suspicious of such trans-border projects because of the fear of any infringement on their own domestic policies by the European Commission.

It would appear that the French government is loth to publicise any direct benefits accruing to France from European Community initiatives, and despite the fact that a breakdown of the Fund's expenditure in the French regions is provided, it is asserted, both by officials in the French regions and by Commission officials in DG XVI, that the government produces the list of projects, according to Commission requirements, but constructs this list so as to correspond to the French quota allotment. In other words, it is claimed that this list does not necessarily reveal the actual destination of ERDF aid which acts as a reimbursement for money spent on regional development in France and is placed on the receipt side of the French budget. Moreover the Commission pointed out[23] that officials carrying out on-the-spot checks of ERDF assisted projects in France had been refused permission to visit the industrial projects concerned. They had thus been limited to an examination of documents held by the responsible authorities.

The crux of the French problem, in terms of interest articulation by potential beneficiaries of the Fund, is that this articulation is throttled by the centralist attitudes of the French government, by the all-pervading powers of DATAR in matters of regional policy, and by the fact that the Fund regulation relies on Community aid being complementary to, and working in close liaison with, national regional policy. Officials in regional government, for example in the Conseil

Régional in Lille, placed great hopes on direct elections to the European Parliament for encouraging direct contact between the French regions and the EEC institutions[24] and in this way perhaps loosening the stranglehold of the central government in Paris over EEC affairs.

Ireland's Fund Administration[25]

The Irish Republic, which is treated as one region for ERDF administration purposes, also operates a centralised system for distributing its quota of the Fund. During the Fund's first phase the Irish government added the money likely to be paid each year from Brussels to the amount available from domestic resources for bodies like the Irish Development Authority, Gaeltarra Eireann and the local authorities, before arriving at the Public Capital Programme (whose level is set in the annual budget).

The funds paid from Brussels had to be related to projects financed from domestic resources in earlier years, as against those projects financed in the particular year in question. This was due to the requirement in the original Fund Regulation[26] that a project be initiated (and in some cases completed) before becoming eligible for submission for ERDF assistance. Thus as the level of the Irish Public Capital Programme was set annually, the concept of 'additionality' became obscured.

The Department of the Environment in Dublin is responsible for vetting projects that have been submitted by local authorities or by bodies such as I.D.A. for government aid; it submits projects eligible under the Fund Regulation for consideration by DG XVI of the Commission in Brussels, and the aid made available for those projects accepted by the Commission is paid into the Public Capital Programme, thus increasing the absolute amount of funds available to the Irish government.

Despite the centralised system and the lack of clarity on the notion of additionality, caused by topping up the PCP with Regional Fund resources, government officials are adamant that the aid from Brussels is used 'additionally' to its own money; moreover, although projects are not submitted to Dublin with the specific aim of applying to the European Commission for aid, since the Department of the Environment chooses from its pool of projects which ones are most eligible for ERDF assistance, it is the policy of the Irish government to inform the local authority or public agency concerned that their project is receiving aid from the ERDF, and indeed a policy of public advertisement of this fact was introduced on the sites of these projects from the outset of Fund payments in support of projects in Ireland.

In sum, it can be said that because of the centralised system in operation in Eire, there is little scope for interest articulation by those likely to benefit directly from the Fund. Nevertheless, this is not due to an unwillingness on the part of the Irish government to publicise the benefits accruing to particular projects from ERDF assistance, and there are strong signs to suggest that the principle of additionality is being adhered to in the Irish Republic.

Italian Fund Administration

Italy is the major recipient of the ERDF quota allocations and received 40 per cent of total resources during the first phase. Moreover, the Fund's assistance is further concentrated, namely in the South of Italy (Mezzogiorno) following an agreement concluded by the Interministerial Committee for Economic Problems, composed of the Presidents of the Italian regions.

The responsibility for the administration of the Italian 40 per cent fell upon two bodies:[27] the 'Cassa per il Mezzogiorno' is the technical organisation responsible for the Fund's administration, while the political responsibility lies with the Ministry for Extra-ordinary Interventions in the Mezzogiorno. The two bodies work together on the preparation of dossiers for Brussels, with the Ministry having the responsibility of drawing these up and submitting them to the European Commission. A separate heading is provided for ERDF aid in the Italian Budget, an innovation which was demanded by the Italian Treasury, in order to show where the Regional Fund was being spent. However, although this is a move in the right direction, in terms of demonstrating adherence to the principle of additionality, it does not provide a water-tight guarantee, since there is no proof that the government would not have invested an amount of domestic resources, equal to the total ERDF resources, in the absence of the Regional Fund.

On the other hand the Italians advertise on bill-boards on the site of projects receiving aid from the ERDF, thus informing the public of the benefit derived from the EEC's Regional Fund.

The 'Cassa per il Mezzogiorno' is responsible for the technical elements of the Fund's administration within the context of its programme for the development of Southern Italy. In line with the element of regional autonomy in the Italian system of government (for example, the regions have powers in areas such as land use, including matters such as anti-pollution measures in the Bay of Naples), the Cassa cooperates with the regions in an attempt to harmonise its own programme with those of the regional governments.

Cassa projects are almost entirely covered by the national finance budget and ERDF aid is placed in a special fund to build up 'additional projects'. This ERDF money is used in two ways:

(1) to provide money for Cassa projects that would otherwise have no financial means;

(2) to finance projects proposed by certain of the most depressed regions, which are placed under a Special Cassa Programme.

The Cassa is still responsible for the execution of these projects. These regional projects accounted for about 10 per cent of total projects aided during the ERDF's first phase.

There seems to exist a 'gentlemen's agreement' between the Italian regions and the Cassa, regarding the submission of projects to the European Commission. Thus the 10 per cent of projects supported by ERDF aid, during the first phase of administration, and initiated by the regions themselves, were still included in the Cassa's programme, albeit under a special section. It would therefore appear that the regional governments entrust the task of furthering their claims in Brussels to the Cassa and ultimately to the Ministry for Extraordinary Interventions in the Mezzogiorno.

Representatives of the regional governments do visit Brussels, like their British and Irish counterparts, on an informal basis to find out more about the workings of DG XVI and of the Commission in general. Moreover, the Italian section of the Council of European Communes[28] (CEM) sponsors regional civil servants, who spend one month working as stagiaires at the European Commission in Brussels (working on either the ERDF, FEOGA or European Social Fund) and when these civil servants return from Brussels, the CEM keeps in touch with them and aims to ensure that they are deployed in a department where they can use their acquired knowledge of the EEC, to the best of their ability.

West Germany's Administration of the ERDF

The West German case provides a view of the Fund's administration from the opposite end of the spectrum, in so far as West Germany is the major 'paymaster' of the ERDF in its first phase, providing 30 per cent of the total resources, while receiving 6 per cent of the Fund money for payment to its own regions under the national quota system.

Due to the federal structure of the West German government, there is a complex administrative framework for the distribution of the West German 6 per cent of the ERDF resources. Regional policy is classed as a 'Gemeinschaftsaufgabe' in the Federal Republic and responsibility for its administration falls upon two ministries at the Bund (Federal) level, and two ministries at the Land (regional) level: the Federal Economics Ministry and the Ministry of Regional Planning, Building and Urban Development and the equivalent ministries at the Land level. Projects are financed 50 per cent by the Federal level and 50 per cent by the regional level.[29]

The West German share of 6 per cent of the ERDF, in the first phase of its administration, was distributed throughout the Länder, according to the ratios used for the distribution of aid under the 'Gemeinschaftsaufgabe' of domestic regional policy. For example, Bavaria received 22.8 per cent of aid under the Gemeinschaftsaufgabe and was thus entitled to 22.8 per cent of West Germany's 6 per cent share of the ERDF. Projects falling within the framework of domestic regional policy are passed on from Munich (in the case of Bavaria) to the Federal Economics Ministry in Bonn; if they are approved at this stage, as being appropriate for ERDF aid, then they are forwarded to Brussels, to DG XVI of the European Commission.

The West German government does not apply the principle of 'additionality' but merely uses its receipts from the ERDF to reduce the financial burden falling upon the Federal and regional governments. For example, if an infrastructure project in Bavaria receives 30 per cent rate funding from the ERDF, when the benefit has been allocated between Bund and Land, both levels of government have additional resources at their disposal, which could be used to help finance more projects. Indeed the Länder governments have expressed a willingness to use their extra financial resources additionally but have met with refusal on the part of the Federal Government. Thus, since projects are financed 50 per cent - 50 per cent by the two tiers of government, the Länder are powerless to carry out their expressed wishes without Federal support.

The consensus in the Länder[30] seems to be that, given the administrative complexities involved in distributing the Regional Fund aid, especially since the 6 per cent of 1300 million ua for three years is such a small figure, the ERDF is more trouble than the value of the derived benefits. Indeed one official in the Bavarian Economics Ministry suggested that it might be better for the Federal Government to receive no aid from the ERDF and pay proportionately less into the Fund's coffers - i.e. West Germany should contribute 30 per cent - 6 per cent = 24 per cent of total Fund resources and thus the problems of administration would be eradicated. Nevertheless, for political reasons, the Federal Government must be seen to be returning from debates in the Council of Ministers with some tangible reward to offer to its electorate, and is hence unlikely to agree to this suggestion. Moreover it is politically important, not just for the West German government, but for the EEC as well, to support the 'Zonenrandgebiet' - the Border Area of the Federal Republic, which constitutes the area up to 40 kilometres from the boundaries with the East European states: an area which has lost its economic hinterland due to the division of Europe into two blocs.

Interest which is articulated on the Regional Development Fund in the German regional governments tends to be of a negative nature; given the insignificant figures involved and the Federal government's views on additionality, the Fund is seen to be more trouble than it is worth.

Analysis and Conclusions

Several conclusions can be drawn from the above discussion of the ERDF's administration in the first phase between 1975-77: firstly the principle of additionality was open to question in all member states. Adherence to this principle implies that Community contributions to projects in the member states should be added to and not substituted for what member states would have spent anyway. Thus, the purpose of additionality is to ensure that Community funds are used to further the aims of the Community and that they can be considered as a genuine Community contribution.

The Fund Regulation specifically states that the ERDF contributions 'may ... either supplement aid granted to the relevant investment by public authorities or remain credited to those authorities and considered as a partial repayment of such aid'.[31] Nevertheless, the preamble to the Fund Regulation states that: 'the Fund's assistance should not lead member states to reduce their own regional development efforts, but should complement those efforts'.

However, even when the additionality principle is adhered to it is hard to prove because it is the national governments, for the most part, who receive the Community assistance in the first instance before disbursing it to firms, local or public authorities by the system relevant to the member state in question.

The second conclusion to be drawn is that although local and regional authorities are actively involved in the Fund's administration in some member states during the drafting of eligible project proposals, especially with regard to infrastructure aid, this is not always the case in France, with its highly centralised system of government which is most suspicious of Commission interference in domestic regional policy. All decisions are taken in Paris, leaving little or no scope for interest-articulation.

Even where local and regional authorities do play an active role, namely in the UK and to a lesser extent in Italy, it is acknowledged that it is the role of national government, or more specifically, of the relevant Ministry or Department, to decide upon projects suitable for submission to the Commission. Thus, it is these ministries and departments which become involved in direct contact with Commission officials on individual project decisions.

Those local and regional authorities in the member states, whose system permits the articulation of interest on EEC affairs, recognise that they are circumscribed by the Fund Regulation and its provisions which call for close cooperation between the Community and national authorities, another factor enhancing the power of the national governments vis à vis the Commission and the local and regional authorities.

The European Commission, whilst welcoming direct contact with local and regional officials from all member states, also recognises that its main function in this respect is to provide information. The Commission strives to make local and regional officials aware of the scope of the Fund Regulation and of the mechanisms by which the ERDF, and the Community in general, operates.

In France, where the centralist attitude of the national government permits little or no interest-articulation, and also in the regions of other member states, great hopes were placed on direct elections to the European Parliament and on the mandate given to the directly elected MEPs by the Community regions. It was felt that these representatives would feel duty-bound to give absolute priority to serving the interests of the region which they represented.

Hence, direct elections to the European Parliament would potentially increase direct contact between the regions and Brussels, especially since the directly elected Parliament would inevitably press for a more influential role in the Community decision-making process and since it had already expressed a keen interest in the ERDF during the debates preceding the Fund's establishment. Since Direct Elections in 1979 the European Parliament has indeed been active in matters concerning the operations of the ERDF and in particular on the annual issue of the size of the ERDF allocation in the Community Budget (see Chapters 8 and 10).

Consideration must also be given to those bodies which have expressed interest in, and promoted the broader aim of, establishing an active regional policy at the EEC level, in an attempt to reduce regional disparities in the European Community.

The Economic and Social Committee issued several statements and opinions expressing support during the debates which preceded the Fund's establishment (see Chapter 4). Additionally, several other bodies expressed their support for the Regional Fund, including UNICE which published a memorandum in 1973,[32] following its examination of Commissioner Thomson's proposals for the ERDF, which were at the time before the Council of Ministers. In the memorandum UNICE insisted upon the need for a Community regional policy, a need which they considered to be all the more important because of the need for further progress towards achieving Economic and Monetary Union, 'to which regional policy is closely linked and appears more than ever to be an indispensible factor thereof ...'.[33] It also stated that UNICE did not intend to take a stand as regards the amount of money to be allocated to the ERDF since in its view 'this is essentially a political matter'.[34] Thus UNICE expressed support for the principle of the Commission's proposals and went so far as to support the idea of concentrating the Fund's resources in the most backward regions, as against spreading the resources thinly. However, the smaller details, in other words the individual bargaining points, were 'political issues' not to be commented upon by UNICE but rather to be decided upon by debates in the Council of Ministers.

Following the establishment of the Regional Fund in March 1975, nothing was published by UNICE on the subject until December 1978, when the Fund was due to be reviewed and renewed, and the Commission's Guidelines were before the Council. A declaration was produced in December 1978[35] whose contents were once again general in nature: UNICE welcomed the Commission's acknowledgement that the two most important aims of Community regional policy must be the reduction of existing regional disequilibria and the prevention of new disequilibria. Once more, UNICE favoured the broad outlines of the Commission's new proposals but refrained from detailed comments on individual clauses in the proposals. Thus UNICE supported the broad aims of a Community regional policy, whilst simultaneously avoiding any involvement in the finer details of debates between the Council and the Commission.

One of the major problems facing a body such as UNICE is that it is composed of representatives from nine national Employers' Federations, all of which have their own viewpoint, seen through the eyes of their domestic situations. Hence, it is often difficult to compromise the nine views and produce a bold statement at the European level. Indeed officials in the CBI, for example, considered their own contacts with the European Commission, both directly and via the Department of Industry, to be more significant than representation through UNICE. The CBI has a Regional Development Committee which, according to officials within the organisation, has become increasingly European-orientated since UK entry into the Common Market, and the establishment of the ERDF. In an aide-memoire published in September 1977, in response to the publication of the Commission's Guideline proposals and in preparation for a meeting with Commissioner Giolitti,[36] the operations of the ERDF during the first phase were assessed, and an expression of general approval was made for the proposed amendments to the Fund's Regulation. Naturally, the document presented a British point of view, in that proposed amendments to the Fund Regulation, such as the broadening of the eligibility criteria for infrastructure aid, were assessed against a background of benefits likely to accrue to the UK regions.

Since Employers' Federations, both at the national and European level, represent industrialists, who do not receive ERDF aid directly, but through government departments, their interest in the Fund is not stimulated to any great extent and the comments of such bodies are bound to be general in nature and limited to experessions of support for the ERDF and statements stressing its importance in the context of Economic and Monetary Union.[37]

Trade Union representation at the European level in the form of the ETUC is faced with the same problem as the employers' organisation UNICE, in so far as it is difficult to achieve a cohesive viewpoint from the nine different opinions of national trade union representatives meeting together in the Brussels umbrella organisation. The national unions consider issues in the light of the benefits from the

ERDF likely to accrue to the workers in their country. Naturally, union representatives from member states which are net-payers into the Fund will see little benefit from such a system and may even oppose it; moreover, the unions representing workers in the net-recipient member states view the matter from the angle of how much benefit their particular country's workers are extracting from the Fund vis à vis the other Fund beneficiaries. The British TUC, for example, considers the Regional Fund to be a political matter, in that it balances out to some extent the UK's net contribution to the CAP in the Community Budget. Thus, to ensure that the UK receives a fixed percentage of Fund aid from the ERDF, the TUC favours the retention of the national quota system of distributing the Fund's resources. Therefore, again in such a situation it is difficult to achieve anything more than a broad, general statement on an issue such as the ERDF from a European organisation such as the ETUC.

Organisations other than those representing the Social Partners have expressed a broad interest in a Community level regional policy. For example, the EEC Savings Bank Group came out in strong support of the ERDF during the debates leading up to the Fund's establishment. The Group produced memoranda urging that top priority be given to the establishment of a financial instrument in the EEC, with the specific aim of counteracting regional disparities. In its annual report of 1975-76, the Savings Bank Group welcomed the establishment of the ERDF and stressed the need for using the Fund's resources in an efficient manner by integrating them into a regional development plan.[38]

The Chambers of Commerce of the Nine, both at the national and European level, have also shown an interest in the activities of the European Regional Development Fund. The Chambers of Commerce exert varying degrees of influence in the different member states of the

Community. For example in France, they enjoy a statutory status in contrast to the weak position in the UK where membership is voluntary for industrialists. The difference in status and relative strength of Chambers in the UK and France means that, while both show an interest in EEC activities and in the ERDF, the French Chambers have the resources to deal effectively with EEC affairs and have specialist departments studying different Community policy-areas. In contrast to this, the UK Chambers have to 'contract out' to experts to keep themselves abreast of EEC affairs.

An example of the efficiency with which the French Chambers of Commerce deal with Community matters is provided by the Regional Chamber of Commerce and Industry of the Nord-Pas-de-Calais region, which in March 1977 produced a comprehensive document assessing the impact of the Common Market on their region.[39] In this document, the importance of the ERDF for French industrialists in the North of France was stressed and the centralist attitude of the French Government in Paris deplored. The question was posed to the central government: 'Pourquoi ne pas donner au Nord-Pas-de-Calais les moyens de tenter avec la Belgique une expérience de politique bi-frontalière, d'harmonisation des lois et des normes: en un mot de préfigurer l'Europe de demain?'.[40]

The Chamber of Commerce and Industry in the North of France thus expressed its support for increased European integration, for a strengthening of the ERDF and for more freedom to enjoy direct contact with the European Commission and with its Community neighbours. In this way, it was criticising its national government for its excesses of centralism in any matters concerning the EEC.

At the European level the Permanent Conference of European Chambers of Commerce was set up to act as a consultant to the Commission.

Its structure includes specialist committees, including one dealing with regional policy, which studies Commission proposals and draft regulations and comments upon them. However, it does not comment on specific project decisions such as Commission approval or rejection of member state project-submissions: comments are limited to the system in general, for example, opinions have been passed on the question of additionality, on the distribution of aid between industrial and infrastructure projects or on the Commission proposals for a certain percentage of ERDF resources being used to establish an 'ex-quota' section of Fund aid.

Therefore, the European representative of the Chambers of Commerce limits itself to broad statements of a general nature, while its national counterparts tend to aim their opinions at their own particular domestic situation.

Finally, it should be remembered that the Council of Europe, although composed of a membership extending much wider than the boundaries of the Nine, has also continually pressed for the establishment of some kind of regional policy at the Community level. The Council has, since the mid-60s, produced numerous documents and organised conventions on the subject of regional problems, in particular in the peripheral areas of Europe, and in this way has made an important contribution to the debate at the Community level. However, once more, the comments made in the Council of Europe's documentation on regional policy in the EEC have tended to be of a general nature, exposing for example the various kinds of regional problems in the Nine, the lack of Fund resources and the problem of additionality.[41]

A distinction must be made between the aforementioned bodies, interested in promoting the broad aims of a European Regional Policy, and the final two organisations, motivated by self-interest, in that they aim to use the issue to further their own cause.

The Council of European Munipicalities is an organisation of local authorities in Europe and represents 50,000 communes. It was established in 1951 and has national sections in all the member states of the EEC except Denmark. The organisation is centred in Luxembourg with its secretariat based in Paris. The Council is a federation of national associations which all have their own status and governing bodies.

The Council of European Municipalities has, since the first debates in the EEC on regional policy, pressed the Commission, the national governments and the European Parliament to take action. However, it has framed its wishes in broad terms, such as the need to reduce regional disparities, and has produced no detailed ideas on the specific innovations required. The ultimate aim of the Council of European Municipalities, in conjunction with the International Union of Local Authorities (IULA), is to be granted formal status within the Community decision-making process, and thus be in a position to defend the interests of local authorities. Thus, the Regional Fund has been one of the issues used as a lever to further the cause of this aim. In December 1976, the Council organised the first Conference of Presidents of the Regions of the EEC. The Conference was dedicated to the examination of Community regional policy at a time when negotiations were about to begin for the renewal of the ERDF. As a result of the Conference, the Consultative Committee of Local and Regional Institutions in the EEC was established jointly with IULA. The Conference has been accorded informal status by the Commission, which means that there is no obligation on the part of the Commission to consult it, when drawing up proposals. The Conference's establishment and the granting of information status is, however, a move in the right direction, given its ultimate aim of formal status in the decision-making process, on the lines of that accorded to ECOSOC.

The European Parliament enjoys consultative status within the framework of the Community Budget in that it has the final say on non-obligatory expenditure (expenditure not emanating from a mandate set by the Treaty of Rome). The European Parliament has also been seen to support the Commission's attempts to establish a regional fund at the Community level, and has published documents, statements and opinions expressing this support since the early 1960s (see Chapter 3).

However, in addition to its genuine support for Community regional policy, the European Parliament has used ERDF issues as 'test cases' in its attempts to increase its budgetary influence vis à vis the Council of Ministers and to increase its role and importance in the Community decision-making process. These issues form an integral part of the ensuing chapters of this study.

Notes

1. Council Regulation EEC No. 724/74, 18th March (1975).

2. Ibid, Article 5(2).

3. Draft Decision by the Council on the Creation of a Committee for Regional Policy : Explanatory Statement Com(73)11 71 Final, Brussels, 29th October (1973).

4. Ibid, Article 3.

5. Ibid, Article 4.

6. Ibid, Article 5.

7. Op. cit.

8. Article 148(2) Treaty of Rome (1958) - prior to Greek entry the weighting for qualified majority was:

Belgium	5
Denmark	3
W. Germany	10
France	10

Ireland	3
Italy	10
Luxembourg	2
Netherlands	5
U.K.	10

For a vote to be passed at least 41 votes in favour are required.

9. Ibid, Article 6(3).

10. Article 3, Council Regulation, 21st March (1975) 724/75.

11. Ibid.

12. Preamble, op. cit., Council Regulation 724/75.

13. See Chapter 10.

14. European Regional Development Fund, Third Annual Report, 1977, Brussels (1978), p.22.

15. Interview with Mr. T. Shore, official of North-West Economic Planning Board, Manchester, 6th April (1978).

16. Interview with Mr. J.D. Moffit, official of the Department of the Environment, London, 12th April (1978).

17. Interview with Mr. Harold Campbell, Principal Assistant, North West Water Authority, Warrington, 3rd May (1978).

18. Between 1975-77 Scotland received 92.12 million ua (25.53%) of total UK aid
Wales received 50.56 million ua (14.01%) of total UK aid (360.89 mill ua)
Table 7, ERDF Third Annual Report op. cit.

19. Interviews with:
(1) Mr. G. Morgan, Welsh EEC Office, Cardiff, September (1978).
(2) M.A.M. Russell, Scottish Office, London, November (1978).

20. Interviews with M.R. Jarrett, Mr. D. Watson and Mr. M. Crow, European Commission, Brussels, (1977-78).

21. Délégation à l'Aménagement du Territoire et à l'Action Régionale.

22. Interviews with Monsieur J-M. Faivre, Le Conseil Régional, Lille, 10th July (1978).

23. ERDF : Third Annual Report, p.52, op. cit.

24. See Chapter 10.

25. Details gathered from interviews held with officials of the Irish Permanent Representation of the European Community in Brussels (July 1978).

26. Article 8, Council Regulation 724/75: 'The amount of the contribution from the Fund defined ... shall be paid pari passu with

expenditure upon presentation by the Member State of quarterly statements certifying expenditure and the existence of detailed supporting documents ...'

N.B. Under the amended Regulation of 9/2/79 a provision is made for accelerated payments on condition that they do not 'exceed 75% of the total amount of aid from the Fund and ... that at least 30% of the payments constituting the basis for Fund aid have been made'.

27. Interviews held with:
    (1) Sgr. F. Tagliamonte, Director of Cassa per il Mezzogiorno, Rome, (March 1979)
    (2) Sgr. U. Borsari, Ministry of Interventions in the Mezzogiorno, Rome, (March 1979).

28. Interview with Sgr. G. Martini, Consiglio dei Communi d'Europa, Rome, (March 1979).

29. Interview with Herr Paulssen, Bundesministerium für Wirtschaft, Bonn (17th July 1978).

30. Interview with Dr. Wild, Bayerisches Staatsministerium für Wirtschaft und Verkehr, Munich (October 1978).

31. Article 4(2), EEC Regulation 724/75, op. cit.

32. UNICE memorandum on Regional Policy (Document 1.3.A.4) 4th December 1974.

33. Ibid, p.1.

34. Ibid, p.2.

35. UNICE document : Déclaration Préliminaire du porte-parole de l'UNICE, 8th December 1978.

36. CBI aide memoire : E:849:77, September 1977.

37. See for example CBI Memorandum on the ERDF : E:912B:76

38. EEC Savings Bank Group 1975-76 : Annual Report.

39. L'impact du Marché Commun dans la région Nord-Pas-de-Calais, March 1977.

40. Above document, p.2.

41. See, for example, document produced for the Convention of the Council of Europe on the problems of regionalisation (Bordeaux, February 1978): Les problèmes de l'équilibre entre régions dans le développement de l'Europe Unie (Conv/Reg(77)15).

CHAPTER 6 : ERDF : MOVES TOWARDS THE SECOND PHASE

This Chapter assesses the Commission's proposals for the second phase of ERDF operations as embodied in the 'Guidelines for Community Regional Policy' published in June 1977.[1] Having surveyed the aims expressed by the Commission for ERDF operations and the ensuing proposed modifications to the Fund's Regulation, the subsequent debates and disagreements in the Council of Ministers will be analysed. Finally the budgetary dispute arising from the Fund's renewal will be considered.

1. The Commission's Guidelines

The Commission, in its 'Guidelines for Community Regional Policy' of June 1977,[2] expressed concern that the progressive establishment of the Common Market had not achieved the positive results expected in terms of a better distribution of economic activity throughout the Community's territory. Moreover, the Commission also accepted that despite increased efforts by the member states and the Community to aid the development of their least favoured regions there had been no fundamental change for the better. Thus the imbalances between Community-regions remained excessive.[3]

The above problem had been enhanced by the economic crisis of 1973: the increased cost of raw materials, reduction in investment and the subsequent slower growth rates of Community economies had seriously affected the development of the weaker regions less able to combat such difficulties.

The Commission stressed that the persistence of such regional imbalances seriously threatened the proper functioning of the Common Market and emphasised the need for Community regional policy to become more ambitious[4] and to operate within a framework providing a comprehensive policy of structural change. The establishment of such a policy which would aid both regions which were underdeveloped before the establishment of the Common Market and regions experiencing difficulties in restructuring their economies because of the functioning of the Common Market, would be a pre-condition of continued European economic integration.

Thus the Commission, through the implementation of its new proposals for regional policy, aimed to reduce existing regional problems in the less-developed regions and in regions experiencing the process of industrial or agricultural reconversion. Moreover, it aimed to help prevent new regional imbalances arising from the changed world economic climate of the late 1970s or as a consequence of measures adopted within the framework of Community policies.[5]

According to the Commission, the above task involved the assessment of trends in the regional economies of the Community, an increased coordination of Community policies and financial instruments, increased coordination in the regional policies of the member states and increased resources for the European Regional Development Fund.[6]

Within the context of its expressed aim to strengthen the system of analysis and assessment of the regional economies of the Community the Commission undertook to present to the Council a draft report on the social and economic development of Community regions every two years starting in 1979.[7] The aim of this document would be to indicate the principal regional problems, to assess the results achieved by the joint actions of the member states and the Community and to assist in the establishment of an effective coordination of the regional policies of the member states.

In addition, the Guidelines expressed the Commission view that a systematic assessment of the regional consequences of Community policies was required whenever significant new measures were being contemplated:[8]

> The Commission believes it indispensable that from now on the spatial dimension be assessed or taken into account in the formulation and implementation of major Community policies ..... The harmonious development of economic activity over the whole Community territory also requires the coordination of the various Community policies and financial instruments and the corresponding coordination of the policies of member states.

In the pursuit of the latter aim the Commission accorded an important role to the Regional Development Programmes of the member states.[9]

> In order to play an effective role in solving the different types of regional problem, the Community will finance priority projects or groups of projects which contribute most to development or reconversion; these priorities will be set by region on the basis of regional development programmes.

Commissioner Giolitti was given responsibility for the coordination of the various Community funds and a task-force was set up for tackling this job. The aim of this task-force was to ensure that the expenditure of the Community funds and financial instruments was complementary and took account of the aims of regional policy.

The Commission proposed that the Regional Policy Committee be consulted on the draft two-yearly report (see above) prepared by the Commission, before its presentation to the Council of Ministers. This would reinforce the Regional Policy Committee's mandate to study the development of the economic and social situation in the Community regions.[10] Moreover the Committee would be informed of the conclusions of the main reports analysing the Regional Impact Assessment of Community policies. This would enable the Committee to make a more detailed study of the implications of the geographical dimensions of these policies.

Perhaps the most controversial of the Commission's proposals was the suggestion that ERDF assistance should be made available both to support the regional development measures of member states and for specific actions in order to take account of the regional effects of existing and future Community policies. This would involve dividing the ERDF's resources into a quota section and a non-quota section for specific actions. The latter would represent the expression by the Community of its responsibility for correcting regional imbalances.[11] 'These actions are primarily regional policy measures intended to supplement or to strengthen the application of other Community policies, or to correct any adverse regional effects they may have.'

The Commission highlighted four types[12] of regional problem including firstly the underdevelopment of regions, secondly those regions experiencing industrial or agricultural change and consequently problems of reconversion and redevelopment, thirdly those regions suffering from current or expected problems caused by changes in world economic structures or by existing or Community policies, and finally those regions which were situated geographically close to a frontier and therefore experienced special problems. The latter classification applied particularly to the regions of West Germany which border East Germany.

The Commission viewed the first two types of regional problem as medium or long-term situations and thus saw the quota section of the Fund as relevant to assist their needs. On the other hand the third and fourth types of problem were specific in nature and thus relevant to the terms of reference mapped out for the Ex-Quota section of the ERDF.

Finally, the Commission expressed a wish, which had been previously recorded by the European Parliament[13] to see the regions concerned and their representatives associated with the preparation of Community regional policy.[14] It went on to state that the size of the task involved in identifying regional problems in all their aspects and in indicating the guidelines for coordinated joint-action by the member states and the Community required a consultation between the institutions of the Community, the member states, the Social Partners and the regional and local representatives. The Commission undertook to make proposals on this during Council discussions.

2. The Commission's proposed amendments to the Fund Regulation

In pursuit of the above aims the Commission proposed certain amendments to the original Fund Regulation of 1975.

Whereas the annual size of the Fund had been fixed for the three year period at the beginning of the ERDF's operations in 1975, Article 2 paragraph 1 of the amended Regulation stated that: 'As from the budgetary year of 1978 the allocation for the Fund shall be determined annually by the budget of the EC'.[15] Thus the annual appropriations would be fixed each year instead of every three years, when the general budget of the EC was adopted. Moreover, the Commission noted that as a result of the conciliation procedure of 1975, the Parliament had agreed that Fund expenditure after 1977 would be non-obligatory.

The above finances were to be made with a view to achieving the objective laid down in Article 1[16] of the proposed amended Regulation: 'The ERDF ... is intended to correct the principal imbalances within the Community'.

The main proposed amendments concerned the differentiation of the kinds of assistance provided by the Fund, the rules governing Fund assistance and procedural rules.

Article 2 paragraph 3 of the proposed Regulation divided the Fund into two sections, the first section financed by pre-established national quotas would support regional policy measures adopted by the member states. On the other hand specific Community regional development measures would be financed from a non-quota section. Article 13[17] of the proposed Council Regulation dealt with the latter ex-quota section and elucidated the types of measures that the Commission envisaged would be appropriate for this kind of support[18] (see above for details).

The Commission proposed changes in the nature of infrastructure projects eligible for Fund assistance. It referred to Article 4(i)(b) of the 1975 Regulation which stipulated that only infrastructure investments directly linked to the development of industrial, artisan or service activities qualified for Fund support. The Commission stressed that ERDF operations during its first phase had shown that the concept of infrastructure 'directly linked' to industry was not always easy to define. Moreover, it was pointed out that the basic infrastructure requirements of the Community's various regions were not comparable and that they varied widely from one region to another. Thus, the basic infrastructure needs of underdeveloped economies or regions such as Ireland and the Mezzogiorno differed entirely from those of a decaying economic region suffering structural problems, such as the North of England, the Belgian coal-fields or the North of France. Likewise, both the former regions differed in their requirements from the advanced and relatively prosperous economic regions such as those of West Germany.

Therefore the Commission proposed that more flexibility be introduced into the definition of eligible infrastructure; for this purpose it suggested that the concept of infrastructure 'directly linked' to the development of productive activities be replaced (in Article

4(i)(b)) by that of infrastructure 'which contributes to the development of the region in which it is located, financed wholly or in part by public authorities or by any other agency responsible, on a similar basis as a public authority, for the creation of infrastructure'.[19]

The Commission also proposed that Article 4(2)(b)[20] of the 1975 Regulation be amended so that the rate of Fund participation in the financing of infrastructure projects of special relevance to the development of the region in which they are located could be as much as 50%. It added that this facility would be confined to Greenland, the Overseas French Departments, Ireland, the Mezzogiorno and Northern Ireland, these being the Community regions which had the most serious difficulties to contend with.

Certain amendments were proposed by the Commission to Article 5(2)[21] of the original Regulation with the aim of simplifying procedures for granting Fund assistance for small projects. Experience during the Fund's first phase had shown that hardly any of the small projects had raised great difficulties for the Fund's Management Committee. In the Commission's view the 10 million eua threshold above which projects were the subject of detailed examination, was too high for certain regions which did not have the potential to justify the location of very large investments. Therefore, it was proposed that the threshold beyond which projects were examined and were the subject of a case-by-case decision, should be lowered from 10 million eua to 5 million eua, and that in order to relieve the heavy administrative burden on the Commission, only draft decisions relating to investments of more than 5 million eua should go to the Fund Management Committee for an opinion; only follow-up information would go to the Fund Committee on decisions for assistance relating to investments of less than 5 million eua.

The Commission incorporated amendments into its proposed Regulation to cover the adaptation of Fund operation procedures relating to regional development programmes, annual information, and statistical summaries. Article 6 read:[22]

> Investments may benefit from the Fund's assistance only if they are part of a regional development programme the implementation of which is likely to contribute to the correction of the main regional imbalances within the Community which may impair the proper working of the Common Market and the converging trend of the Member States' economies, with a view, in particular, to the attainment of economic and monetary union.

Finally, the Commission aimed to contribute towards the increased effectiveness of the ERDF's role in regional development by ensuring that payments should be made promptly. In this respect it was proposed that, in certain circumstances, a scheme for advance payments should be introduced which would ensure a regular and prompt flow of funds to the eligible regions.[23]

3. European Parliamentary opinions and activity

The opinion of the European Parliament on the future course of European regional policy was embodied in its resolution of 21 April 1977.[24] Moreover, on the basis of the publication of the Commission's Guideline proposals and their subsequent discussion in the Council of Ministers, the Parliament's Committee of Regional Policy, Regional Planning and Transport drafted a Report.[25] In this Report it was noted that the Commission had largely taken account of the Parliament's proposals laid down in the Resolution of April 1977.[26]

In its Resolution the European Parliament had demanded that the Commission adopt an overall approach to regional policy,[27] provide a broader interpretation of the notion of infrastructure,[28] stress the importance of the coordination of Community policies and financial instruments[29] and reiterate the significant role of regional development programmes.[30] The Report drafted by Monsieur L. Noé in October 1977 congratulated the Commission for having adhered to the voice of the European Parliament.

However, the Report stressed the need to increase the number of officials in the Directorate-General for Regional Policy of the Commission (DG XVI) to enable the thorough examination of regional development programmes due to be compulsory from 1st January 1978[31] and the thorough implementation of the Regional Impact Assessment.

The European Parliament approved the proposal to establish an ex-quota section for the ERDF and also the fact that specific Community projects were to be based on Community criteria. Nevertheless it requested that these projects should not be linked to the Council's approval on a case-by-case basis, so as to enable the Fund to intervene more rapidly.[32]

The European Parliament favoured a broadening of the eligibility criteria relevant for aid to infrastructure projects (see above). The Commission had incorporated the views of the Parliament in its Guidelines which stated: 'ERDF assistance is for both investments in infrastructures which can contribute to regional economic development and to improving the quality of life of the population concerned'.[33] Moreover, the Parliament noted that the Commission communication had repeated almost ad verbatim a further Parliamentary point on infrastructure aid,[34] namely that:

> The Community ought to be in a position to assist those regions in the provision of social infrastructure, education and vocational training, in so far as these contribute directly to regional development, since the high cost and lack of immediate return is a heavy charge on the member-states concerned.

The new wording of Article 4(1)(b) of the Fund Regulation accordingly took account of this view with the provision that projects would be eligible if they 'contributed to the development of the region in which they were located' (see above). The European Parliament had proposed such criteria as early as 1973[35] during the discussions which preceded the Fund's establishment.

In its Report of October 1977, the European Parliament stressed again the need for local and regional authorities to play a key role in ERDF operations and also expressed a wish to see more publicity given to projects receiving Fund aid.[36]

Moreover it reaffirmed the requirement that the Fund's resources be used additionally to national-aid and not merely to top-up domestic resources.[37]

With reference to budgetary matters and to the question of budgetary allocations for the ERDF, the European Parliament's Committee on Budgets submitted a written opinion on the Commission's Guidelines for Regional Policy.[38]

This stressed that henceforth the annual financial endowment of the Regional Fund must be determined in accordance with the budgetary procedure. In addition the Committee considered it essential that a mechanism was established to reassess Fund appropriations in order to protect the real value of resources in future years.

The Committee criticised the Commission for making no attempt to forecast how the financial volume of the Fund would develop in the medium term.[39] It pointed out that in the triennial financial estimates accompanying the preliminary draft budget for 1978, the Commission submitted estimates of expenditure for the years 1978/79 but did not provide any explanation for the amounts quoted.[40]

Finally the Committee on Budgets welcomed the introduction of the system of advance payments for Fund operations but stressed that this should be accompanied by a system of supervision enabling the Commission to ensure that the advances be passed on to the final beneficiary as soon as possible and that they could be recovered if the initial project is abandoned or radically altered.[41]

After the publication of the Commission's Guidelines and amidst its activity on the issue of the ERDF Regulation amendments, the European Parliament also became deeply involved in a conflict surrounding the 1978 budgetary allocation for the ERDF.

The European Commission proposed, in its first draft of the 1978 Community Budget (presented to the European Parliament on 7th July 1977), that the ERDF be allocated 750 million ua in budgetary commitments (650 million ua for the national quotas and 100 million ua for the new Ex-Quota system) and 600 million ua in payment appropriations. Additionally, it provided for 1000 million ua and 1250 million ua for 1979 and 1980 respectively.

In its version of the 1978 budget in August 1977, the Council of Ministers reduced these figures to 398 million ua in budgetary commitments. However, the European Parliament re-established the original appropriations provided for by the Commission in its first reading of the budget on 12-16th September 1977. This meant that a qualified majority vote would be necessary in the Council before the Parliament's amendments could be rejected, given the 'non-obligatory' nature of the ERDF in the Community budget.[42]

One possible problem which could arise from the exchanges on the budgetary issue was that, if the Council of Ministers accepted the increase in appropriations, it would 'break' the ceiling agreed by the European Parliament. (The European Parliament's Margin of Monoeuvre.)[43] In addition, Ireland and Italy were likely to vote in favour of the Parliamentary increases when the issue was put to the vote in the Council session (since they stood to gain most) and therefore it would be possible, if another country voted with them, to force the

Council into accepting the increased appropriations.

Thus the main bone of contention at the Joint Budget and Foreign Affairs Council of Ministers Meeting (21st-23rd November 1977) was the question of the ERDF's appropriations for 1978, with a possibility of the Council revocation of the European Parliament's increase for the ERDF being defeated by the qualified majority voting procedure.

Nevertheless, the Council's amendment was carried in the vote in which Italy abstained. In the Communiqué following the Council meeting, it was stated that:

> the Council has, in the context of the budgetary procedure, and in order that this may continue to progress in the normal manner, rejected the amendment by the Assembly aimed at re-establishing the Commitment appropriations of 750 million eua, originally proposed by the Commission, the effect of which will be the re-establishment of the Commitment appropriations of 398 million eua which it had included in the draft budget ... the Council undertakes to re-examine this question during a conciliation procedure to be held with the Assembly on 7th December with a view to reaching an agreement with the latter on a figure which will represent a substantial real increase in the activity of the Fund.[44]

The Communiqué added that 'the provisions were taken in order to permit the European Council to pronounce on the key questions in the matter'.

4. Renewal of the Fund Regulation:
<u>Initial Reactions in the Council of Ministers</u>

Parallel to the dispute between the Council and the European Parliament over the ERDF's budgetary appropriations, disagreements arose in the Council of Ministers during discussions on the Commission's proposed amendments to the Fund Regulation; the majority of member states opposed any changes in the distribution of the Fund's national quotas, though the Netherlands expressed support for a genuine Community regional policy without any national share system.[45] On the other hand, the French wanted a larger share of the Fund because they claimed that some of their Overseas Departments were not taken into account in the original calculations.[46] Indeed during the Council meeting on the budgetary issue,[47] the French set as a pre-condition for their approval on the matters at stake, the promise that they would receive an increase in their present share of quota allocations. The Irish too stated that they would also have something to say on the matter should the problem of shares be raised.

Reaction to the Commission's proposals for the establishment of an Ex-Quota section for the ERDF ranged from the unreserved support expressed by the Netherlands, to conditional acceptance and to total hostility shown by the French who considered regional policy a domestic economic matter. Italy, after some initial opposition to the system, was, by the time of the November Council session, in favour of the innovation, as was Ireland. Luxembourg considered that the system must make it possible to offset any disadvantages shown in the quota section. West Germany would only accept the ex-quota if its scope and methods were precisely defined.[48]

Certain members, including Italy, were in favour of the more flexible definition proposed by the Commission for infrastructure project-eligibility. On the other hand, fears were expressed that this flexibility might relax the link with genuine regional action. For example, West Germany would only accept the Commission proposal if the infrastructure projects were linked to productive investments.

Thus, the problems of the Regional Fund were passed over to the European Council meeting of 5th and 6th December 1977 by the Council of Ministers session of mid-November (see above). Commissioner Giolitti considered that the decision taken by the Council on the commitments for 1978 at the aforementioned Council meeting was the only possible solution, given the deadlock that had arisen. He particularly stressed that the fact that there was talk of a 'real' increase in the volume of the Fund for 1978 meant that it would at least have to be up-dated compared with 1977.[49] (Appropriations for 1977 totalled 500 million ua which corresponded to 398 million eua.)

On the wider issue of the Fund Regulation, Giolitti considered that the situation did not merit calling into question the difficult political compromise reached three years before on the national quota issue. He also pointed out to the French that a re-examination of the shares of each country might well yield less favourable results for those who called for such a revision, especially as the regional imbalances had increased rather than declined. This matter was referred to COREPER though there was little hope of agreement because of the entrenched positions of the member states. This meant that it would be the responsibility of the European Council to reach a decision. The other main points of contention had also been referred to COREPER by the Council of Ministers though again, for the same reason, with little chance of agreement and a high probability that they too would come before the European Council. (These points included: Fund appropriations for 1978, distribution of national shares, the question of regular reports, which the Commission would have to draw up on regional policy and the follow-up that the Council would have to give them, the question of the ex-quota section, and that of the definition of eligible infrastructure projects.)

5. The European Council (5th, 6th December 1977) and the Continued Debate on the Fund Regulation's Amendments

As expected, the European Council meeting on 5th, 6th December 1977 took a decision on the Regional Fund's appropriations and on the method of distributing Fund aid: the European Council approved an overall budgetary commitment of 1,850 million eua[50] (£1,234 million) for three years 1978-80, to be divided up into allocations of 580 million eua (£386m) for 1978, 620 million eua (£414m) for 1979 and 650 million eua (£434m) for 1980. It was decided that the system of national quotas that had been used in the Fund's first phase should be continued, though the distribution differed slightly from the previous three years to take into account a 2% increase accorded to France for her Overseas Departments. Percentage-wise the new allocations were to be:

Belgium	1.39	Italy	39.39
Denmark	1.20	Luxembourg	0.09
West Germany	6.00	Netherlands	1.58
France	16.86	U.K.	27.03
Ireland	6.46		

The European Parliament's reaction to the Council's endowment of 1,850 million eua for the period 1978-80 was that it considered the figure to indicate that the Council possibly viewed the Fund as being less than a permanent feature of Community policy. A clear majority of members of the European Parliament (consisting of members of all the political groups) wished the institution to use its power of last word to impose a figure higher than 580 million eua. However, a minority large enough, at the last stage of the procedure, to prevent the amendment being adopted, felt that, although an increase in Regional Fund spending was necessary, the over-riding of Council by Parliament would result in no budget being adopted by the end of the financial year.

The amendments to the Regional Fund Regulation of 1975 should have come into effect on 1st January 1978. However, it was only at the meetings of 6th, 26th and 27th June 1978 that the Council of Ministers agreed in principle to all the points under discussion. At these June meetings, the Council agreed to the setting-up of an

Ex-Quota section for the ERDF, amounting to 5% of the total Fund resources. The French, who had throughout the debate led the opposition to the Ex-Quota section, finally acquiesced, on condition that it was fixed at 5% and not 8% as the Commission's final proposal suggested. The UK fell in conveniently behind the French in the debates and kept a very low profile, although they considered that the ex-quota section should be small rather than large. The UK was never very enthusiastic about the innovation but decided early on in the discussions not to black the idea and thus risk isolation.[51]

Nevertheless, despite agreement in principle on the ex-quota section, the unanimous decision of the Council was required before aid could be granted under this scheme. The Commission saw the £20,000,000 per annum for three years that it had been given as a pilot scheme for the future and as an opportunity to demonstrate to the Council that the ex-quota section could be beneficial to the regions.

During discussion on the Commission's infrastructure project proposals, the main points of contention centred upon the percentages of funding available from the Commission and the proposed wider definition of eligibility put forward by the Commission for infrastructure aid. The final agreement on the first of these points meant that aid of up to 40% could be provided for some regions. The French objected to the differentiation caused by the naming of specific regions eligible for this aid; they thought that it should be applicable to special projects everywhere.

A position was reached where 50% for all areas was suggested but the Germans objected to this and held out for a figure of 30%. The issue then became caught up with simultaneous discussions on FEOGA: the Agricultural Council encountered difficulties on Agricultural Infrastructure rates of grant, and as a compromise, it was agreed that whatever rate was fixed for Regional Infrastructure special areas would also apply to FEOGA. This meant that the issue took on a new importance because FEOGA does not operate under a quota-system. Eventually, a figure of 40% was agreed upon: the UK was satisfied with this since it does not benefit greatly from FEOGA money for infrastructure (it was mainly Italy who would benefit from this).

On the second point, that of defining eligible projects, the wider definition laid down in the Commission's proposal was accepted for the Regulation. Thus the clause: 'projects which aid the development of the regions' was to replace the old wording 'of direct link to industry'.

The West Germans were the most stubborn blocking force to the infrastructure proposals in the Council. This was partly due to their domestic departmental structure: the Ministry of Economics is responsible for dealing with the ERDF but has only limited responsibility for infrastructure (it is only responsible for infrastructure directly linked with industry). This produced inter-departmental arguments within West Germany on the infrastructure issue, since separate ministries were responsible for questions of, for example, social and transport infrastructure. Thus, the Germans were particularly sensitive on this issue but agreed to the amendment on the basis of an entry made in the Council's minutes, providing that within two years, the Commission would define the infrastructure measures eligible for aid.

The UK allowed West Germany and Belgium to lead the debate on the infrastructure issue in the knowledge that they would be satisfied with the aims of these two member states. On the other hand, the European Parliament adopted a particularly vigorous and determined attitude on the issue of the Council agreements. It took the view that the Commission should not have accepted the fact that the Council had cut down the Ex-Quota resources so drastically. The Parliament voiced its disapproval during the statutory conciliation procedure which takes place between Parliament and the Council of Ministers. The meeting of the Conciliation Committee was held on 24th July in Brussels, at which the European Parliament surprised the Council by its determined attitude, especially regarding the Ex-Quota section of the Fund. No agreement was reached at this meeting but the Council President stated that the Council would reconsider its position before a second conciliation procedure meeting which might take place in September 1978.[52]

Between September 1978 and March 1979, two major issues became involved in the regional policy debate and made the issue of the Fund's regulation's renewal even more protracted and complex. These were the arguments surrounding the ERDF's budgetary allocation for 1979 (see Chapter 8) and the 'transfer of resources' question in connection with the EMS debate.[53] Meanwhile, however, the conciliation procedure between the Council and the European Parliament resumed on the 7th October 1978 after the three months' 'cooling-off' period, with the Parliamentarians still maintaining certain reservations about the Council texts.

The Council was prepared, without amending the texts themselves, partially to take the Parliament's demands into account, by statements recorded in the minutes along the lines of its requests. Thus, while the Ministers did consider it impossible to question the important points of the compromise which had been decided amongst the Nine with 'considerable difficulty' concerning the global endowment of the ERDF, national quotas and the Ex-Quota section endowments, they did define a certain number of points of flexibility which partly, at least, responded to the concerns of the European Parliament. In particular, the draft Regulation provided that an eventual unused remainder from the Ex-Quota section would be re-allocated to the quota section; the Council now expressed a willingness to apply this principle only for the overall period 1978-80 and not annually as it had previously demanded.

The new phase of consultation between the Council and Parliament appeared to have achieved progress to the extent that an agreement now seemed in sight. Nevertheless, the Parliament called upon the Council to 'make a final effort' and allow the annual allocation of credits from the Ex-Quota section to be decided by a qualified majority. The Council President, von Dohnanyi, undertook to inform his colleagues accordingly and agreed to contact the President of the Parliament on the matter. It therefore seemed possible that the question would be settled quickly and that the new Regional Fund Regulations would come into force, enabling the Commission to administer the ERDF according to the new wider and more flexible criteria.

Signor Giolitti, Commissioner for Regional Policy, pointed out the similarity between the views of the Commission and the Parliament, and stressed that, with the establishment of EMS, with parallel studies on the role of the Community budget and enlargement, regional policy was bound to assume an entirely new dimension which would inevitably require fundamental debates on the subject. Thus, he claimed that, at this stage, it would be absurd to quarrel over a few technical details.

In the final settlement, the Council rejected the Parliament's final claim for qualified majority voting for the Ex-Quota section, but the Parliament had won considerable ground during the conciliation procedure.

Despite the fact that, before Christmas 1978, a final settlement had been reached between the Council of Ministers and the European Parliament on the amendments to the ERDF Regulation, the French (at the time holding the Council Presidency) refused to allow the final adoption of the updated version until agreement had been reached on the other conciliation procedure taking place concerning Community aid to non-associated developing countries. It was not until 17th January 1979 that the French government agreed to break the link between the two issues. Thus the way was open for the new Regulation on the Community's Regional Policy.

The conclusions reached in the conciliation procedure were:-

1. The Commission was given more flexibility in the national quota system by being henceforth permitted to apply them over a three year rather than a one year period.
2. It was decided that the opinion of the Regional Fund Committee on a Commission decision to grant aid from the Fund should be given within 30 days.
3. In order to give the Fund greater flexibility, it was decided that the rule whereby any allocations not used from the Ex-Quota section should revert to the quota section would not be applied annually but over the three years of the Fund's existence (1978-80).
4. Whenever the Council took a decision which differed from the Commission's viewpoint, it undertook to inform the European Parliament.
5. When the time came for a further revision of the Fund Regulation - i.e. before the end of 1980 - the Council promised to pay particular attention to the views expressed by the European Parliament.

The updated version of the text of the March 1975 Regulation,[54] containing the new points of agreement and the amendments that had been made to the old Regulation was published in the Official Journal of 9th February 1979 and thus finally came into operation.

Notes

1. 'Guidelines for Community Regional Policy' - Communication and proposals from the Commission to the Council : COM(77) 195 final, Brussels, 7 June (1977).

2. Ibid.

3. Ibid, pp. 3-4.

4. Ibid, p. 4.

5. Ibid, p. 5.

6. Ibid, p. 5.

7. The first of these documents was in fact produced in 1981: 'The Regions of Europe - the First Periodic Report on the Social and Economic Situation of the Regions of the Community', Brussels, 7 January (1981), COM(80) 816 final.

8. Op cit, p. 9.

9. Op cit, p. 17.

10. Op cit, p. 12.

11. Op cit, p. 13.

12. Op cit, p. 16.

13. Official Journal, C118, 16 May (1977), p. 51. Delmotte Report [Doc 35/77], 6 April (1977).

14. Op cit, p. 21.

15. Proposal for Council Regulation amending (EEC) No. 724/75 establishing a European Regional Development Fund, Annex II 'Guidelines for Community Regional Policy' - op cit, p. 38.

16. Op cit, p. 38.

17. Op cit, p. 46.

18. The amended national quotas proposed for the first section of Fund aid were:

Belgium	1.5%	Ireland	6.0%	Netherlands	1.7%
Denmark	1.3%	Italy	40.0%	Federal Republic of Germany	6.4%
France	15.0%	Luxembourg	0.1%	United Kingdom	28.0%

A further sum was to be allocated to Ireland, calculated so as to ensure that it receives an extra 0.5% to be deducted from the shares of the other member states except Italy.

19. Op cit, p. 40.

20. Article 4(2)(b) of the 1975 Regulation allowed for 30% funding for infrastructure projects costing less than 10 million eua and between 10-30% for projects costing more than 10 million eua.

21. Under Article 5(2) projects costing less than 10 million eua were covered by global decisions and projects costing more than 10 million eua were the subject of individual decisions.

22. Op cit, p. 42.

23. Op cit, p. 45, Article 8 para. (3): 'Advance payments may be granted by the Commission to a member state at the latter's request. They may not exceed one-third of the total amount of the aid decision, and may concern only the expenditure provided for in the first two years following the beginning of the execution of each project for which an advance payment has been applied for'.

24. Official Journal, C118, 16th May (1977).

25. European Parliament Working Document 307/77, 10th October (1977), rapporteur M. L. Noé.

26. Op cit, p. 5.

27. Paragraphs 4 - 8 of the resolution of 21 April (1977).

28. Paragraphs 14 - 15 of the resolution of 21 April (1977).

29. Paragraph 17 of the resolution of 21 April (1977).

30. Paragraph 15 of the resolution of 21 April (1977).

31. Op cit, p. 6.

32. Op cit, p. 7.

33. Paragraph 48, Commission's Guidelines on Regional Policy, op cit. This paragraph incorporated the view contained in point 14 of the European Parliament's Resolution, op cit.

34. Paragraph 39 of the Commission Guidelines repeated almost word for word point 15 of Parliament's April Resolution.

35. European Parliament Resolution, 15 November (1973), Official Journal No. C108, 10th December (1973), p. 56.

36. Op cit, p. 7.

37. Op cit, p. 8.

38. Incorporated into European Parliament Report of 10th October 1977, p. 30.

39. Op cit, p. 33.

40. Figures provided by Commission in preliminary draft budget for 1978.

Budget allocation to ERDF (Meua)

Commitment appropriations	1975	1976	1977	1978	1979	1980
Initial allocation[1]	225 (300mua)	400 (500mua)	400 (500mua)			
Stablisation amounts[2]				644	705	758
Amounts provided for in the Commission's triennial forecasts 1978-80[3]				750	1000	1250
Amount provided for in the preliminary draft budget for 1978				750		
Amount provided for in the draft budget for 1978				398		

[1]Regulation of 18 March 1975

[2]That is, amounts required to enable the programme agreed for 1975/77 to be continued (without being extended), taking account of inflation and the changeover from mua to meua. (Commission working document of 14 June 1977).

[3]Taking account of inflation, the changeover from mua to meua and the desired expansion of regional measures.

41. Op cit, p. 36.

42. The European Parliament had always held that Regional Fund expenditure was non-obligatory. This was the subject of a conciliation procedure between Council and Parliament in April 1975. There was an agreement to differ for the first 3 year period of the Fund but Council accepted that the Fund expenditure would become non-obligatory after 1978. This meant that the European Parliament's influence over the development of the ERDF was twofold: (i) the right to amend the budget - both payments and commitments - during the annual budgetary procedure, and (ii) the right to influence Council deliberations,

under the conciliation procedure, on the renewal of the Regional Fund Regulation.

43. The agreed amount by which the European Parliament may increase the budgetary allocation.

44. <u>Europe Daily Bulletin</u>, 24th November (1977).

45. <u>Europe Daily Bulletin</u>, 19th November (1977).

46. Ibid.

47. <u>Europe Daily Bulletin</u>, 25-28th November (1977).

48. Ibid.

49. <u>Europe Daily Bulletin</u>, 8th December (1977).

50. It should be noted that the allocation of 1300 million ua for the ERDF (£540 million) was based on an exchange rate of £1 = 2.4 ua or 1 ua = 42p. Since the beginning of 1979 the ua has been replaced for budgetary purposes by the European Unit of Account (eua): i.e. £1 = 1.5 eua or 1 eua = 66p (approx.).

51. Information provided by UK Permanent Representation in Brussels.

52. It must be remembered that the Council was at liberty to depart from Parliament's view at the end of the three-month 'cooling-off' period. However, the Council was obviously reluctant to reach a position where some kind of agreement had not been reached.

53. The question of the transfer of resources in the EMS debate involved primarily demands made by Ireland and Italy for transfers as a pre-condition to any immediate agreement to join the exchange rate mechanism of EMS. The transfers were to involve using the Regional Fund mechanism and European Investment Bank Soft Loans.

The Irish were demanding an extra 650 million pounds in EEC resource transfers over the next three years from the Bank and the Fund. Italy, for her part, insisted on transfers from these two sources of 1.8 billion ecus over the next five years. These demands met with heavy French opposition, who objected to using the Regional Fund as a vehicle for sizeable resource transfers, on the grounds that significant increases in the Regional Fund would be tantamount to giving the European Parliament increased powers over the Community Funds.

The final offer made by the Nine to Italy and Ireland under the delayed system [which should have taken effect on 1st January 1979 but came into operation following the Paris Summit (12-14 March 1979)] was a combined 1 billion ecus over 5 years in extra EIB loans and 200 million ecus per annum over 5 years in EIB loans with substantial interest rates.

54. Regulation (EEC) No. 214/79 (<u>Offical Journal</u> No. L35, 9th February 1979, p. 1).

CHAPTER 7 : RENEWAL OF THE ERDF: RADICAL CHANGE?

The debate surrounding the Fund's renewal and the amendments to the original 1975 Regulation was protracted and highly politicised (see Chapter 6). The question posed by the final outcome was whether the agreement would herald major changes in the Fund's administration or whether on the other hand the Fund was likely to operate along the same lines as during the 'first phase' between 1975 and the end of 1977.

The Commission's Guideline proposals of June 1977 had been ambitious in so far as they advocated a more global and comprehensive approach towards regional policy at the Community level; they had proposed certain innovations which would contribute towards a move in this direction, including the introduction of a Regional Impact Assessment (RIA)[1] and the setting up of an 'Ex-Quota Section' for the Fund (which would involve the deployment of a certain percentage of the ERDF's resources - 13% was the original Commission suggestion - outside the national quota system of distribution) which would enable direct Commission action in the financing of 'specific Community actions'.[2] Moreover, the Commission had expressed a wish to see the regions and their representatives associated with Community regional policy.

The Commission had also proposed certain amendments to the methods of administering the Fund in the light of experience gained during the 'first phase'. These included a broadening of the infrastructure eligibility criteria to cover projects contributing towards the development of the region (thus dropping the need for projects to be directly linked to industry), measures to speed up the payment of Fund aid, to increase the efficiency of the Regional Policy and Fund Management Committees and the need for improving data analysis of the regional situation in the member states.

Thus in its Guideline proposals of June 1977, the Commission had not only suggested several amendments to the Fund Regulations aimed at increasing the efficiency of the ERDF, but also advocated a broadening of the Community's horizons by stressing the need for a move away from the situation where the ERDF was acting in isolation, towards the establishment of a comprehensive Community regional policy. The implication of the latter proposal was that account be taken of the regional dimension during the drafting of all Community proposals, in all policy-fields.

As had been the case during the debates preceding the ERDF's establishment in 1975, the issue became highly politicised, particularly as far as the size and distribution of the new Fund were concerned. However, despite the fact that the Commission consulted with organisations such as UNICE, the ETUC and the Standing Conference of European Chambers of Commerce during the drafting of its Guidelines and also received delegations from the member states' regions, these bodies were given no scope for influencing the outcome of the debates in the highly politicised environment of the Council of Ministers, as had been the case three years earlier when discussions had been taking place prior to the ERDF's establishment. Nevertheless, one significant difference from the discussions on the original Fund was the active and forceful role played by the European Parliament, a supposedly 'subsidiary linkage' in the Community decision-making process (see below).

Whereas the debates on the size and distribution of the new Fund were of a highly politicised and sensitive nature, those Commission proposals which did not involve finance or increased Community involvement in domestic regional policies, do not appear to have been the cause of much conflict in the Council of Ministers. These proposals included the measures for increasing the efficiency of the Regional Fund: advance payment of aid, improvements in the working of the Regional Policy and Fund Management Committees, regional impact assessment, etc. However, the Commission's proposal for consulting with representatives of the regions on matters of Community regional policy was not even discussed by the Council of Ministers. Moreover, the proposals for broadening the eligibility criteria for infrastructure aid and for amending the percentage funding available for infrastructure projects were the subject of much contention in the Council debates. The root cause of the difficulties on this proposal lay with the West German fear that increased flexibility in the Regulation might relax the link with genuine regional action. This exemplified the German wish to define precisely the scope and method of Community policies. Moreover, the fact that West Germany's domestic methods of regional policy administration proved difficult to reconcile with Regional Fund infrastructure aid, demonstrated the difficulties of operating a Community-wide Fund in an area where the Nine already operate nine different domestic policies, under nine sets of rules and priorities.

The difficulties encountered on the percentage funding for infrastructure projects and the way this became linked with discussions in the Agricultural Council of Ministers on agricultural infrastructure rates of grant, demonstrated how issues in different policy-areas often become linked in the process of arriving at a compromise agreement in the Council of Ministers. This can lead to proposals which on the surface do not appear to be at all contentious, becoming crucial factors in the bargaining process, as was the case with the example at hand because of the fact that FEOGA resources, unlike ERDF aid, are not distributed according to a rigid national quota system. The linking of issues in different policy-areas can also be used as a delaying tactic by one or more member state; this was exemplified by the French Government's refusal to allow the final adoption of the new Fund Regulation for over one month between December 1978 and January 1979 despite the conclusion of the conciliation procedure between the Council and the European Parliament. The French successfully blocked progress by linking the final adoption of the new ERDF Regulation with the successful conclusion of the conciliation procedure on Community aid to non-associated developing countries.

The attitudes demonstrated during Council debates on the most sensitive and ambitious of the Commission's proposals, namely that an Ex-Quota system be established outside the Fund's national quota system, were indicative of the member states' general attitudes towards the European Community. The Community-spirited Dutch and Luxembourgers gave the system their unreserved support. The Italians and Irish also favoured the EQS, though more for the reason that they were likely to benefit from it. In contrast to this, total opposition was demonstrated by the French who were completely against the potential direct Commission interference in regional policy, which they considered to be primarily a national matter. Their eventual acceptance of the system was based upon the pre-condition that their national quota share of the Fund be increased to provide aid for the French Overseas Departments and that the EQS be cut back from the Commission's final proposal of 8% of total Fund aid to the miniscule figure of 5% (£20,000,000 per annum for three years). This demand by the French, whereby they extracted a greater share of ERDF aid by refusing to accept the EQS unless their demands were met, typifies the tactics employed by the majority of member states during the Council bargaining process.

The West Germans again demonstrated their concern for precise definitions of scope and methods before agreeing to the EQS. Finally, self-interest motivations were behind the British ambivalence towards the introduction of the system since it was unclear whether they would receive any aid from the EQS. Once the Commission produced working examples of the types of projects which they envisaged supporting under the new scheme and included ship-building projects, the UK fear that the EQS would be primarily directed at the Mediterranean regions was somewhat appeased. Nevertheless, the British did not push hard for the introduction of the Ex-Quota section since it was still unclear whether they would gain more, in absolute terms, from a Fund covered entirely by the national quota system. This ambivalent position led to the British taking a back-seat position in the Council debates.

The Commission was faced with the inevitable task of mediating between the conflicting opinions expressed by member states in the Council and with coming up with a compromise formula for the EQS; what had originally appeared an ambitious proposal was whittled down to an insignificant proportion of total Fund resources (5%). However, the Commission made a 'gain', in so far as the EQS was accepted albeit in a drastically reduced form. It was now up to the Commission to demonstrate the advantages of such a system by choosing four or five pilot projects in the next phase of the Fund's administration and in this way show that the EQS, if provided with more resources, could become a worthwhile arm of the Fund. This tactic of gradually eroding the suspicion in some member states of innovations like the EQS providing a direct role for the Commission, seems to offer a better chance of gaining Council acceptance for proposals than the submission of ambitious and sweeping plans by the Brussels bureaucracy.

The debate on the size of the ERDF cannot be discussed without considering the active role played by the European Parliament. The Parliament, while expressing an interest in the promotion of Community regional policy, also had broader interests in mind when stating its view. As part of the conciliation agreement drawn up between the Council of Ministers and the European Parliament at the time of the Fund's establishment in 1975, the Fund was to be classed as non-obligatory expenditure in the Community Budget from the end of the 'first phase'. Thus the Parliament would have the final say on the level of the Fund in the Budget and the Fund would be fixed each year according to the budgetary procedure. Moreover, the Parliament would have the right to influence future debates on Community regional policy by entering into a conciliation procedure with the Council. Therefore the Parliament was now in conflict with the Council of Ministers over the size of the budgetary allocation and they also surprised the Council with their determined attitude in the conciliation procedure discussions on the new Fund Regulation.

As far as the latter conciliation procedure was concerned, given the context of the imminent Direct Elections to the European Parliament and the Parliament's desire to win a meaningful role for itself in the decision-making process, there was obviously more at stake than the desire to influence the immediate debate. Indeed, the beginnings of a shift in the institutional balance away from the traditional Commission-Council dialogue, with the Parliament replacing the Commission as the 'European' arm of the relationship were in evidence; once the debate on the Guideline proposals began, it was the Parliament which denounced the manner in which the Commission acquiesced to the Council's intransigence and concentrated on achieving a compromise agreement, albeit low-key in nature. Moreover, it was the Parliament which won the concessions from the Council in the conciliation procedure which allowed for a more flexible operation of the quota system and the establishment of an ex-quota system and for the various other amendments to the general administration of the Fund. The Commission, in the person of Signor Giolitti (Commissioner for regional policy) was left with the role of trying to emphasise the similarity in the views of the Council and the Parliament in order to get the new Regulation off the ground. Thus, whereas the desire to compromise in order to achieve agreement, no matter the cost, in terms of sacrificing the ambitions of its own proposals would appear to have been prominent in the Commission's actions, the Parliament was extremely forceful in the way that it impressed its views and demands upon the Council.

The same desire to extend the role and influence of the European Parliament was evident in the debate on the budgetary allocations for the new Regional Fund where Parliament used the issue as a test-case for asserting its authority in the Community budgetary procedure. The fact that the Parliament succeeded in gaining an increase of 325 million eua for the 1979 Fund allocation (the final agreement was 945 million eua compared with the 620 million eua figure set for 1979 at the December 1977 European Council meeting) and proved so intransigent in the face of the Council's counter-arguments to their case, proved that the Parliament was determined not to be bullied by the Council of Ministers and intended to hand over to the directly elected Parliament a meaningful platform on which to build.

Among the arguments countered by the Parliament, perhaps the most significant was the claim by certain member states, particularly France and West Germany, that because the European Council had set the global figures for the ERDF between 1977 and 1979, these could not be amended by the Parliament. This could obviously have set a precedent by asserting the 'sanctity' of other European Council decisions on Community finance, had the German and French claim been successful. Thus it was extremely important that the Parliament should succeed in carrying through its demands against these arguments in order to secure a significant role in the budgetary process. If the European Council had succeeded in imposing its figures for the ERDF upon the European Parliament, the budgetary power of 'last word' held by the latter institution on finances covered by the non-obligatory section of the Community Budget would have been meaningless.

Thus the question having been posed as to whether the final agreements on the ERDF and the amendments to the Fund Regulation constitutes a radical change in direction for the Fund's administration, the answer must be negative. Despite the fact that, on the European Parliament's insistence, the Fund would be appreciably larger than would otherwise have been the case and would operate under more flexible rules than in the first phase of administration, and despite agreement having been reached on the introduction of an Ex-Quota Section and on the more flexible rules for the infrastructure eligibility criteria, the Fund was going to operate largely on the same lines as hitherto; 95% of the Fund's resources would still be distributed by the national quota system of administration and would rely on close cooperation between national and Community levels. Moreover, the question of whether member states used Fund aid in strict adherence with the principle of additionality would continue to be raised and the extent of direct Commission involvement in the regions of the member states would still be determined by national methods of Fund administration, and general attitudes towards EEC affairs and the European Commission.

Nevertheless, a certain change of direction was apparent; the question of the transfer of resources to the poorer regions of the Community had once more become a live issue in the context of the European Monetary System (the latest attempt to coordinate the Economic and Monetary Policies of the Community). It was hoped that this could add impetus to the Commission's aims of coordinating the Community's financial instruments. In this respect contradictions in the aims and operations of the various Community funds would be avoided and the regional dimension would be considered when drawing up all Community proposals. In addition, the successful operation of the EMS could mean an increased role for the European Investment Bank in the regions of the Community thus signifying an increase in the system of loans for regional projects to supplement the grants provided by the ERDF.

Finally, however, it must be remembered that because the implementation of the new Regulation was delayed by some 15 months, until March 1979, the Fund had to continue operations under the old rules of the original Regulation until this date. Thus despite regional authorities being aware of the proposed amendments it was impossible to make the appropriate adjustments in their project submissions until agreement had been reached. Moreover, the recent changes and innovations in the Fund's operation, for example the Ex-Quota Section and the broader eligibility criteria for infrastructure aid, ran the risk of having little opportunity to prove their worth since the Fund Regulation was due for reconsideration and renewal again at the end of 1980.

Notes

1. Giolitti, the Commissioner responsible for regional policy, was already involved in the supervision of a 'task-force' whose aim was the coordination of the Community's financial instruments. The Guidelines proposed that this move be strengthened by the RIA through which DG XVI would assess the regional implications of all Community activities in all policy areas.

2. Defined as measures strengthening the application of other Community policies or aiming to correct any adverse regional effects which these may have.

CHAPTER EIGHT : E.R.D.F. OPERATIONS UNDER THE AMENDED REGULATION (1979-82) AND PROPOSALS FOR A FURTHER REVISION OF THE FUND AND ITS OPERATIONS

The aim of this chapter is firstly to provide details of the budgetary conflicts in which the size of the ERDF became embroiled during the first two years of operations under the amended regulation. Secondly, the Fund's administration will be considered during the three years up to the beginning of 1982. Thirdly, the major issues at stake during this period will be discussed including the Commission's latest proposals for further revision and amendment of the Fund regulation and ERDF administration. Finally, a critical analysis will be made of recent Fund operations, and the prospects for the future of the ERDF will be considered against the new Commission proposals and initial reactions to them in the Council of Ministers.

1. Budgetary issues at stake

Recent budgetary issues and disputes between the European Parliament and the Council of Ministers are significant to the present discussion for various reasons and the Regional Fund has been used as a test-case by the European Parliament in its battles with the Council on various issues.

Firstly the fixing of ERDF appropriations has been at the centre of controversies concerning the size of the non-obligatory section of the budget (of which the Fund is a constituent part). Secondly, and linked with the previous problem, disagreements have arisen over the fixing of the margin of manoeuvre by which the original budgetary appropriations may be raised by Parliament during the budgetary procedure (see below). Thirdly, the Parliament successfully contested the right of the European Council to fix a three year appropriation for the ERDF. Finally, the hold-ups and uncertainties surrounding the annual budgetary allocations for the Fund have made an already difficult task for the Commission (in the sense that it is difficult enough to operate the ERDF effectively on the basis of annual Fund instalments) extremely arduous.

The belated agreement on the amended Fund regulation in February 1979 had been reached amidst controversy over the size of the Community's 1979 budget and more specifically amidst disagreements between the Council of Ministers and the European Parliament over the allocations for the ERDF for 1978-80 which had been laid down by the European Council meeting of 5th-6th December 1977: 1,850 million eua, including 580 million eua for 1978, 620 million eua for 1979 and 650 million eua for 1980 (see Chapter six).

The 1978 budget had been passed with difficulty and despite vociferous dissent in certain quarters (see Chapter six). However, when the draft budget for 1979 was forwarded to the European Parliament by the Council of Ministers for its first reading, the Parliament voted on over 300 amendments and added 850 million eua to the figures which had resulted from the Council's first cut-backs in July 1978.[1]

In November 1978,[2] it appeared likely that the Council would prune most of the EP's increases, including the 480 million eua (£302 million) to a new total of 1100 million eua (£693 million).

Some ministers in the Council, notably the French and German, took the view that the amount of money earmarked for the ERDF for 1978-80 had already been decided at the European Council meeting of December 1978. Thus the only body capable of amending the figures was the European Council.

Not surprisingly, the EP strongly challenged this argument since it would have meant that a major budgetary decision, possibly followed by others with financial implications, had been decided outside the normal Community budgetary procedure.

Nevertheless, despite the views of certain member states' ministers, the Budget Ministers collectively failed to agree during their second reading of the Community's draft budget for 1979 when they met in Brussels on 20th November 1978.[3] This therefore meant that Parliament's amendment, proposing that 480 million eua should be added to ERDF commitment appropriations (198 million eua in payment appropriations) could not be rejected. Under a strict legal interpretation of the relative budgetary powers of the European Parliament and Council of Ministers (which requires that a qualified majority in Council is necessary when voting on Parliament's increases to non-obligatory expenditure including the ERDF), the amendment should have been deemed accepted. However, the Council did not appear to place this interpretation on the matter.

The core of the dispute was the position adopted by most member states, that the Budget Council could not override the decision taken at the European Council on the amount to be placed at the disposal of the Fund. Nevertheless, two member states, Italy and the UK - each with 10 votes - refused to vote against the Parliament's amendment, thus constituting a blocking minority, which under EEC rules should have meant the acceptance of the amendment.

The issue[4] raised another question, namely whether the Parliament's amendment could be rejected because the Council had failed to agree to raise the margin of manoeuvre (the amount by which the Parliament is legally allowed to increase the budgetary allocation) which stood at 135 million eua and which had almost entirely been used up by Council acceptance of earlier parliamentary amendments. Thus the acceptance of the ERDF amendment would have led to an increase above the permitted figure. Nevertheless, some delegations objected to this tactic since they claimed that (and were backed up by the European Parliament) the margin of manoeuvre could not be approved before the end of the budgetary procudure: i.e. at the Parliament's plenary session in December. A vote was therefore taken in the Council on the issue but no qualified majority existed to increase the margin of manoeuvre which meant that the Regional Fund question was referred to the European Council in Brussels on 4th, 5th December 1978 with the Budget Ministers due to meet again on 6th December.

Meanwhile a unanimous decision was adopted by the EP's Budget Committee to the effect that there could be no doubt that the acceptance by the Council of Ministers of the European Parliament's amendment to increase the size of the Regional Fund for 1979 must, as a result, raise the amount by which the draft budget itself may be increased (the margin of manoeuvre).[5] The Council, on the other hand, took the view that although the amendment increasing the Regional Fund's size had been adopted with reservations, a quite separate decision on the rate of increase in the budget still had to be taken.

No progress was made on the issue at the European Council meeting (4th-5th December 1978)[6] and despite meeting on the 5th December, the Nine's Budget Ministers were unable to reach any agreement on the two outstanding issues in the 1979 Community Budget: the increase in the ERDF voted in its first reading by the European Parliament and the margin of manoeuvre.

Indeed on the 5th December there was no discussion on the ERDF since, according to the German Council President, Manfred Lahnstein, the Heads of State and Government had not made any changes to the sum (620 million eua) which had been agreed at an earlier European Council meeting.

On the other hand, there was a long discussion as to whether the Council could agree to an increase in the margin of manoeuvre which had previously been set at 135 million eua. Ministers agreed at the meeting that Mr. Lahnstein, as Council President, should propose a small increase of about 50 million eua in the Parliament's margin of manoeuvre provided that the latter was prepared to back down and withdraw its amendment on the Regional Fund.

The European Parliament deemed this offer to be totally unacceptable and continued to maintain that since the amendment on the size of the ERDF for 1979 had not been rejected in the Council it should stand. Indeed the Parliament's Budget Committee Chairman, Erwin Lange (German SDP) stated:

> The Council, intentionally or unintentionally, seems bent on pushing Parliament back to the position it occupied prior to the Luxembourg Agreement. This is quite unacceptable ... We have a duty to safeguard the rights we have acquired and to hand them over to our directly elected successors ...[7]

Thus, when the European Parliament met in plenary session (11th-15th December 1978) in Luxembourg, they decided to make no amendment to the Council's £9.2 billion budget for 1979. Hence, by adopting its version of the 1979 budget at its second reading on 14th December 1978, the EP clearly went against the wishes of the Council of Ministers. MEPs made no changes to the draft budget agreed by the Nine's Ministers on 20th November 1978. Instead of a vote being taken on the budget, the Parliament's President, Emilio Colombo, declared that the procedure laid down in Article 203 of the Treaty of Rome should come into play, whereby the budget would be adopted if the Parliament failed to make any changes within 15 days of receiving it (fifteen days duly elapsed on 14th December).

Thus, the Community budget for 1979 was deemed adopted by the European Parliament. Indeed the legal services of the Council and Commission agreed that the 1979 budget existed and had done ever since the EP's President made his announcement on 14th December.

The Commission was now faced with the task of implementing the budget and the Parliament would obviously watch closely to ensure that it was executing matters effectively. On the other hand, it was possible that the Council or one or more of the member governments, would open proceedings in the European Court, challenging the validity of the budget. Therefore, the Commission adopted a non-committal line.

Initially, it was hoped that problems would be avoided because under the system of own resources, member states' contributions for the first month of the year are based on the twelfth of the expenditure contained in the draft budget adopted by the Council (in this case July 1978).

At the Council of Finance Ministers on 18th December 1978,[8] it was agreed to make the January payments without commitments, in order to enable Council and Parliament to attempt to work out an acceptable solution. There was a desire shown at the Council meeting to dedramatise the situation and the French in particular opposed resorting to the Court of Justice in search of a solution, perhaps because they were due to assume the Council Presidency on 1st January 1979.

When the French assumed the Presidency in January 1979, the conflict was still, however, unresolved and only three weeks remained before the February contributions from member states, under the system of own resources, fell due. The French attitude, as holders of the Council Presidency, was going to prove vital and President Giscard d'Estaing made prospects for agreement appear gloomier when he was quoted in an interview with Der Spiegel as saying that the position adopted by the European Parliament on the Community Budget was 'legally and politically unacceptable'.[9]

Thus by the beginning of February there was still no possible compromise formula in sight to bridge the differences between the two institutions. As expected, UK, France and Denmark paid their February contributions to the budget on the basis of the budget as approved by the Council in July 1978 after its first reading. On the other hand, the other six member states recognised the budget adopted by the Parliament in December 1978.[10] The three 'offending members' received a reminder about their contributions from the European Commission, which did not, however, amount to a threat to take legal proceedings under Article 169 of the Rome Treaty.

On the 16th February,[11] the Commission forwarded a supplementary and rectifying budget for 1979 to the Council of Ministers which, if adopted, would increase Community expenditure by 237,776,800 million eua. This contained two major elements:

(i) A new chapter heading in which the Commission inserted the 200 million eua which the Heads of State and Government had agreed in Brussels in December 1978 should be at the disposal of the economically weaker countries which would be participating fully in the EMS.[12]

(ii) The Commission resurrected many of the amendments proposed in its original preliminary draft budget and which secured the support of the European Parliament in December, but had then been dropped for tactical reasons.[13]

In order to help pay for this increased expenditure, the Commission proposed in the rectifying budget that the Regional Fund should be cut from 1000 million eua to 945 million eua. In addition, it was suggested that the Ex-Quota section be reduced from 100 million eua to 45 million eua. The Commissioner responsible for the budget, Christopher Tugendhat, explained that the reduction in the Ex-Quota section of the ERDF was necessary under the new Fund regulation which laid down that no more than 5% of the total Regional Fund may be spent under this heading (i.e. 45 million eua). Thus, it was impractical to leave 55 million eua under the section when it could not be used during 1979.

At a meeting of the European Parliament's Budget Committee in Brussels on 20th-21st February 1979,[14] under the chairmanship of the German Erwin Lange, initial reactions to the Commission's supplementary and rectifying budget were found to be critical. Members objected in particular to the proposal to reduce the ERDF from 1000 million eua voted by the Parliament in December 1978 to 900 million eua.

In addition, the Committee criticised the Council of Ministers' decision to work out a text interpreting Article 203 of the Treaty, which sought to prevent any recurrence of the budgetary wrangle being experienced. The Committee thus adopted a resolution to be tabled at the Parliament's plenary session in March, stating that while the Council may fix its own internal rules, they should not have any external repercussions on the powers of the Parliament since it is both the Council and the EP who share the Community budgetary powers under the EEC Treaties.

On the 6th March 1979[15] the Council and European Parliament met under the concertation procedure and despite their differences agreed to continue their dialogue in the search for an acceptable solution. One of the major results to come out of the discussions was that the Commission's proposed supplementary and rectifying budget could provide the basis for a compromise. However, this was only an agreement in principle and details still had to be worked out.

There appeared to be four major options open to the Nine:

(1) The Commission's original proposals, whereby the ERDF, as voted by the EP in December 1978, would be reduced from 1000 million eua to 945 million with 55 million eua going towards paying the 200 million eua interest rebates under the EMS.

(2) A possibility favoured by Italy was that the 1000 million eua would remain in the ERDF and the Community would have to raise an extra 200 million eua for the interest rebates. In this case, the Commission's budget would be purely 'supplementary'.

(3) A compromise put forward by the German government and supported by the UK, Belgium and Denmark followed very much the same thinking as the Commission's proposal, except that the 245 million eua for the interest rebates would come from the Regional Fund.

(4) The toughest line was taken by France, which was prepared to accept that the Regional Fund, as voted by the Heads of State and Government, and not the Parliament, could be increased by only 100 million eua.[16]

Eventually a virtual consensus was reached amongst the Nine by 20th March 1979 after extensive preparations by the French Presidency following the previous Council meeting on 6th March. The agreement made was that the ERDF should be fixed at 945 million eua for 1979, as the Commission had proposed.[17] Nevertheless, there were still outstanding points on the draft Council Resolution aiming at clarifying the Council's internal procedures for examining the Community's budget.

The supplementary and rectifying budget had to be approved by the European Parliament's plenary session, the next meeting of which was scheduled for April. It was thought that there would be little difficulty gaining Parliament's acceptance although there was a possibility that they would oppose the statement written into the Council minutes setting out the internal procedure to be followed in the future by the Council when examining the Community budget. Indeed agreement on the latter took a long time to settle at the Council meeting with the Dutch[18] unable to go along with the final version agreed by the other delegations.

There appeared to be a strong feeling amongst MEPs that the whole issue surrounding the adoption of the 1979 budget had been dragged out long enough. However, the EP's Budget Committee felt that the statement in the minutes of the eight delegations on the Community's internal budgetary procedures had no legal validity since the Dutch Government had refused to accept the agreement.

Nevertheless, the plenary session of the European Parliament, meeting in Strasbourg, adopted the supplementary budget on 25th April 1979. The general opinion amongst MEPs was that the interest subsidies under the EMS scheme would also help to contribute to the reduction of regional disparities in the Community and, coupled with the increased size of the ERDF, would amount in toto to more than the 1100 million eua that had been originally proposed for the ERDF by the European Parliament.[19]

Hardly had the 1979 budgetary allocation been resolved than conflict arose between the two budgetary institutions over the drafts for the 1980 Community budget.

The Council had cut back the Commission's original draft budget figures enormously in September 1979: in the non-obligatory spending section (about 30% of the budget), the Commission had proposed figures entailing a 43% increase in Commitment appropriations over 1979. The

Council decreased this to about 5.5%.[20] With regard to the ERDF, the Commission had proposed an endowment of 1,200 million eua but the Council cut this back to 850 million eua (a cut in comparison with 1979, therefore, when the final figure agreed had been 945 million eua).

When the EP's Budget Committee met to consider the Council's action it made several points which were adopted by the plenary session of the European Parliament in November and December 1979: firstly, it insisted that the budgetary imbalance, whereby excessive amounts were spent on the price support system of the CAP, must be curbed. It noted, moreover, that the situation was particularly grave in the dairy sector where expenditure on milk products accounted for more than 33% of all Community spending in the Council's draft budget for 1980.[21] Secondly, the Parliament expressed its disapproval at the consequent lack of appropriations for non-compulsory expenditure, especially for the ERDF and the European Social Fund. Moreover, the Parliament emphasised the imminent exhaustion of the Community's own financial resources. In addition, the European Parliament made clear its aim to see the European Development Fund (EDF) and all the Community's lending and borrowing activities included within the budgetary framework. In this way the Parliament launched an all-out attack on the Council over the budgetary issues at stake.

The EP thus rejected the Community budget for 1980 by 288 votes to 64 (1 abstention).[22] The Commission was now called upon to present a new preliminary draft budget and the process began again when the Commission did so on 14th February 1980.[23] The new draft included cuts of nearly £520 million in farm price support expenditure (although more than 70% of the budget was to be allotted to agriculture in 1980). 1,200 million eua was again allocated for the ERDF, as in the original preliminary draft.

Despite two last minute attempts to pass resolutions to reject the budget outright again, it was adopted by the European Parliament at its plenary session on 9th July 1980.[24]

The rapporteur of the EP's Budget Committee for the 1980 budget (Mr. Peter Dankert,[25] a Dutch Socialist) issued a statement following the adoption of the budget[26] in which he stated that the long struggle had marked some progress in the battle to reform the Community's budget in that it had permitted the Parliament to outline clearly the major elements in such a reform - the need to curb agricultural spending, to shift the balance in the budget towards social, regional and structural policies, to alert all the Community institutions to the imminent running out of own resources and the need for the European Parliament to play the fullest possible role in deciding with the Council on all major aspects of the Community budget. Progress had indeed been made but this represented only a small step; compulsory expenditure and notably appropriations for the CAP price support mechanism far outweighed the expenditure in the non-compulsory section of the budget.

Mr. Dankert also pointed out that as a result of the firmness displayed by Parliament a small but significant shift had occurred within the budget; whereas agricultural expenditure went up by approximately 12%, the increase in the spending for social, regional and structural policies was in the order of 30%. Thus, as the Parliament had secured a 63% increase in the budgetary allocation to the ERDF in 1979 as a direct result of its insistence in the budgetary procedure, this definitely heralded a step in the right direction. Indeed, this became more apparent when it was revealed that the increase in spending for social, regional and structural policies between 1976-79 had been approximately 15%.[27]

With regard to the Community budget for 1981, the formulation of which began on the same day as the eventual conclusion of the 1980 budgetary procedure, a preliminary draft being submitted on 14th August by the EP, the same kinds of battle were in evidence. The Parliament reinstated Council cutbacks in the non-obligatory section, including the ERDF, and stressed the need to cut back on agricultural expenditure. Indeed, following a Council-Parliament meeting under the conciliation procedure on 24th November 1980, John M. Taylor (Dem. UK), claimed that genuine progress had been made[28] and that for the first time the Council of Ministers had publicly recognised the need to decrease the level of spending on the CAP.

However, when examining the preliminary draft budget for 1981, the Council cut back the estimates prepared by the Commission by more than 820 million eua. These cuts mainly affected regional policy, social policy and the research and energy sectors.[29] When the budgetary procedure reached the final stages during the December session of 1980, the European Parliament was considering simultaneously the second supplementary draft budget for 1980 which proposed an addition of 100 million eua for the Social Fund and for aid to the victims of the Italian earthquake disaster. Parliament added 266.4 million eua to this draft. Having made these extra appropriations available and aware that the money from the supplementary budget left unspent in 1980 could be spent during 1981, the EP voted a relatively modest package of additional expenditure for 1981: 24.5 million eua for payments to be made in 1981 with a further 30 million eua committed for future expenditure[30] - most of which was destined for disaster aid to Italy. Thus payment appropriations for the ERDF were set at 800 million eua with 1540 million eua designated as commitment appropriations. The Council did not modify these amendments and the President of the Parliament duly declared both budgets adopted on 23rd December 1980.

2. The Fund's administration 1979-82

Despite the budgetary problems experienced by the Community 962 million eua were committed for Regional Fund aid in 1979.[31] 28% of these commitments were dedicated to industrial and service projects (cf. 1975-79 : 32%) and leading, it was claimed, to the creation or maintenance of 79,000 jobs[32] (cf. 1975-79 : 340,000). 72% of commitments were dedicated to infrastructure projects. Payments made in 1979 amounted in all to 513 million eua.

1979 marked the first time that advantage had been taken, since 1975, of an interest rebate of 3 percentage points offered on loans from the EIB.[33] This was to assist with the installation of two groups of electricity generators and part of the linked system in the new electrical power station at Kilroot near Belfast.[34]

Fund assets in 1980[35] totalled 1165 million eua, 58 million eua of which were allocated to the Ex-Quota section of the ERDF. The latter amount could not however be committed in 1980 because the implementing regulations for the five programmes which had been drawn up were not adopted by the Council of Ministers until the end of the year (see below).

Under the quota section, however, the Commission adopted decisions approving projects totalling 1126.38 million eua in 1980.[36] 26% of aid was allotted to projects in the industrial and service sectors, creating 60,000 jobs, and 74% of aid provided finance for infrastructure projects. It should be remembered that the revised ERDF regulation of February 1979[37] required a 70%:30% split for infrastructure and industrial aid respectively. Indeed, this ratio was achieved for the years 1978-80. However, several member states, including Denmark, Ireland and Italy, reduced the volume of assistance for industrial and service activities.[38] This is partly due to the problems of additionality experience, in particular with industrial projects, but more importantly because in the present economic recession there is a shortage of available industrial projects in the private sector (see below for 1981 ratios).

With regard to industrial projects, the average amount of finance provided per project by the ERDF in 1980 for projects greater than 10 million eua was 73.0 million eua.[39] The corresponding figure for projects of less than 10 million eua was 2.0 million eua. When ERDF was divided by sectors of activity, it was found that for projects greater than 10 million eua, the motor vehicle industry and spare parts was in the lead followed by the chemical industry, and engineering and engineering equipment. For projects of less than 10 million eua, metal construction was in the lead followed by engineering and engineering equipment, the food industry, beverages and tobacco, rubber and plastic processing.

With regard to infrastructure projects, on the other hand, average investment per project in 1980 for projects of more than 10 million eua was 63.9 million eua and for the smaller class of project, the average volume of investment per project was 0.6 million eua. The majority of projects assisted concerned road infrastructure and water supply. However, the categories of infrastructure assisted vary between member states according to national policies and regional priorities. In this way, water supply takes the lead for large projects in Ireland, whereas in Italy this type of project is equalled by drainage projects and infrastructure for industrial estates. On the other hand, in France and the UK investment on road infrastructure is the most significant category of assisted project.

It should be noted that the Commission policy towards large versus small projects has evolved over time. From providing encouragement for large projects in the 1979 amended regulation policy has switched again in recent discussions towards support being demonstrated for small and medium sized projects within the framework of the programme approach for Fund aid.

The table below shows the main features of the Fund for the years 1975-80.[40] Thus, since its creation, the Fund has taken 1,994 grant decisions corresponding to assistance for 11,745 investment projects representing a total investment of 33,908 million eua.

The Commission also maintained that contributions granted were 3586 million eua of which 70% went to infrastructure projects and 30% to industrial and service projects. Moreover, 52% of grants went to projects of more than 10 million eua and 42% to projects of less than 10 million eua.

In 1981 a process aiming at the remodelling of the Community's regional policy was begun in the context of the mandate of 30th May 1980, subsequent new regional policy guidelines and priorities and the promised proposal for recasting the Regional Fund regulation. These will be dicussed later in the chapter. However, as far as Fund operations in 1981 are concerned, the allocation for the ERDF was fixed at 1,540 million ecu,[41] 77 million ecu of which (5%) was earmarked for the Fund's Ex-Quota section. Appropriations for payment totalled 800 million ecu.

The number of investment projects receiving grants rose from 2,562 in 1980 to 2,759 in 1981. These grants totalled 1,666 million ecu and virtually used up all the Fund's resources. However, some member states did not submit enough applications to exhaust their quota. Industrial and service projects accounted for 198.18 million ecu (19%) and infrastructure projects for 1,467.50 million ecu (88%). These ratios were therefore well out of line with the regulation requirements of 70:30. Fund assistance was provided to Greece for the first time (250.22 million

Table 8.1 : Summary of decisions on grants 1975-80 source: Select Committee on the E.C. H of L session 1980-81. 14th Report. Reg Pol. H.L. 937

Member State	Number grant decis.	Grants made		Investments		(A) JOBS MAINTAINED
	(B)	Indust.	Infr.	Indust.	Infr.	
Belgium	38 (232)	18.51	32.83	286.90	124.58	5,206
Denmark	64 (342)	6.33	40.05	91.54	199.78	3,302
Germany	435 (1318)	152.75	132.01	3,917.88	638.29	54,255
France	426 (1755)	208.82	417.54	3,681.42	1,789.52	128,038
Ireland	81 (558)	78.81	148.95	1,630.79	1,372.71	35,083
Italy	363 (4506)	249.13	1,148.00	1,633.37	9,589.20	58,139
Luxembourg	5 (6)	-	3.43	-	24.03	-
Netherlands	21 (34)	12.51	58.54	133.45	345.99	1,155
U.K.	561 (2294)	348.41	535.10	3,771.51	4,976.51	112,368
	1,994 (11,745)	1,075.27	2,510.45	15,146.86	18,760.92	397,546

(A) Maintained by inves. ind. services.
(B) Projects in brackets.

eua). 3% of aid to Greece was for industry and service projects and 97% to infrastructure projects. Payments amounted to 791.41 million ecu compared with 726.7 million ecu in 1980. Finally, 1,669 million ecu have been allocated to the ERDF in the 1982 Community budget.

However, investigation by the Court of Auditors revealed that in recent years, payments made under the ERDF have been significantly smaller than payments authorised, especially in 1978 and 1979, as shown in the table below.

Table 8.2 : Percentage of Payment Appropriations used during the years for which they were authorised[1]

Year	%
1975	60.5
1976	72.7
1977	72.6
1978	32.7
1979	33.1
1980	96.2

[1]After non-quota appropriations have been deducted.

Source: Report of the Court of Auditors for 1979, OJ C342, 31 December (1980).

It should be noted however that the corresponding figure for the utilisation of payment appropriations in 1980 was 96.2%,[42] (726.7 million ecus, see above).

Despite the above improvement substantial sums of money have been carried forward in most years since the ERDF's establishment to be spent later as claims for payments caught up with commitments. Moreover, this situation has arisen in spite of the provisions of Article 8(3) of the 1979 revised ERDF regulation which relates to accelerated payments.[43]

In addition, inspection of ERDF accounts for 1980 by the European Court of Auditors[44] revealed that a large concentration of commitment and payment appropriations occurred in the month of December. The table below demonstrates the position for 1980.

Table 8.3 : Concentration of commitment and payment operations

MEUA

Operation / Period	During the financial year 1980	of which in December
Commitment	1,137.8	525.6 (46.3%)
Payments	726.7	349.5 (48.1%)

Source: OJ of EC, 31 December 1981, p.90.

Thus about half the commitment and payment operations were entered in the accounts during the last month of the financial year - a bunching effect which must obviously have a detrimental effect on the work of examining applications for assistance and reimbursement.

It would appear that this concentration can be traced back to the tardiness of the member states in applying for assistance or payment and the timetable of the work of the committees responsible for giving opinions on draft decisions to grant assistance.

In an effort to control and check the way in which its financial support has been used the Commission made spot checks on 841 projects (see Table 8.4 below) out of a total of 11,745 projects assisted between 1975-80.[45] The Commission has aimed to inspect 10% of assisted projects annually but is having difficulty in continuing to do so because of the increasing size of the Fund and the limitations in available personnel in DG XVI.

In 1980 no control checks were made in Denmark, Luxembourg or the Netherlands because the number of inspections in previous years had been sufficiently high in relation to the number of projects aided between 1975-79. The French, however, have persistently refused the Commission permission to inspect their projects effectively. They have insisted upon visiting the chosen sites on their own prior to Commission inspections following which they have accompanied Commission officials on their visits. It can thus only be assumed that the French government fears the possible uncovering of misappropriations of ERDF resources. Moreover, by consistently refusing to allow the Commission to inspect French industrial projects in receipt of aid in a satisfactory manner, France is in contravention of the Rome Treaty. Article 5 states that member states shall take all appropriate measures, whether general or particular, to ensure the fulfilment of the actions taken by the

Table 8.4 : Number of Investment Projects audited since the creation of the ERDF

Member State	Industry			Infrastructure			Total
	1975-79	1980	Total	1975-79	1980	Total	Total
Belgium	3	-	3	11	1	12	15
Denmark	8	-	8	19	-	19	27
Germany	53	10	63	36	8	44	107
France	77	26	103	32	4	36	139
Ireland	14	6	20	25	6	31	51
Italy	55	36	91	89	45	134	225
Luxembourg	-	-	-	2	-	2	2
Netherlands	-	-	-	4	-	4	4
U.K.	62	15	77	149	45	194	271
Totals	272	93	365	367	109	476	841

Source: ERDF 6th Annual Report, p.66.

institutions of the Community. This therefore applies to Article 9(3) of the ERDF regulation which gives the Commission the right to participate in spot checks.

Thus the Commission has informed the French authorities that as from the financial year of 1980, outstanding Fund payments would remain in suspense for industrial projects to which access has not yet been allowed for spot checks and for which no control has been possible.

The Commission and the European Parliament also consider publicity provided for Fund activity to be of utmost importance because it makes the recipients fully aware of the benefits derived both to themselves and the region from the operations of the ERDF. The Commission noted that its press communiqués on grant allocations were little reported in West Germany and France (both member states opposing the identification of projects receiving ERDF assistance). By contrast, Ireland and Italy and the UK report widely on grants, especially in the regional and local press.[46] Information hoardings on the sites of major infrastructure projects also provide an important means of publicity for the Fund's activities (see table below).

Table 8.5 : Installed Information Posters

Member State	Number of Projects with posters	Situation end
Belgium	26	1980
Denmark	6	1980
Germany	42	1980
France	33	1978
Ireland	41	1980
Italy	593	1980
Luxembourg	4	1980
Netherlands	7	1980
UK	370	1980

Source: ERDF 6th Annual Report, p.70.

Article 6 of the ERDF regulation provides that investment may benefit from Fund assistance only if it falls within the framework of a regional development programme. (This must be of an indicative nature and specify the objectives and the means to be employed for the development of the region concerned. Moreover, the aim must be to determine the priorities for assistance from the Fund.)

The limitations of the Regional Development Programmes and the paucity of the statistics and indicators provided, have been mentioned elsewhere in this study. However, an inspection by the Court of Auditors[47] of updated information on seven programmes submitted during 1980, still showed room for improvement in the preparation of these documents.

It was claimed that presentation of the programmes varies greatly from one country to another and does not cover the same periods, does not contain a timetable for implementation and does not always indicate the regional impact of other Community or national policies. Furthermore, the connection between the investments financed and their anticipated effect is not systematically demonstrated: 'priorities are difficult to discern and there is little attempt to put the objectives of the measures into figures ...'.[48]

Finally, the analytical data on the regions are claimed to be inadequate, particularly with regard to relative losses and gains in jobs and income trends.

On the spot audits carried out during 1980 revealed various cases of projects whose connection with the programmes was considered to be dubious. For example, road projects financed in Campania as aid for the Aree Particolarmente Depresse (severely depressed areas) were found not to fit in with the overall scheme of works. In reality the various communes concerned were allocated funds and given a free hand in the choice and execution of projects that they were to finance. The national authorities in Italy explained that the aid programme laid down general guidelines, their application being left to the local authorities. However, the piecemeal application of assistance and the lack of coordination have served to reduce the effectiveness of the projects: the design of the roads (width, surfacing etc.) varies from one commune to another and in some cases the scale of the work has had to be subsequently reduced to offset an increase in costs.

The aim of coordinating the national regional policies of the member states by means of the Regional Development Programmes was also seen to be hindered by the apparent differences found by the Court of Auditors in the method of calculating the number of jobs created by a particular project.[49] Hence while the concept of a job itself is frequently understood as corresponding to the actual occupation of one member of staff, in certain member states it may mean no more than the existence of a post in the organisation chart of the subsidised undertakings,[50] even if that post has not yet been actually occupied and therefore only represents 'potential' in the fight against unemployment. Obviously this type of case is less easy to check and further removed from the ERDF's stated aim of providing a solution to structural underemployment.

3. Major Issues at Stake (1979-82)

Leaving aside the day to day administration of the ERDF a number of significant issues and initiatives have affected Fund operations during the last three years and will give the ERDF a considerably different shape and character for the rest of the 1980s. These initiatives include firstly the drawing up of regulations for specific Community programmes to allow money to be spent from the Ex-Quota section of the ERDF. Secondly, with Greek entry into the Community in 1981, a quota has had to be fixed for the Greek share of ERDF resources and regional policy in the Community will in future have to respond to Greek conditions. Finally, following the mandate of 30th May 1980,[51] and pursuant to the publication of the Commission's First Periodic Report on the social and economic situation of the regions of the Community,[52] the Commission produced new Regional Policy Guidelines and Priorites for Regional Policy and subsequently published proposed amendments to the regulation governing ERDF operations.

This section will assess the three issues and areas introduced above.

(a) The drafting of regulations for specific Community Programmes to allow money to be spent from the Ex-Quota Section of the ERDF

When agreement was reached on the amended ERDF regulation in February 1979, provision was made for 5% of total Fund resources to be allotted to an Ex-Quota section (which as its title suggests would not be subject to distribution under the system of national quotas). This aid was to be used to finance specific Community regional development projects and was seen as a further effort to a coordinated structural and regional policy by recognising that Community actions in other policy-areas could have adverse effects on the regional development of some Community areas.

However, before any aid could be distributed from this section of the ERDF (the allocation was 220 million eua for 5 years) the Commission had to decide upon the problem areas where its meagre resources would be concentrated and then submit regulation-proposals to the Council which would permit the programmes to be implemented.

The Commission accordingly drafted five programmes to include:

(i) regions affected by enlargement (120 million eua, including 65 million eua for France and 55 million eua for Italy);

(ii) areas experiencing difficulties in the steel industry (43 million eua, including 35 million eua in UK, 6 million eua in Belgium and 2 million eua in Naples);

(iii) areas affected by the crisis in the shipbuilding industry (17 million eua for the UK);

(iv) energy sources in Mezzogiorno (16 million eua); and

(v) new moves to develop tourism in Ireland and Northern Ireland (24 million eua, including 16 million eua in Ireland and 8 million eua in UK).[53]

Thus if the total expected gains for the five recipient member states are calculated Italy, not surprisingly, will receive 73 million eua but close behind in second place comes France (65 million eua), followed by the UK (60 million eua), Ireland (16 million eua) and Belgium (6 million eua). Once again the French appear to be doing exceedingly well without any relative economic justification.

Proposals for Council regulations for the five programmes were submitted to the Council by the Commission on 15th October 1979[54] in which it was stated, in an explanatory memorandum,[55] that it had been recognised that regional policy could not be limited to correcting imbalances, of which the less-favoured regions are victims, by way of ex-post subsidies, but rather it was necessary to take preventative steps by ex-ante measures, to avoid the perverse effects which may occur in regions as a consequence of Community policies which cannot always take full account of their regional impact. The Commission also stated their aim under the EQS of drafting overall programmes corresponding to the social and economic requirements of the regions (cf. quota section aid to individual projects). Moreover, the Commission aimed to provide aid for initiative: to develop and sustain any capacity for enterprise which otherwise would be unable to be transformed into productive projects because of an unfavourable environment. Thus, measures concerning small and medium-sized enterprises were: 'the most innovatory and of special importance'.[56]

Finally, it was hoped that these 'pilot schemes' would encourage the development of a new outlook for Community Regional Policy which would entail a wider choice of financial instruments, more concentration of limited resources and better coordination of Community intervention.

The UK government originally vetoed progress on the agreement of the regulations which would have permitted the effective establishment of the EQS. It adopted this negative stance for two major reasons: firstly it made the point that the UK had no appropriate regional tier of administration or government to draft the requisite programmes for aid from the EQS and would therefore experience difficulties in this respect. Secondly the UK government considered that the Commission's proposals were weighted too much in favour of agricultural and rural areas and accordingly pressed for some additional steel and shipbuilding closure areas to be included.[57] However, this point of view attracted little support in the Council of Ministers and the British government finally accepted the Commission's proposals on the understanding that, when the next set of measures were being prepared, the Commission would bear in mind the needs of industrial areas suffering large job losses and high unemployment.

Thus the Council did not grant its approval to the five regulations until 21st July 1980 and even then the agreement[58] was 'ad referendum' for two member states, namely UK and West Germany. Thus the agreement required confirmation and the final agreement permitting the Commission to go ahead with its proposals was reached on 7th October 1980 when the

Council adopted the appropriate regulations.[59] The Commission's special programmes were to be the subject of intervention by the Regional Development Fund Management Committee where the Commission would take account of any 'negative' majorities which might occur against any aspect of or any particular programme as a whole.[60]

Therefore, the Ex-Quota section of the ERDF had only just got off the ground when the Fund regulation came up for discussion and amendment (see below). No money was spent on projects in 1980 but in 1981, in June and December,[61] after consultation with the Fund Management Committee the Commission approved four programmes from within the original five programmes cited above.[62] The maximum contribution to these programmes will be 166 million ecu over 5 years. Funds will be committed in annual instalments and, for 1981, commitments totalled 40.59 million ecu.[63]

(b) The fixing of the Greek Quota for Fund aid from 1st January 1981

With Greece bcoming a full member of the European Community on 1st January 1981 the Greeks had to be included in the arrangements for distributing the ERDF by a system of national quotas. Thus, the regulation governing the Fund had to be amended (Article 2(3)).

The Commission proposed that the Greeks should receive 15% of the ERDF quota section. However, the inclusion of Greece in the system of Fund quotas would inevitably raise the problem of altering the quota-shares of other member states accordingly. In this respect, the Commission had to take account of several requirements; on the one hand, the Commission considered it hard to imagine that acceptance would be gained for the 15% being allocated to Greece and charged to the member state quotas purely pro-rata to their relative size, by way of a simple linear distribution. This would involve the least prosperous states assuming the main burden percentage-wise. On the other hand, a method whereby too great a burden would be borne by member states with less serious regional problems would have emphasised unduly the tendency to concentrate the Fund almost exclusively in certain regions, thus adversely affecting the global character of Community regional policy.

The Commission finally decided upon a formula for distribution based upon the relative deviation of per capita GDP in the various member states from the Community mean. On the basis of the Commission proposals for the 1981 Community budget the proposed new quotas would not cause a diminution in the absolute values of the previous quotas. Moreover, given that the whole of the Fund Regulation was due for review and revision by the Council on a proposal from the Commission during 1981, this arrangement for Greece was intended to be purely temporary.

The following table provides the percentage quotas for the distribution of ERDF aid in 1981 as proposed by the Commission in October 1980.[64]

Table 8.6

	Proposed % share
Belgium	1.06
Denmark	0.88
West Germany	4.46
France	13.18
Greece	15.00
Ireland	5.87
Italy	34.93
Luxembourg	0.07
Netherlands	1.21
UK	23.34

The Commission proposal was however the subject of much debate and controversy during the final months of 1980 with disagreement surrounding notably the eligibility of the Athens and Salonica Areas, the proposed percentage quota share accorded to the Greeks and the way in which the financial burden of a tenth quota should be distributed amongst the other nine member states.

The issue of how big a share of the ERDF quota section should be accorded to Greece and who should pay became involved with the debates over the 1981 Community budget between the Council of Ministers and the European Parliament. The Council cut back the Commission's original proposal of a 37.34% increase in ERDF appropriations, involving an allocation of 1,600 million eua in commitment appropriations. This substantial increase had been made to take account of the inclusion of a 15% quota share for Greece. Thus, according to the Commission's draft, the actual amounts available to other member states would not be reduced to provide the requisite funds for the Greek quota. Having allowed for an inflation rate of 9.6%, an ERDF of 1600 million eua would provide an increase in real terms of 7% over 1980.[65]

However, the Council's first draft budget, produced in late September 1980, included significant cutbacks in non-obligatory expenditure. Hence the new figure for the ERDF was 1400 million eua which entailed a reduction of 200 million eua on the Commission's figures and signified an increase of 20.17% on 1980 commitment appropriations.[66]

Had the figure for the ERDF in the Council's first draft been accepted, the nine member states would have experienced a reduction in real terms in their ERDF allocations in order to finance the Greek quota.

The European Parliament accordingly reinstated the Commission's original figure of 1600 million eua for ERDF commitment appropriations in November 1980, and although the Council reduced this figure slightly to 1540 million eua this was agreed by the EP at its second reading of the 1981 budget in December 1981, an increase of 32.19% over commitment appropriations available to the Fund in 1980.[67] Thus the original nine member states would not lose out financially from Greek accession as far as the ERDF was concerned.

Therefore a final agreement was reached in December 1980[68] in the Council of Ministers and the agreed new ERDF quotas were:

Table 8.7

	Agreed % share for 1981
Belgium	1.11
Denmark	1.06
West Germany	4.65
France	13.64
Greece	13.00
Ireland	5.94
Italy	35.49
Luxembourg	0.07
Netherlands	1.24
UK	23.80

The Greeks were thus given a 13% share of the ERDF for 1981 (with Athens and Salonica classed as ineligible for Fund aid) and no member state losing out from the incorporation of Greece into the ERDF quota system. This is surely a significant pointer to the future enlargement of the Community and the increases in the size of the Regional Fund which will be required to protect member states' quota-shares in real terms.

(c) Proposals for revision of the ERDF

The regulation governing the operation of the European Regional Development Fund was originally due for revision by January 1981.[69] Because of the complications of Greek entry, this review was postponed for twelve months.

The Commission's new Guidelines and Priorities for Regional Policy and the subsequent proposals for amendments to the ERDF regulation came against the background of two other substantial Community documents. Firstly the Commission published, in January 1981,[70] its First Report on the Social and Economic Trends in the Community's regions which indicated that regional imbalances during the 1960s and 1970s had widened despite the EC's growing prosperity during that period. Moreover, these imbalances had been enhanced by the recession of the late 1970s. Secondly, the Commission's Report on the Mandate of 30th May 1980,[71] requiring a restructuring of the Community budget, included paragraphs on the ERDF which stressed that reduction of regional imbalances must remain a 'priority Community objective'.[72] The Commission claimed that major changes should be made to enhance the effectiveness of interventions and increase its impact.

> There is a strong case for greater concentration of the Fund's budgetary resources, which are and are likely to remain inadequate to cope with the development problems that will increasingly face the Community as it continues to enlarge.[73]

The Commission also maintained that the Ex-Quota section should be substantially expanded.

Thus the foundations had been laid for the radical proposals and Commission guidelines for changes in the organisation, distribution and administration of the ERDF which would shape Fund operations for the 1980s.

In July 1981, the Commission published its new guidelines and priorities for regional policy[74] which were discussed by the Council of Ministers in September and October 1981. These guidelines were intended to lay down general regional policy objectives which would be made more specific and then met by the revised ERDF regulation.

The guidelines stressed that regional disparities had persisted and widened in recent years and that they formed a major obstacle to a greater convergence of member state economies. Thus Community Regional Policy had to promote the integration of member state economies and regional policies in an attempt to alleviate the problem.

The guidelines claimed that at present Community Regional Policy instruments, especially the ERDF, could not realise their full potential. This was due to limited financial resources, a wide and thin spreading of these resources and inflexible operation procedures.

Top priority had to be accorded, in the regional policy field, to creating new, productive jobs. Regions in greatest difficulty would be those where structural unemployment is already high. In these regions regional policy measures must therefore be aimed at encouraging labour-intensive activities based on modern technology as well as services.

The First Report on Social and Economic Trends in the Community's regions showed that the main reason for the worsening of regional disparities was the growing divergence of productivity trends. Thus a prime aim of regional policies, both at the Community level and in the member states, must be the raising of productivity by promoting the use of the right technologies for releasing indigenous development potential.

Regional Development Programmes must therefore focus on the forms of development suited to the socio-economic characteristics of the less-favoured regions, in order to release and exploit their growth potential and adaptability. Regional and local representatives should be called upon to play an active part in the formulation of RDPs.

The guidelines further emphasised the need for an increased concentration of the Fund, expansion of the EQS and greater coordination between the ERDF and other Community policies and financial instruments. It was stressed that Community policies must be coordinated at three stages:

(i) at the stage of formulation and implementation of the principal Community policies (which involved the systematic Regional Impact Assessment of policies);

(ii) at the stage of adopting measures aimed at offsetting adverse effects of Community policies in a region (especially with regard to the CAP). These measures could be adopted under the policy in question or be implemented by means of specific operations conducted in parallel (e.g. the EQS measures connected with the restructuring of the steel industry);

(iii) at the stage of combining measures to serve common priorities (for example, for the development of alternative energy sources in less-favoured regions).

Finally, the guidelines stressed the need for increased coordination between the Community's Regional Policies and national regional policies. In this respect the RDPs must be improved by more participation on the part of local and regional authorities. Moreover, coordination would become more effective following the transition to a system of programme contracts which would also ensure a stricter adherence to the principle of additionality.

Thus the guidelines drew on the past experience of the Fund's administration and on the short-comings of past attempts to coordinate the regional policies of the member states and the various Community financial mechanisms. It drew all the problems, aims and priorities together and in this way formed the basis for the Commission's proposed revision of the ERDF regulation.

The Commission published its proposed revised ERDF regulation in October 1981[75] and a Council of Ministers' Working Party began discussion of the document in December.

The main points contained in the Commission's proposed new ERDF regulation include a demand that ERDF resources should be expanded to meet the growing regional imbalances within the Community and a reaffirmation of the need for increased concentration of the Fund's aids. This, it is proposed, should be achieved by the restriction of quota aid to the following areas, where there are particularly serious structural problems: Greece (excluding Athens and Salonica), the Italian Mezzogiorno, Ireland, parts of UK (assisted areas as from August 1982 located in Scotland, Wales, Northern Ireland and Northern and North West England), Greenland and the French overseas departments. The table below shows the proposed distribution of ERDF resources.

Table 8.8

	Proposed ERDF share 1982 %
Belgium	-
Denmark	0.8
West Germany	-
France	1.6
Greece	12.9
Ireland	5.9
Italy	35.2
Luxembourg	-
Netherlands	-
UK	23.6
Quota section	80.0
Ex-Quota section	up to 20.0
	100.0

The table indicates the Commission wish to see the Ex-Quota section of the Fund expanded from its present level of 5% of total resources, with a maximum of 20% being devoted to it. Moreover, Ex-Quota aid would be restricted to regions adversely affected either by recent serious problems of industrial decline or by other Community policies.

The Commission has also set out stricter and more detailed requirements intended to achieve a greater coordination of regional policies between member states and of Community policies and financial instruments affecting the regions. These relate to the preparation and revision of regional development programmes, a process which the Commission hopes will involve closely regional and local authorities. Moreover, the Commission is aiming for more effective regional impact assessment of Community policies.

The Commission has advocated the phasing in over a three year period of programme contracts which will be the main vehicle through which ERDF is channelled to the regions. However, aid to especially large projects (exceeding 40 million ecus) could still be granted. Programme contracts will include infrastructure, industrial and service projects and would be negotiated with national governments. It has been suggested that regional policy measures should aim to encourage labour-intensive activities based upon modern technology and also that quota section aid should also be granted to small business, service and tourist ventures which hitherto have only been eligible for Ex-Quota aid.

The daunting problem of additionality is not tackled directly, although the Commission clearly hopes that revised procedures for programme contracts and integrated operations, together with payment of Fund aid directly to the authorities concerned, will bring about increased additionality and a clearer perception of the gains made due to ERDF aid.

It was hoped that agreement might be reached on the revised ERDF regulation by April 1982. However, after much discussion both at Council Working Party level and in the initial Council session significant differences of opinion are still apparent in the stances adopted by the member states.

Whereas the Ten are unanimous on the need for ERDF aids to be concentrated, most members wish to be included in the quota fundings.[76] The initial debate in the Council of Ministers on the regulation (27th April 1982) thus concentrated on two basic guidelines proposed by the Commission: the geographic concentration of the quota section and the coordination of the regional policies of member states.

With regard to the first topic, only West Germany was at this stage willing to forego a national quota share. Indeed, the London Summit of November 1981 is believed to have agreed that the Fund should cover all regions meeting specified criteria rather than be restricted to named regions in selected countries.[77] However, most member states were in agreement about a need to reinforce the Ex-Quota section of the Fund, though they could not agree on the extent of the increase proposed (20%). The UK government is concerned that parts of the UK would no longer be eligible for aid under the quota section (i.e. the South West, Yorkshire, Humberside and Corby). Furthermore, the British have remained ambivalent towards the prospect of an increased EQS: the chief worry is that in absolute terms they may be worse off with a 20% EQS. They are more likely to support an increase of up to 10% in the Ex-Quota section's resources which, it can be argued, would give a little-tried experiment time to prove itself before such a large shift in the balance between the quota and ex-quota sections of the ERDF was made.

As far as the proposed increase in the coordination of member states' regional policies is concerned, member states have acknowledged the need for this in principle but have still not agreed upon the detailed measures involved. Italy has, however, called not only for increased coordination of national regional policies but also for the coordination of Community Regional Policy with other EEC regional policies such as the CAP.

Judging from the previous delays in reaching agreement on ERDF regulations and in view of the considerable differences in opinion on the present issues at stake, it would appear likely that the ERDF will continue to operate under its present arrangements for some considerable time to come.

4. Analysis of Fund Operations and prospects for the future of the ERDF

The aforegoing assessment of events directly relevant to ERDF operations and the administration of the Fund between 1979-82 will be summarised below before prospects for the future of the ERDF are considered.

The budgetary crises which the Community faced in 1979 and 1980 were highly relevant to ERDF operations in two ways. Firstly, the uncertainty surrounding the size of future allocations to the Fund due to wrangles between the European Parliament and the Council of Ministers must in itself have hindered the effective and efficient administration of the Regional Fund. Secondly, however, the EP did succeed in gaining substantial increases in Fund resources as a direct result of its pressure on the Council of Ministers. Nevertheless, the Community budget as a whole remains dominated by the expenditure on the CAP and notably on the price support mechanisms. Thus, in 1980, Community budget payment appropriations for the ERDF represented only 2.57% of total Community expenditure (though Commitment appropriations were almost three times as large).[78] Moreover, the ERDF is dwarfed by national spending on regional policy. For example in 1979 the UK received payments of about £107 million from the ERDF for industry and infrastructure projects; this compares with central government aid of over £500 million to private sector industry alone in assisted areas in the financial year 1979/80.[79]

The relative paucity of ERDF resources was also made worse by the apparent delays in the payments of appropriations revealed in the above survey, although the situation has been alleviated more recently by the provision for accelerated payments. Moreover, the Commission's job was rendered more difficult by the disproportionately large percentage of applications for aid from the Fund received in the final months of the year.

Progress has also been poor in the attempts to achieve a better coordination of the national regional policies of the member states by means of the Regional Development Programmes. Naturally, effective coordination would further increase the impact and efficiency of Regional Fund aid. The recent RDPs are ineffective and, in the main, poorly presented. They reflect the different standards and criteria in force in the member states. In the same vein little progress has been made with the coordination of the Regional Fund activities with other Community financial instruments and policies. Two integrated operations, involving programmes of aid financed from various Community resources, have begun in Belfast and Naples (see Chapter nine) but little has been done elsewhere. Moreover, the RICAP study on CAP operations demonstrated that this policy has anti-regional policy effects by giving most aid to the rich farmers of Northern Europe.

Member states have varied in their desire and eagerness to publicise the work of the Fund and to advertise on the sites of projects benefitting from ERDF assistance. Moreover, the French have refused the permission to effectively investigate assisted industrial projects in France, the need and justification for which is proscribed in the Fund regulation. One can therefore only assume that the French government are administering the Fund resources in a less than straightforward way.

The operations of the Ex-Quota section of the Fund have only just begun after significant delays in the drafting and acceptance of the requisite programmes for assistance and the slow passage through Council of the implementing regulations. It is thus impossible to pass comment on the efficacy or otherwise of the measures involved but the delay itself is typical of the difficulty of achieving improvements of any kind in the Fund.

The fixing of the Greek quota was another example of the defensive attitude adopted by member states in the face of any redistribution in Community finances. The eventual agreement reflected this uncompromising attitude in the form of the pro-rata basis on which the money for the Greek share was to be made up from the quotas of the other nine member states. Thus the heaviest burden was unfairly placed on the shoulders of the least-well off member states, even though no member state was worse off in real terms because of the final budgetary agreement on 1981 ERDF Commitment appropriations.

Finally, the atmosphere in which the new guidelines for regional policy and the draft amendments to the Fund regulation have been produced is one which shows concern and recognition for the need to restructure the Community budget, to avoid excessive agricultural spending and the need to reduce continuing and indeed worsening regional imbalances before further progress can be achieved towards Economic and Monetary Union and total economic integration. The same goals and needs were, however, recognised at the end of the 1960s and at the Paris Summit of 1972 and led eventually to the establishment of the ERDF in 1975. The major stumbling block towards the achievements of these goals has been and will, in all likelihood, remain the self-interest motivation of the member states and their unwillingness to cede enough control over the Fund to the Commission to allow it to be run according to truly communautaire priorities and considerations.

The Commission's recently proposed amended regulation is a bold document in that it expresses the objective need to concentrate resources in the least-developed areas and aims to increase substantially the more communautaire side of the Fund: the EQS. It also deals with the need to end national government domination of the Fund's administration and to involve local and regional authorities in the compilation of the Regional Development Programmes. Moreover, it hopes to improve the perennial problem of additionality by gradually moving over to a system of programmes for aid rather than individual projects.

The Commission has reinforced its arguments by claiming that it cannot continue with the present system of grant applications because of the staff constraints imposed by the Council of Ministers which has successively refused to permit increases in manpower in the Commission's DGs. Therefore the programme approach has been proposed to help alleviate the administrative burden faced by DG XVI which has increased due to the expanding Fund and the consequent rise in applications for Fund assistance.

Nevertheless member states are having difficulty in administering the programme approach as so far experienced under the EQS and are reluctant to bear the administrative cost that a total switch would entail. Some member states, moreover, (such as the UK) do not have an appropriate regional organisation or civil service through which to draw up RDPs or programme contracts.

The initial reactions voiced in the Council of Ministers suggested that member states had finally recognised the desirability of and need to make the changes cited above. However, it is typical that most member states agree that the Fund should be concentrated in the worst-off regions but that they all (except West Germany) consider that they should have eligible regions!

Doubtless, the arguments and debates over the Fund's renewal will be protracted and the inevitable compromise will be long in coming. It is unlikely that the final package will involve any significant increase in the powers of the Commission or the local and regional authorities vis à vis the national governments in the Fund's administration.

What seems certain is that the Commission's ultimate aim for the ERDF: '... to correct the principal imbalances within the Community resulting in particular from agricultural preponderance, industrial change and structural underemployment '[80] will remain a pipedream.

Notes

1. See Agence Europe, late October (1978).

2. See Agence Europe, mid November (1978).

3. Agence Europe, 21 November (1978).

4. The main outline of this issue was reported in Agence Europe in late November 1978.

5. According to EEC law, when the rate of budgetary increase is above the permitted amount, a new maximum rate has to be established with the joint agreement of the Council and the Parliament. Thus the Parliament's Budgetary Committee, starting from this legal premise, considered that the Council, by not rejecting the amendment on the Regional Fund, automatically increased the maximum level.

6. Agence Europe, 6-7 December (1978).

7. 'European Report', 12 December (1978).

8. Agence Europe, 19 December (1978).

9. 'European Report', Institutions and Policy Coordination, p.2, issue 561, 6 January (1979).

10. They did however point out that they believed this budget to be incompatible with the Treaties because it did not respect the rules of the European Parliament's Margin of Manoeuvre.

11. Agence Europe, 17 February (1979).

12. Since the budgetary contributions are decided on a Community basis, in order to be fair to the UK, which did not intend to participate in the EMS at the outset, the Commission proposed to pay back to the British Government the share which it would be paying, namely 45 million eua.

13. For example, increases for Community expenditure to fight youth unemployment, for transport infrastructure studies and for increases in the energy sector.

14. Agence Europe, 23 February (1979).

15. Agence Europe, 8 March (1979).

16. Agence Europe - various reports 10-15 March (1979).

17. There also appeared to be no difficulties in inserting the 245 million eua interest rebates into the budget as agreed at the Brussels European Council in December 1978. 200 million eua were to go to Ireland and Italy to help the two countries adjust to the EMS, while 45 million eua were to be paid back to the UK.

18. The major Dutch objection was on the proposal that, if the draft budget were to go above the maximum rate, there should be an across-the-board proportional reduction in the amendments submitted by the Parliament. In this they were supported by the Parliament and Budget Commissioner Tugendhat, since, in their view, it went against the spirit of Article 203 of the Treaty of Rome setting out the budgetary procedure. For details of the procedure adopted see European Report, No. 583, 23 March 1979, p.3.

19. Agence Europe, 26-27 April (1979).

20. Agence Europe, 13 September (1979).

21. Report of Committee on Budgets: European Parliament Working Document 1-581-79, 10 December (1979), p.7.

22. The number voting to reject the budget must comprise more than a half of the Parliament's 410 members (pre-Greek membership) and the majority in favour of the rejection must represent more than two-thirds of the votes cast. Thus the rejection of the budget was consistent with Parliament's powers under Article 203 (paragraph 8) of the Rome Treaty.

23. According to Article 204 of the Rome Treaty: 'if at the beginning of the financial year, the budget has not yet been voted, a sum equivalent to not more than one-twelfth of the budget appropriations for the preceding financial year may be spent each month in respect of any chapter, or other sub-division of the budget in accordance with the provisions of the regulations made pursuant to Article 209'. (N.B. This shall not have the effect of placing at the Commission's disposal appropriations in excess of one-twelfth of those provided for in the draft budget in the course of preparation.)

24. See:

(i) European Parliament Working Document 1-294/80, 7 July (1980), proposed to reject outright the new draft budget for 1980, tabled by Mr. Balfe, Mr. Megahy, Mr. Lomas, Mr. Seal and Mr. Boyes (Socialist Group).

(ii) European Parliament Working Document 1-300/80, 8 July (1980), proposal for the total rejection of the new draft budget for 1980 - tabled by Mr. Pannella, Mrs. Bonino, Mr. Capanna, Mr. Coppieters and Mrs. Macciocchi.

25. He has since succeeded Mme. Simone Veil as President of the European Parliament.

26. European Parliament Document: Committee on Budgets 26/80:- Notice to Members on the conclusion of the 1980 budgetary procedure P.E.66.719 (10 July (1980)).

27. 'The Week' - European Parliament publication, 7-11 July (1980).

28. 'European Parliament Digest', No. 10, December (1980).
The reduction agreed to, although small (about £32 million) was seen as a major victory of principle. Ministers also allowed to stand, Parliament's proposed 2% reduction by transfer of agricultural guarantee finance.

29. The European Parliament : what it is, what it does, how it works, Michael Palmer, Pergammon Press (1981), Appendix III, p.233.

30. Op. cit.

31. 43 million eua had been carried forward from the previous budget year.

32. ERDF Draft 5th Annual Report (1979), COM(80)460 final, 29 July (1980), p.3.

33. Article 4(2b) of ERDF regulation.

34. ERDF Draft 5th Annual Report, op. cit., p.48.

35. ERDF Draft 6th Annual Report (1980), COM(81)370 final, 20 July (1981).

36. ERDF, 6th Annual Report, op. cit., p.19.

37. Article 4(1)(B).

38. ERDF, 6th Annual Report, op. cit., p.23.

29. Op. cit., p.24.

40. Op. cit., p.31.

41. 15th General Report on the Activities of the EC, p.139.

42. Report of the Court of Auditors for 1980, OJ, 31 December (1981), p.88.

43. Reimbursements to member states of up to 75% of the amount of aid granted, on condition that at least 30% of the payments, constituting the basis for aid from the Fund, have been made.

44. Court of Auditors Report for 1980, OJ of the EC, 31 December (1981).

45. Combination of figures provided: ERDF 5th Annual Report, op. cit., p.55; ERDF 6th Annual Report, op. cit., p.66.

46. ERDF, 5th Annual Report, op. cit., p.59.

47. Op. cit., p.91.

48. Op. cit., p.91.

49. For investment in industrial, handicraft or service projects, the ERDF makes aid from the Fund dependent upon the fact that at least 10 new jobs are created or 10 existing jobs maintained.

50. Court of Auditors, op. cit., p.93.

51. Commission Report on the Mandate of 30 May 1980, COM(81)300, 24 June (1981).

52. Brussels, 7 January (1981), COM(80)816.
This periodic report was required by the Council resolution of 6 February (1979) - OJ C36, 9 February (1979).

53. Regions to benefit from this aid are:-

France:	Aquitaine, Languedoc-Roussillon and the Midi-Pyrenées
Italy:	Mezzogiorno
UK:	Strathclyde, Cleveland, Clwyd, South Glamorgan, West Glamorgan, Gwent, Tyne & Wear, Merseyside, Belfast, Corby, Londonderry, Strabane, Omagh, Fermanagh, Dungannon, Armagh, Newry and Mourne
Ireland:	Counties of Donegal, Leitrum, Caran, Monaghan and Louth
Belgium:	Provinces of Luxembourg, Liège, Hainaut, excluding the departments of Ath and Tournai

54. Proposals for Council regulations instituting specific Community Regional Development projects under Article 13 of ERDF Reg. COM(79)540 final, 15 October (1979).

55. Ibid, p.1.

56. Ibid, p.1.

57. See for example Brief for UK members of the Economic and Social Committee for the plenary session of September (1980): ERDF: quota-free aid, Dept. of Industry RP.DG2, 16 September (1980).

58. Agence Europe, Wednesday 23 July (1980).

59. Agence Europe, Tuesday 7 October (1980).

60. Agence Europe, Wednesday 23 July (1980).

61. 10th June (1981), Bulletin of EC, 6-1981, point 2.1.69.
10 and 17 December (1981), Bulletin of EC, 12-1981.

62. (i) The French and Italian programmes for the regions - South West France (Aquitaine, Languedoc-Roussillon and Midi-Pryenées) and the Mezzogiorno - which were submitted as specific measures contributing to the development of certain regions in the context of the enlargement of the Community.

(ii) The programmes for Ireland and UK aimed at improving the economic and social situation in the border areas of Ireland and Northern Ireland.

(iii) The Italian programme for improving the security of energy supply in certain areas of the Mezzogiorno.

(iv) The Belgian programme for developing new economic activities in certain areas adversely affected by the restructuring of the steel industry.

63. 15th General Report of the Activities of the EC (1982), p.140.
Commitments included: 15.56 million ecu for the French programme
16.14 million ecu for the Italian enlargement programme
3.69 million ecu for the Irish and UK programmes
5.03 million ecu for the Italian energy programme
0.17 million ecu for the Belgian programme

64. Proposal for a Council Regulation (EEC) amending Regulation (EEC) 724/75 establishing an ERDF: COM(80)368 final, 6 October (1980).

65. Bulletin of EC, No. 7/8 (1980), Pt. 1.1.7.

66. Bulletin of EC, No. 9 (1980), Table 3, p.79.

67. Bulletin of EC, No. 12 (1980), Table 4, p.117.

68. Council Regulation 16 December (1980), 3325/80.

69. Council Regulation 214/79, 6 February (1979).

70. COM(80)816 final, 7 January (1981).

71. COM(81)300, 24 June (1981).

72. Ibid, para. 35, p.18.

73. Ibid, para. 36, p.18.

74. COM(81)152 final, Brussels, 24 July (1981).

75. COM(81)589 final, 26 October (1981).

76. Agence Europe, 28 April (1982).

77. Agence Europe, 28 November (1981).

78. House of Lords, Select Committee on the EC: Report on Regional Policy, Session 1980-81, 14th Report H.L.(93), 17 February (1981), p.VI.

79. Op. cit.

80. Article 3 (formerly Article 1), proposal for a Council Regulation (EEC) amending Regulation (EEC) no. 724/75. COM(81)589 final, 26 October (1981).

CHAPTER NINE : THE EFFECT OF EEC FINANCIAL INSTRUMENTS IN THE LESS-DEVELOPED REGIONS OF THE COMMUNITY

This Chapter aims to assess Community financial instruments which have been significant for aiding less-developed regions and to compare these with the operations of the ERDF. The instruments to be discussed are the European Investment Bank, the New Community Instrument, European Coal and Steel Community financial assistance, the European Social Fund, and the Guidance Section of FEOGA. Furthermore, the implications of the Community's Competition Policy for the less-developed regions will be reviewed. Finally a survey will be made of recent Commission attempts at coordinating the Community's financial instruments described in the first part of the Chapter.

I. EUROPEAN INVESTMENT BANK

1. Origins and Objectives

When the EEC was established the founding of the EIB was incorporated in the Treaty of Rome; Article 2 of the Treaty endowed the Community with the task of progressively approximating the economic policies of member states by establishing a Common Market and of promoting throughout the Community an harmonious development of economic activity, a continued and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the states belonging to it. In order to fulfil these tasks Article 3 provided for, inter alia, (section j) 'the establishment of a European Investment Bank to facilitate the economic expansion of the Community by opening up fresh resources'. Thus the need was recognised for a substantial increase in investment in the EEC and for some mechanism to facilitate the mobilisation and transfer of capital from richer to poorer regions within the Community and to bring capital into the Community from outside its borders.

Article 129 of the Rome Treaty established the EIB with a legal personality distinct from that of the Community and laid down that its membership should consist of the member states of the EEC. Article 130 defined the tasks to be undertaken by the Bank. These included contributing (by having recourse to the capital market and/or utilising its own resources) to the balanced and steady development of the Common Market in the interest of the Community. For this purpose the Bank was to operate on a non-profit making basis and to grant loans and give guarantees facilitating the financing of the following projects in all sectors of the economy:

(a) projects for developing less-developed regions;

(b) projects for modernising or converting undertakings or for developing fresh activities called for by the progressive establishment of the Common Market, where these projects are of such a size or nature that they cannot be entirely financed by the various means available in the individual member states;

(c) projects of common interest to several member states which are of such a size or nature that they cannot be entirely financed by the various means available in the individual member states.

Thus the EIB was given no direct political function nor does it issue directives or rulings.

> It is a practical and operational body whose work is principally concerned with some of the realities of welding together different economies and with promoting a balanced and smooth development of the Community.[1]

2. Structure

The EIB differs from a central bank in that it has no power to control the stock of money; it differs from a commercial bank as it does not directly accept deposits from the public. The Bank, being non-profit making, seeks only to cover its expenses and to set aside sufficient reserves to deal with possible losses from loan defaults. However, this is unlikely to occur as the EIB usually demands sureties from the state involved or from other financial institutions.

The head office of the EIB is in Luxembourg and it has external bases in several member states including a liaison office in London. The Bank is composed of four organs: firstly, the Board of Governors, which consists of Ministers designated by member states and whose tasks are laid down in Articles 9 and 10 of the Bank's statute. These include the laying down of directives for the credit policy of the EIB and ensuring their implementation, deciding whether to increase the subscribed capital of the Bank and authorising special loans. Moreover the Board has the power to authorise by way of derogation (acting unanimously on a proposal from the Board of Directors) loans for investment projects carried out, in whole or in part, outside the European territories of member states. Finally, the Board of Governors approves the annual report of the Board of Directors and the annual balance sheet and profit and loss account and, acting unanimously, is competent to take any decisions concerning the suspension of the operations of the Bank and, should the event arise, its liquidation. Secondly, the Board of Directors, which, with Greek entry into the European Community, consists of 19 directors and 11 alternates[2] from the member states. The tasks of the directors are laid down in Articles 11 and 12 of the Bank's statute and include granting loans and guarantees and fixing interest rates on them. Thirdly, the Management

Committee (Article 13 of the Bank's statute) which pursues the day to day business of the Bank and fourthly an Audit Committee, whose job is proscribed by Article 14 of the statute and is to verify annually the operations and accounts of the Bank.

The EIB has a close relationship both with the member states of the Community and with the Commission. The latter gives its opinion on loan applications and can be overruled only by a unanimous vote of the Bank's Board, a veto which has never been carried out.

3. Sources of Funds

The EIB's capital is derived from two sources: from that subscribed by member states and from its borrowing on international capital markets. The bulk of resources come from the latter source, namely from public or private bond issues on national capital markets inside and outside the Community and on the international market. The EIB is one of the best known, highest credit-standing borrowers and its bonds are quoted on the world's major stock exchanges. The tables below show the Bank's present capital structure and its borrowing over the last twenty years.

Article 18 of the Bank's statute stipulates that the Bank's lendings should not exceed 250% of its subscribed capital. It does not, however, receive the full subscribed capital, but only the percentage paid up, which is determined by the Board of Governors.

With the aim of increasing the EIB's capacity for lending, a doubling of the Bank's subscribed capital to 14.4 billion ECUs was approved, subject to national budgetary procedures, by the Bank's Board of Governors at its annual meeting in Luxembourg on 15th June 1981.[3] The decision was due to take effect from 31st January 1981.

Table 9.1 (A) : Capital Structure (as at 1 January 1981 in million ua)

	Authorised Capital	Total paid in and to be paid in	%
W. Germany	1575.00	202.50	21.875
France	1575.00	202.50	21.875
United Kingdom	1575.00	202.50	21.875
Italy	1260.00	162.00	17.50
Belgium	414.75	53.325	5.76
Netherlands	414.75	53.325	5.76
Denmark	210.00	27.00	2.925
Greece	112.50	14.46	1.563
Ireland	52.50	6.75	0.729
Luxembourg	10.50	1.35	0.146
Total	7200.00	925.71	100.0

N.B. The capital set to be paid in equals approximately 13% of the authorised capital: all or part of the remainder could be called by decision of the Board of Directors should ever the Bank's obligation towards lenders require this.

Table 9.1 (B) : Borrowings (1961-80)

Year	(million u.a.)
1961-72	1973.5
1973	612.3
1974	825.5
1975	830.7
1976	748.9
1977	1161.5
1978	1949.7
1979	2481.2
1980	2466.8
Total	13050.1

Source: European Investment Bank Broadsheet, printed January 1981.

The part of the increase to be paid in by the member states is set at 540 million ECUs (7.5%) which will bring the total amount of the Bank's capital paid in or to be paid in to 1465.715 million ECUs. The member states will pay in the 540 million ECUs in eight half-yearly instalments, the first on 30th April 1984.

4. Applications and Eligibility for Loans and Guarantees

Applications for loans or guarantees may be made to the Bank either through the Commission or through the member state on whose territory the project will be carried out. An undertaking may also apply direct to the Bank for a loan or guarantee. According to Article 21 of the EIB's statute:

> Applications made through the Commission shall be submitted for an opinion to the member state in whose territory the project will be carried out. Applications made through a member state shall be submitted to the Commission for an opinion. Applications made direct by an undertaking shall be submitted to the member states concerned and to the Commission.

The member state concerned and the Commission must deliver an opinion within two months otherwise the Bank assumes that there is no objection to the project in question and the Board of Directors then rules upon applications for loans or guarantees submitted to it by the Management Committee.

The Bank may grant loans and give guarantees to private or public enterprises, irrespective of their legal status.[4] The investments financed are usually carried out in the European territory of the member states but the Board of Governors can use its power of derogation to enable the financing of projects outside the Community where they are of Community interest. This provision has been applied to operations in countries in the Mediterranean region, including Portugal, to the African, Caribbean and Pacific (ACP) States and to the overseas countries and territories of France.

In 1980, operations outside the Community totalled 547.7 million eua compared with 512.9 million eua in 1979.[5] 402 million eua were channelled to the Mediterranean countries and 145.7 million eua to the ACP States. Projects aided include mainly those concerning oil and natural gas supplies and for the development of hydroelectric power. However, loans have been provided for other industrial and infrastructure projects.

The EIB normally finances no more than half the cost of a project. In general it prefers not to lend less than a million u.a.s per project, but it does however finance smaller scale projects by means of global loans to promote investments by small businesses.[6]

5. Regional Development Operations of the EIB

One of the founding aims of the EIB was to contribute towards the reduction of regional disparities. With this aim in mind, in December 1958 the EIB's Board of Governors issued a directive that the Bank: 'devote a substantial portion of its resources to the financing of projects likely to contribute to the development of less developed regions, which is already one of the major objectives of the EEC'.[7]

Finance for regional development projects comes from the EIB's own resources and, since the establishment of the New Community Instrument in 1978, from additional sources provided by the European Community within the context of the European Monetary System (see below).

In its lending to support regional development in the Community, the EIB respects the regional development priorities laid down by the appropriate national authorities and strives to focus lending on those regions with the gravest problems; since 1973 more than 75% of regional development financing has been channelled to projects in Italy, Ireland and UK.[8]

In 1980, for example, almost two-thirds of regional development financing was channelled to projects in the Community's top priority areas: Ireland, the Mezzogiorno, Northern Ireland and Greenland. Additionally, more than four-fifths aided regions with unemployment figures at least 25% above the Community average.[9]

In 1980 lending for regional development totalled 1961.4 million eua. (1815.7 mill. from own resources and 145.7 mill. from NCI): 47.4% was given over to projects in Italy, 25.5% was given over the projects in UK, approximately 20.0% was given over to projects in Ireland, just over 7.0% was given over to projects in France, and lesser amounts to Denmark and Belgium.[10]

The above funds were used to aid finance in industry, irrigation, water supply and sewerage treatment schemes, telecommunications, transport infrastructure and other miscellaneous infrastructure.

In the UK, for example, two-thirds of the 499.5 mill. eua loaned was given over to infrastructure, in particular water supply, sewerage, sewerage treatment and disposal schemes (101.9 mill.), investment in telecommunications systems and road and rail transport infrastructure (135.2 mill.), equipment for the energy sector (25.2 mill.) and miscellaneous components of larger projects such as further water schemes and roads (70.5 mill.).

Lending to industry more than doubled in 1980 (166.7 mill., cf 1979 - 64 mill.), the chief beneficiaries being the mechanical and electrical engineering sectors (43.6 mill.), foodstuffs (32.3 mill.) and non-ferrous metals (26.4 mill.). There was also an agency loan and contract of mandate and guarantee with the British government geared to providing sub-loans to small and medium scale industrial ventures in various disadvantaged parts of the country.

Funds in the UK went for investment projects in the assisted regions, notably Scotland and Northern Ireland, the North West, the North, Wales, Yorkshire and Humberside, and the South West. There were also two projects offering benefits to a number of regions: high speed trains to run on the North East/South West route and water schemes in the Severn and Trent Valleys.

In January 1981,[11] the European Investment Bank made a global loan of £5 million (8.5 mill. ua) to Finance for Industry Ltd. This is to be used by the group's subsidiary Industrial and Commercial Finance Corporation (ICFC) to make sub-loans of between £15,000 and £50,000 to support a wide range of investments chosen in agreement with the EIB.

Moreover, in April 1981,[12] the European Investment Bank concluded its first global loan to a UK clearing bank in the form of a £5 million contract with the Midland Bank to help finance small scale industrial ventures in assisted areas of England and Wales. The EIB is making the funds available in the form of a global loan to Midland Bank Industrial Equity Holding Ltd. and the proceeds are to be on-lent through the local branches of the parent company, for a series of small investments (£15,000 to £50,000) chosen in agreement with the EIB.

The above two recent global loans complement a scheme already in operation in the UK to help finance small scale industry; this consists of a mandate arrangement whereby the Department of Industry's regional offices in England, Scottish Economic Planning Department, Welsh Office Industry Department and Northern Ireland Department of

Commerce act as EIB agents in using funds provided by the Bank to lend amounts of between £15,000 and £2.5 million. By the end of April 1981[13] the mandate scheme had been used to help finance some 125 ventures involving the creation or safeguarding of about 10,250 jobs.

6. The New Community Instrument (NCI)

This is another new mechanism which is of significance for less developed regions and which includes a major role for the EIB. It was set up[14] within the context of the European Monetary System (EMS) having been agreed upon in principle in December 1977 by the European Council. It came into operation in October 1978 after the European Parliament and ECOSOC had delivered their opinions.

The Council decision creating the instrument empowers the Commission to contract loans of up to 1000 million eua, and to on-lend the proceeds for the purpose of financial investment projects contributing to priority Community objectives with regard to energy, industry or infrastructure. Thus the Commission has to decide on projects eligible for assistance and the EIB, acting in accordance with its general mandate, will vet applications and grant loans.[15] As part of the agreement of the EMS projects financed in Italy and Ireland may be accorded a 3% interest subsidy. Within the framework of implementing the EMS, the Council adopted on 3rd August 1979, a Regulation to give interest rebates to investments carried out in less prosperous member countries. The volume of loans to receive interest rebates is fixed for five years at 5000 million eua, distributed in annual instalments of 1000 million eua. The volume of interest rebates is 1000 million eua distributed in annual instalments of 200 million eua. It was decided that Italy and Ireland would benefit from these measures and that interest rebates would be allocated one-third to Ireland and two-thirds to Italy.

In 1979, the first full year of the NCI's operation, the contracts jointly signed by the European Commission and the EIB for investment projects within the Community totalled 277 mill eua.[16] These were carried out by the EIB on behalf of and at the risk of the EEC. 105.3 mill eua were invested in the UK towards the construction of Dinorwic hydroelectric power station in Wales (79.4 mill eua) and for water supply and sewage schemes in the Lothian Region of Scotland. 85 mill eua were invested in Italy and 86.7 mill eua in Ireland.

In 1980,[17] loans granted from NCI resources totalled 197.6 mill eua: 137.8 mill eua were provided for investments in Italy, 41.7 mill eua for Ireland and 18.1 for Denmark. Apart from one project in Italy all the others received, in addition, loans from the Bank's own resources.

7. Comparison with ERDF Operations and General Conclusions

When the EEC was established in 1958, the economic climate of the time was one of general prosperity. Despite this, however, there were regional disparities of 6:1 between the richest Community regions in North Germany and the poorest in Southern Italy. Nevertheless, the majority view of the time was that the advantages accruing to market forces in an environment of increased competition, produced by the creation of the EEC, would benefit both poor and rich regions alike. Thus there was no specific instrument of regional policy introduced by the Treaty of Rome; the EIB was established as an additional source of capital and aid to those already operating in member states, with the aim of accelerating the process of reducing regional disparities.

In other words, its establishment did not represent an attempt to provide a regional policy but to provide a source of finance to assist, inter alia, regional development.

If a comparison is made between the operations of the EIB and those of the ERDF as described in the preceding chapters, it can be seen that the EIB is less politically charged than the Regional Fund; it has been endowed with a distinct and separate personality from the Community institutions, and in this way, although there is some Community involvement in its operations (and despite its clear link with the EEC) member states see it as an additional source of credit which happens to operate at the European level (and also operates outside the Community's territory). It does not have the potential supranational connotations often linked with other Community sources of finance.

Thus whereas the operation of the ERDF constitutes part of a conscious Commission attempt to achieve a measure of coordination of national regional policies and to become involved (albeit in a complementary fashion) in regional development through such requirements as the regional development programme, EIB finance presents no such incursions into the economic policies of unwilling member states.

The setting up of the ERDF itself was a highly charged political decision which produced an agreement on a quota system spreading the Fund's already small resources thinly amongst all member states, with 72% of total aid allocated to the three countries UK, Italy and Ireland with the worst regional problems (prior to Greek entry). On the other hand, no political compromises of this sort have been involved in EIB operations and since 1973 at least 75% of the Bank's regional development resources have been lent for projects in the three poorest member states. If lending from the EIB under the heading of its two other aims (projects of common interest, and modernisation and conversion of undertakings), a proportion of which takes place in less developed regions, is added, then the total percentage of EIB loans going to Italy, Ireland and UK is about 90%.

Moreover, the ERDF Fund Regulation (Article 4) states that individual investment projects must exceed 50,000 eua (approx. £27,500) in order to be eligible for Fund aid. By contrast, the EIB facility of global loans for small-scale investments, means that more help can be offered to small and medium sized enterprises, as was the case this year with the loans made to financial institutions in the UK (for on-lending) to assist projects valued at between £15,000 and £50,000.

On the other hand, it would appear that the offer of loans and guarantees is not as attractive to potential recipients of aid as are investment grants as provided by the ERDF. In this respect it is significant to note that whilst the Regional Fund has been consistently oversubscribed since its inception in 1975 (see annual Fund reports), the provision under Article 4 (2b) of the ERDF Regulation, whereby assistance is offered in the forms of an interest rebate of 3% on an EIB loan over a period of years, has only been taken up once (by the UK for a project in Belfast to develop an electrical power station).

In addition demand for EIB loans in the UK dropped in 1980 as compared with 1979 (682.0 million eua in 1980, 508.1 million eua in 1979), again demonstrating the relative unattractiveness of loans, at least in the UK. (Loans in Ireland and Italy did increase in 1980 as against 1979.) Indeed, during a recent review of the ERDF's operations[18], one commentator directly involved with the formulation of Fund aid applications suggested that this was the case. Despite the fact that EIB loans are normally made in mixed currency form, thus allowing a lower interest rate to be charged than for a loan entirely in sterling, he claimed that the cost of covering foreign exchange risk eliminates almost all the advantage of paying the lower interest rate.[19] More importantly, it was thought that the value of an ERDF grant is greater if received as a lump sum early in the life of a project rather than spread thinly in the form of interest subsidies over a number of years.

In conclusion, it is impossible to compare the relative sizes of the EIB's resources and those of the ERDF. The former operates as a financial institution, raising capital on the market and demanding authorised capital from the member states. The size of the latter on the other hand, is fixed annually by the Community Budget procedure.

Nevertheless, it cannot be denied that the EIB has made a significant contribution to regional development in the least prosperous areas of the Community, despite the apparent unattractiveness of loans vis à vis grants: at the end of 1980 (including NCI resources) the Bank had lent 17,833.1 million eua with around 90% of this figure having been directed to the Community's worst-off areas. Between 1958-80 the EIB lent 3,316.1 million eua (23% of resources) to UK projects and 688.0 in 1980 (25% of resources).[20] This compares with ERDF grants to the UK[21] of 655.78 million eua (1975-79) and 260.31 million eua in 1979. [see also Table 9:2, P231]

II. THE ECSC : FINANCIAL ASSISTANCE

1. Origins

The Community's industries of coal, iron and steel have been amongst the hardest hit by conversion to other sources of energy, cheaper imports from abroad and general economic recession. Moreover since these traditional industries are regionally concentrated in the old industrial areas of the EC, the problems of unemployment and social deprivation are all the more acute.

Thus alongside Community efforts to rationalise the coal, iron and steel industries, loans and grants have been accorded under the terms of the Treaty of Paris (1951) which governs the operations of the ECSC.

According to Article 2, paragraph 2, of the Treaty of Paris:

> The Community shall progressively bring about conditions which will of themselves ensure the most rational distribution of production at the highest possible level of productivity, while safeguarding continuity of employment and taking care not to provoke fundamental and persistent disturbances in the economies of the member states.

To this end, the ECSC may grant long-term loans to firms for investment purposes and may also make grants.[22]

2. Scope

Chapter III of the Treaty of Paris lays down the provisions and scope for loans to eligible projects (Articles 49, 54 and 56). The ECSC only assists investment projects and does not provide general cash requirements or working capital. Eligible projects include industrial projects, including investment in the coal and steel industries, in line with Community policy on the industries (para 1, Article 54 of ECSC Treaty), for example in capital goods and buildings, supply installation or environmental protection. Additionally, support may be given to works and installations which contribute to increasing the production, reducing production costs or facilitating the marketing of coal and steel products (para 2, Article 54). (These include power stations fired by Community coal, and port installations for the shipment of raw materials used in the steel industry.) Recipients of loans granted for these schemes need not be coal or steel undertakings.

The second major area eligible for ECSC financial assistance concerns conversion schemes. These include investments to facilitate the creation of new and economically sound activities or the transformation of undertakings capable of reabsorbing into productive employment, workers who have been, or are about to be, made redundant (see Article 56 of the ECSC Treaty). These schemes have almost all involved industries providing for former coal and steel industry workers.

The ECSC also provides finance for subsidised housing and the ECSC housing subsidy scheme has operated since 1955. The legal basis of housing aid is Article 54 of the Treaty of Paris and it takes the form of reduced-interest loans and aims to ease the cost of financing housing by adding the funds lent by the Community to resources provided nationally.

Grants of long-term 1% interest-rate loans to the responsible national bodies are made available. Moreover the Commission decision of 29th June 1979 on the 9th subsidised housing programme (1979-83) allocated 30 million eua for the first phase of the programme (1979-81). An additional 1 million eua has been allocated for 1981 to cover any additional requirements such as those which might arise as a result of Greek accession to the Community.

The scheme is intended to subsidise the following projects:

(1) housing linked with industrial reorganisation in the traditional steel centres and in those coalfields where production is to be increased;

(2) housing for labour transferred to the new coastal steel works;

(3) specific solutions for migrant workers, employees with special skills and persons employed in arduous tasks;

(4) housing to be modernised as part of urban renewal in steel and mining districts.

Table 9.2 : Financing Operations within the Community in 1980 and from 1958 to 1980
Breakdown by economic policy objective

	1980					1958-80[1]				
	From EIB own resources		From NCI resources	Total		From EIB own resources		From NCI resources	Total	
Objective	Amount (mill ua)	%	Amount (mill ua)	Amount (mill ua)	%	Amount (mill ua)	%	Amount (mill ua)	Amount (mill ua)	%
REGIONAL DEVELOPMENT	1815.7	100.0	145.7	1961.4	100.0	10366.9	100.0	297.9	10664.8	100.0
Belgium	6.2	0.3	-	6.2	0.3	90.0	0.9	-	90.0	0.8
Denmark	17.5	1.0	-	17.5	0.9	152.4	1.5	-	152.4	1.4
Germany	-	-	-	-	-	372.6	3.6	-	372.6	3.5
France	148.4	8.2	-	148.4	7.5	1436.1	13.8	-	1436.1	13.5
Ireland	318.7	17.5	41.7	360.4	18.4	925.4	8.9	128.4	1053.8	9.9
Italy	825.4	45.5	104.0	929.4	47.4	4776.5	46.1	143.6	4920.1	46.1
Luxembourg	-	-	-	-	-	4.0	.	-	4.0	.
Netherlands	-	-	-	-	-	70.5	0.7	-	70.5	0.7
United Kingdom	499.5	27.5	-	499.5	25.5	2539.4	24.5	25.9	2565.3	24.1
MODERNISATION & CONVERSION OF UNDERTAKINGS	31.4	100.0	-	31.4	100.0	274.7	100.0		274.7	100.0
COMMON EUROPEAN INTEREST	1213.0	100.0	108.0	1321.0	100.0	5670.8	100.0	232.8	5903.6	100.0
Energy	1102.7	90.9	108.0	1210.7	91.7	4268.5	75.3	232.8	4501.3	76.2
Development of Community resources	682.0	56.2	31.1	713.1	54.0	3206.0	56.6	155.9	3361.9	56.9
Hydroelectric & geothermal	*163.6*	*13.5*	-	*163.6*	*12.4*	*376.5*	*6.6*	*45.4*	*421.9*	*7.1*
Nuclear	*432.6*	*35.6*	-	*432.6*	*32.8*	*1853.4*	*32.7*		*1853.4*	*31.4*
Oil & natural gas deposits	*46.9*	*3.9*	*16.7*	*63.6*	*4.8*	*713.7*	*12.6*	*16.7*	*730.4*	*12.4*
Solid fuels	*38.9*	*3.2*	*14.4*	*53.3*	*4.0*	*259.8*	*4.6*	*93.8*	*353.6*	*6.0*
Alternative sources	-	-	-	-	-	*2.6*	*0.1*		*2.6*	.
Energy saving	125.3	10.3	26.3	151.6	11.5	199.4	3.5	26.3	225.7	3.8
Import diversification[2]	295.4	24.4	50.6	346.0	26.2	863.1	15.2	50.6	913.7	15.5
Natural gas	*137.6*	*11.4*	*41.7*	*179.3*	*13.6*	*610.5*	*10.8*	*41.7*	*652.2*	*11.1*
Electricity, coal, etc.	*157.8*	*13.0*	*8.9*	*166.7*	*12.6*	*252.6*	*4.4*	*8.9*	*261.5*	*4.4*
Communications	103.5	8.5	-	103.5	7.8	954.3	16.8	-	954.3	16.2
Transport	86.4	7.1	-	86.4	6.5	847.1	14.9	-	847.1	14.4
Railways	-	-	-	-	-	*103.9*	*1.8*	-	*103.9*	*1.8*
Road, bridges & tunnels	*21.4*	*1.8*	-	*21.4*	*1.6*	*572.0*	*10.1*	-	*572.0*	*9.7*
Shipping	*16.1*	*1.3*	-	*16.1*	*1.2*	*64.0*	*1.1*	-	*64.0*	*1.1*
Airlines	*48.9*	*4.0*	-	*48.9*	*3.7*	*107.2*	*1.9*	-	*107.2*	*1.8*
Telecommunications	17.1	1.4	-	17.1	1.3	107.2	1.9	-	107.2	1.8
Other infrastructure	-		-	-	-	21.2	0.4	-	21.2	0.4
Protection of the environment	5.1	0.4	-	5.1	0.4	30.7	0.5	-	30.7	0.5
Industrial cooperation	1.7	0.2	-	1.7	0.1	366.1	6.5	-	366.1	6.2
New technology - Research	-		-	-	-	30.0	0.5	-	30.0	0.5
- Deduct to allow for duplication in the case of financing justified on the basis of several objectives	*-306.9*		*-56.1*	*-363.0*		*-1904.7*		*-56.1*	*-1960.8*	
TOTAL	2753.2		197.6	2950.8		14407.7		474.6	14882.3	

[1]Amounts at current prices and exchange rates. A summary of financing provided over such a long period should be interpreted cautiously: data for successive years are affected by price movements and exchange rate variations occurring between 1958 and 1980.

[2]For example, gasline projects, schemes helping to increase electricity imports, fitting out power stations to run on imported coal, etc.

Source: EIB Annual Report 1980

The number of dwellings subsidised by means of ECSC loans stood, on 1st January 1980, at 1,65,511.[23]

The Commission also provides grants to encourage technical research in the coal and steel industry (Article 55 of the Treaty of Paris) and to contribute to workers' redeployment and retraining.

Table 9.3 Loans granted[1] under Art. 56 of the ECSC Treaty[2]

million eua

	1961-76	1977	1978	1979
Belgium	36.67 (12)	-	-	-
France	135.55 (49)	85.54 (4)	9.50 (5)	94.48 (9)
West Germany	104.17 (54)[3]	22.41 (3)	63.70 (1)	-
Ireland	2.00 (1)[4]	-	-	-
Italy	69.02 (18)	10.30 (1)	-	-
Luxembourg	-	-	2.49 (1)	1.69 (1)
Netherlands	46.82 (38)	-	-	-
United Kingdom	92.48 (10)[4 5]	1.5 (1)	124.96 (5)	103.95 (15)
Community	486.71 (187)	119.75 (9)	200.65 (12)	200.12 (25)

NB: [1]Based on commitments
[2]Figures in brackets refer to number of loans granted.
[3]Including 1 loan under Arts. 54 and 56 of the ECSC Treaty.
[4]1973-76.
[5]Account being taken of the cancellation in 1979 of a loan granted in 1976.

Source: Thirteenth General Report of Activities of EC (1979) February 1980, p. 132, Table 13.

In 1980 total loans granted amounted to 1,026.9 million eua,[24] with the following breakdown:

(1) 756.88 million eua for industrial projects (595 mill eua in 1979)

(2) 265.47 million eua for conversion programmes (59 mill eua in 1979)

(3) 4.55 million eua for subsidised housing (22 mill eau in 1979)

The following table gives figures for ECSC loans paid out in 1980, broken down by sector of activity and by country.

Table 9.4 : Loans Paid Out in 1980

	Power Stations	Iron Ore Mines	Conversion	Steel Industry	Coal Industry	Workers' Housing	Ship-yards	Others	Total
Belgium & Luxembourg	29.17	-	4.84	63.78	-	-			
Denmark	-	-	-	4.29	-	-			
W. Germany	23.39	-	7.56	90.92	6.40	0.78			
France	37.41	-	116.25	121.30	-	0.51			
Ireland	-	-	0.97	-	-	0.13			
Italy	-	-	-	133.56	-	1.13	5.07		
United Kingdom	-	-	135.85	3.52	226.85	1.73			
Netherlands	-	-	-	-	-	0.27		4.59	
3rd Countries	-	-	-	6.63	-	-			
Community meua	89.97	-	265.47	424.00	233.25	4.55	5.07	4.59	1026.20
Community %	8.76	-	25.85	41.29	22.72	0.44	0.49	0.45	100.00

Source: ECSC 14th General Report.

ECSC finance is provided, both by raising money for loans on the capital market and by its own resources as expressed in the annual Budget of the Community, the amount being raised by a levy of 0.31% and by income from investment interest and from loans granted against non-borrowed funds or from commitments that have been cancelled out.

Table 9.5 : The ECSC Budget for 1981

	mill eua
Administrative Expenditure	5
Readaptation Aids	75[1]
Research Studies	44
Interest Relief Grants on Investment and Conversion Loans	32
Aid to coking coal	6

[1]This does not include financial support for temporary measures to help steel workers (early retirement, short time working).

Source: ECSC 14th General Report

3. Conclusions

The loans and interest rebate schemes available under the ECSC have helped to attack one aspect of one of the Community's major regional problems, namely the decline of regionally concentrated traditional industries. However, it obviously has no relevance for, or effect upon, underdeveloped backward agricultural regions, or for that matter the social problems of overdeveloped conurbations and cities.

Since joining the Community, the UK has been the major beneficiary of the loans available under ECSC schemes, which is hardly surprising since they are directly applicable to the causes and nature of the British regional problem. Thus, in relation to other member states, the UK has received significant levels of aid, but in absolute terms too, a significant contribution has been made, with loans worth 690.84 million eua having been given over to the UK since 1973 (see above tables) and 367.95 million eua for 1980 alone compared to grants of 655.78 million eua to UK projects (1975-79) from ERDF resources and 260.31 million eua in 1979.[25]

France has also derived major benefits from the ECSC loans, for her traditional industrial areas of North and North-East France (600.54 million eua since 1961), as have the West Germans (319.33 million eau since 1961) and to a lesser extent the Belgians (134.46 million eua since 1961). Italy has also benefitted to the tune of 219.08 million eua since 1961, but these loans will have been concentrated mainly in the North of the country and have had no effect upon Italy's major regional problem in the Mezzogiorno where the problem is one of under-developed and inefficient agriculture.

III. THE EUROPEAN SOCIAL FUND

1. Origin

The European Social Fund (ESF) was established in 1958 under the Rome Treaty as a training fund to provide assistance to economically disadvantaged workers. 50% of ESF resources were to be committed to the Community's problem regions and 50% to assist migrant labour, persons leaving agriculture, persons working in the textile industry, young people, women, the handicapped and those industries where employment suffered at the hands of technical progress. The Fund was entrusted the task of '... rendering the employment of workers easier and of increasing their geographical and occupational mobility within the Community ...' (Article 123, EEC Treaty of Rome, 1957)

The rules governing the Social Fund's activities and operations came into force in 1960 and have since been amended several times.

The first reform of the Fund was carried out in 1971[26] when its areas of intervention were substantially extended. The operating rules adopted then were reviewed at the end of 1977 in an endeavour to make the Fund more effective.[27]

The Fund can take action when the employment situation is affected or in danger of being affected; either by special measures adopted by the Council in the framework of Community policies or by jointly agreed operations to further the objective of the Community. Alternatively the ESF embraces calls for specific joint action to improve the balance between supply of and demand for manpower within the Community.[28]

The Fund can also take action to assist operations which are carried out in the member states as part of their employment policy and which are:

(a) aimed at solving problems which arise in those regions which, because they are less developed or there is a decline in their main activities, suffer a serious and prolonged imbalance in employment;

(b) aimed at facilitating the adaptation to the requirements of technical progress of those branches of economic activity in which such progress gives rise to substantial changes in manpower and vocational knowledge and skill; or

(c) undertaken because of substantial changes in the conditions of production in the distribution of products in groups of undertakings carrying on the same or connected activities which are thus forced to cease, reduce or transform their activities permanently;

(d) of concern to the entry or re-entry of the handicapped into economic activity.

For each financial year, at least 50% of the appropriations available for assistance from the Fund pursuant to the above Article 5 are reserved for operations aimed at eliminating long-term structural unemployment or underemployment in the regions referred to in the Article.[29]

Assistance from the Fund is granted having regard to the magnitude of the employment problems and to the economic capacity of the regions in which the operations are carried out. Fund assistance amounts to 50% of eligible expenditure in support of operations by public authorities, bodies governed by public law and joint social institutions entrusted with tasks in the public interest. Assistance is also granted in respect of operations by bodies or other entities governed by private law (in member states where the concept of private law is unknown an equivalent entity applies) on condition that the public authorities of member states guarantee the completion of such operations.

When operations are carried out in regions where there is an especially serious and prolonged imbalance in employment (the classification of absolute priority region under the terms of the ERDF is used here), on the basis of a proposal from the Commission, the amount of Fund assistance is raised by 10%.

The scope of Social Fund interventions includes aid for persons leaving agriculture, resettlement and retraining aid for workers in the textiles and clothing sector and integration measures to facilitate the settlement of migrant labour. Moreover, assistance is offered for the training of teachers and welfare workers. Help is also available for young people, for the training of young men and women and special employment aids are offered for first-time job seekers. The Fund also provides money to help safeguard and promote employment in sectors undergoing technical progress resulting in substantial changes in manpower, vocational knowledge and skills. Likewise assistance is given for retraining persons employed in groups of firms forced to cease, reduce or transform their activities permanently as a result of substantial changes in production or distribution. The handicapped are also eligible for Social Fund money to assist their re-entry into a working role and pilot schemes and preparatory studies which consider possible new forms of Social Fund assistance are financed from the Budget. Finally, under Article 5 of the Social Fund, one of the main priorities is the provision of aid for backward or depressed regions as defined by the areas eligible for ERDF assistance (see below).

2. Size of the Fund

In 1979 the European Social Fund was endowed with 660 million eua in the Community Budget and was of considerable importance in providing aid for regions eligible for ERDF assistance: 85%[30] of totally budgetary resources were dedicated to operations in these regions and 293 million eua (37.8% of ESF resources) was spent in the five top priority regions of the Community.[31] (The corresponding figures for 1978 were 79.4% and 37.6% of the Fund.)

In 1980 the Budgetary authority allocated 909.5 million ecu to the Commitments Budget of the ESF.[32] With the addition of appropriations of 112.4 million ecu carried forward (consisting mainly of refunds[33] available too late in 1979, for recommitment within the same year), the total amount available for commitment in 1980 was thus 1,021.92 million ecu (19.4% more than in 1979).

The volume of applications for 1980 totalled 1,625.55 million ecu (an increase of 23% over 1979) and meant that the Fund was oversubscribed to the tune of 59%.

To solve this problem, and according to the guidelines for the management of the Fund which were issued in 1978,[34] applications are grouped, as regards their priority, relative to the various fields of Fund intervention, ranging from a scale of first priority to fifth and finally non-priority applications.[35]

In 1980, apart from the migrants section of the Fund, first priority applications were met without reduction and there was an overall reduction in the volume of weighted reductions, which totalled 234 million ecu or 13.8% of total priority applications, as against levels of 30%-32% of previous years.

In 1980 Social Fund payment appropriations amounted to 933.86 million ecu (13% +e on 1979) and were made up as follows:

Table 9.6

	million ecu
Provided by the Budgetary Authority at the beginning of the year	374.30
Carried forward from 1979	233.16
Provided by the Budgetary Authority in a supplementary budget (No. 2) at the end of the year	326.40
	933.86

Source: 9th Report on the Activities of the ESF: COM(81)343 final.

There has been a continued improvement shown in the volume of payments from the Social Fund; payments had reached 607.46 million ecu by the end of November 1980, the original budgetary allocation and the carry-over from the previous year having been fully utilised. It was also possible to make payments amounting to 127.72 million ecu by the end of the year from the supplementary Budget. Thus payments effected amounted to 100% of appropriations available at the start of the year and almost 80% of total credits for the year.

This improved payments situation reflects increasing use being made of the advance payments system for Fund aid; two-thirds of all advance payments in 1980 related to commitments entered into in the same year and about 29% of the commitments made in 1980 were paid within the same year.[36] Moreover Commission Decision 78/706 EEC prescribes an eighteen month deadline from the end date of the operations, for the submission of the final payment claim. This has had a beneficial effect on clearing arrears.

3. ESF operations in the regions

The volume of applications submitted for Social Fund aid concerning workers in less-developed or declining regions under Article 5 of Council Decision 71/66, EEC amounted to nearly 600 million ecu[37] in 1980 (a 12% increase on 1979).

The total provision for the fields of regions, technical progress and groups of firms, which have hitherto been combined for budgetary purposes,[38] was 395 million ecu (cf 326 million ecu in 1979), an increase of 21% over 1979. As had been the case in previous years, 90% of the combined budgetary provision (355.50 million ecu) was devoted to programmes under Article 5 (1A) (regions) of the above decision. When account was taken of refunds from 1979, total volume of appropriations available for commitment under Article 5 (regions) in 1980 was 455 million ecu (cf 354 million ecu in 1979), a 28.5% increase on 1979. Programmes classified in the first four priority levels were, as in 1979, fully financed, while 34% of eligible allocations with fifth priority status were aided.

When Social Fund grants approved in other areas of intervention are taken into consideration, the total ESF assistance destined for ERDF regions in 1980 was 825 million ecu (25% above the 1979 figure); of this amount 334 million ecu were allocated to operations in the five ERDF absolute priority regions, the average per capita aid in these regions totalling 42 ecu in 1980 (cf average for Community as a whole in 1980 equalled 10.2 ecu).[39]

4. Comparisons with the ERDF and general conclusions

The European Social Fund has proved to be an extremely important arm of Community aids to backward or depressed regions; about 85% of ESF appropriations have been regularly dedicated to operations in the regions eligible for ERDF aid, and a considerable proportion have gone to the top priority regions (see above). Moreover, the total amounts available to the European Social Fund and the European Regional Development Fund were comparable in 1979 and 1980: in 1979, 660 million eua were available for commitment under the ESF and 945 million eua under the ERDF. In 1980, the respective figures were 1021.92 million ecu for the ESF and 1200 million ecu for the ERDF.

If the apparent improvement in the speed and efficiency with which ESF aids are paid is taken into account (see above), this must be compared with the situation relevant for ERDF aid. Although an advance payments method has also been recently introduced for ERDF payments, criticism has been levelled at the Commission for the delay in distributing ERDF grants;[40] delays occur during the submission of applications for aid, during the claims for payments from Brussels once the project has been accepted and in the final receipt of payments. Despite ESF aid being disbursed more efficiently than ERDF assistance, it is open to question whether the Fund's operations adhere strictly to the principle of additionality. This involves the idea that Community contributions to projects in member states should be added to and not substituted for what member states would have spent anyway. This is to ensure that Community funds are used to further the aims of the Community and that such aid can be observed as a genuine Community contribution.

A recent parliamentary report on the European Social Fund in the UK stated:

> The prime intention of the European Community in making grants available through the ESF has been, and is, to stimulate activities in the member states beyond those which would otherwise have occurred ... Whether governments have in fact responded in this way is a hotly debated issue. If the Fund directs its resources towards activities which are currently not well performed by member states and developments subsequently occur, then the Fund can be seen as a spur and an instigator. An example might well be the attention it has given in recent years to improving training opportunities for women. On the other hand, if governments simply offset ESF grants against their own expenditure intentions, it is not clear that, in the last resort, any money is actually forthcoming for training schemes other than that which would have been provided by governments had the Fund never existed and the principle of additionality is breached.[41]

As far as the Social Fund's spending in the UK is concerned, approximately 95% is paid to the Manpower Services Commission (MSC). The remaining recipients are mainly training boards, private companies and voluntary organisations - where a large measure of additionality can be presumed. It is highly unlikely, however, that the budget of the MSC would be smaller than at present without the ESF contributions.

Whereas the ERDF aims to bolster ailing industries in the backward or depressed regions, or to encourage the setting up of new enterprises in these areas, the ESF directs its attentions specifically to helping the workers affected by adverse economic conditions in problem regions. These two aims are obviously complementary and recent attempts have been made to combine operations, not only of these two Funds, but also of the ECSC and EIB. (See below: section on integrated operations.) Nevertheless, the major stumbling block to effective coordination of the two Funds is bureaucratic in nature; the organisation of the European Commission, with Directorates General responsible for different policy-areas, with a different Commissioner at their head, and with a rigid and complex multinational distribution of posts, leads to difficulties of communication between departments.

Therefore, it must be concluded that the European Social Fund operations are important in their own right in the ERDF regions and that attempts to coordinate the distribution of ERDF and ESF must be lauded. At the same time, however, the Funds remain separate entities organised and run by different departments, between which communication is fraught with problems because of the Commission's organisation and multinational nature.

IV. FEOGA[42] - GUIDANCE SECTION

The aim of this section is to describe the establishment of a structural policy for agriculture within the framework of the guidance section of FEOGA, to consider the scope and achievements of such a policy and finally to take account of claims that the operations of the CAP as a whole have produced consequences which have had an anti-regional policy effect.

FEOGA is divided into two sections as the name suggests: the guarantee section, which supports the market by helping to guarantee prices, and the guidance section, which is designed to help improve farm structures.

1. Establishment of a structural policy for agriculture

Moves towards the setting up of a structural policy did not get firmly under way until 1972 when the Mansholt Plan (named after the then Vice-President of the Commission with responsibility for agriculture) was drawn up. The Council of Ministers subsequently adopted three basic directives on the reform of the CAP.[43] These aimed at developing modern farms capable, through the adoption of rational methods of production, of assuring a fair income and satisfactory working conditions for persons engaged thereon.

The directive aiming to provide an incentive to farmers aged between 55 and 65 to leave agriculture has affected 37,000 people, freeing about 500,000 hectares. It should, however, be noted[44] that a recent study has shown that the directive on aid to assist the modernisation of farms has provided three times more aid in the richer farming regions than in the poorer less-developed areas. Moreover, the aforementioned study demonstrated that the countries where the agricultural population is the oldest have been the least affected by the directive.[45] Finally the study points out that little use has been made of the third directive and none at all by Italy and Ireland.

The directives operate on the basis that because of the diversity of their causes, nature and gravity, structural problems in agriculture may require solutions which vary according to region, which are capable of adjustment over a period of time, and which, furthermore, should contribute to the overall economic and social development of each region concerned.

In 1975 a further directive was adopted by the Council concerning mountain and hill farming in certain less favoured areas. This provides for the payment of a special allowance to farmers in certain regions in order to compensate them for the natural handicaps with which they are confronted. Since the inception of this directive at the end of 1979, 86.0 million eua has been provided to farmers in the UK (40.4% of total of 213.1 million eua), 53.9 million eua to France (25.2%), 34 million eua to West Germany (16%) and 30.9 million eua to Ireland (14.5%), and lesser amounts to other member states except Holland.[46]

In 1977 and 1978, a number of structural measures were adopted by the Council which aimed at removing the handicaps (see above). These specific measures included a regulation[47] on common measures to improve the conditions under which agricultural products are processed and marketed, and a series of common measures undertaken in the context of the Mediterranean Programme, which aimed to aid improvements in irrigation in the Mezzogiorno and Corsica, the reconversion and restructuring of certain French Mediterranean vineyards, protection against flooding in certain French areas, and improvements in infrastructure in Mediterranean regions.

2. Guidance Section: relative importance and recent developments

Because of the limitation of available resources, the development of a Community structural policy for agriculture has only had a weak regional impact. In terms of the total budget available to FEOGA, the share of the Guidance Section moved from 15% in 1964 to 3% in 1978, figures which fall a long way short of the original aim of dividing the Fund 75%:25% between the Guarantee and Guidance Sections (see table below).

Thus despite the innovations in the field of farm structural policy in the 1970s, it must be remembered that the financial resources available to the Guidance Section of FEOGA are a small fraction of those available to the Guarantee Section. In 1979 they amounted to about 4.5% of the Guarantee Funds.[48]

Table 9.7 : Relative Importance of FEOGA Guarantee and Guidance Sections

	1964	1965	1968	1969	1977	1978
FEOGA Guidance	9.1	17.1	123.4	285.0	347.5	281.4
FEOGA Guarantee	50.7	159.9	1039.1	1642.6	6830.4	8672.7
Total Expenditure FEOGA	59.8	177.0	1162.5	1927.6	7177.9	8954.1
$\frac{\text{Guidance Expenditure}}{\text{Total budget FEOGA}}$ (%)	15.2	9.7	10.6	14.8	4.8	3.1

NB: (1) Until 1969 figures are in millions of units of account and for 1977-78 in European units of account.

(2) Source: EEC Directorate General for Agriculture.

(3) Listed as Table 5 in: Study of the Regional Impact of the CAP - RICAP/SEDES Group, Dec. 1980, p.42.

Recently it was decided that the sum of 3,600 million eua[49] should be allocated to the Guidance Section over a period of five years, beginning on 1st January 1980 (an average of 720 million eua per year).

Most of the measures financed by the Guidance Section are common measures decided by the Council with a view to achieving the aims set forth in Article 39(1)(a) of the Treaty of Rome: 'to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour'. The remaining measures, which are tending to decline in relative importance, are individual projects for the improvement of agricultural structures pursuant to regulation 355/77/EEC (which replaced 17/64/EEC), special measures for the launching of producer groups in the fruit and vegetable and fisheries sector and the measures to expand Community production of citrus fruits.

The Guidance Section finances common measures in two different ways. The majority of such measures are financed through the reimbursement of part of the eligible expenditure by the member states (indirect measures). This category includes the four socio-structural directives cited above and most of the market related measures. By contrast, the other measures are financed by direct subsidy for projects (direct action). Such direct subsidies are granted for the common measures, which accounted for the largest share of appropriations committed in respect of 1978 and 1979. (In total, 133.6 million eua was granted to 370 projects in 1979.)[50]

Second in terms of financial cost was directive 75/268/EEC on mountain and hill farming in certain less favoured areas: payments for 1979 amounted to 82.5 million eua.

Expenditure for introducing a system of premiums for the non-marketing of milk and milk products and for the conversion of dairy herds[51] comprised the third most important expenditure in 1979. The Community contributes 40%[52] from the Guidance Section for this measure and 59.5 million eua were paid out during 1979.

Expenditure on the modernisation of farms[53] almost doubled over 1978 and reached 54.3 million eua in 1979. Smaller amounts were dedicated to expenditure on restructuring the inshore fishing industry (5 million eua), eradicating brucellosis, tuberculosis and leucosis in cattle (7.1 million eua) and a programme to accelerate drainage operations in the West of Ireland (3.8 million eua).

Finally, during 1979, the last decisions to grant aid under Regulation No. 17/64/EEC (replaced by 355/77 - see above) took place: sums totalling 115 million eua were granted to 371 individual projects.

On 18th February 1980, the Commission approved three common measures in the wine sector within the context of the Mediterranean Programme. These concerned firstly the granting of temporary and permanent abandonment premiums for certain areas under vines and of premiums for the renunciation of replanting. Secondly, they included the introduction of a system of premiums for the cessation of wine growing in France and Italy, and thirdly collective projects for the restructuring of vineyards.

One of the persistent problems of the Guidance Section has been the low proportion of available appropriations that has actually been used. In 1979, although the rate of use of appropriations for processing and marketing measures was almost 100%,[54] it was much lower for structural and social measures to assist agriculture proper (for production structures, the rate hardly exceeded 50% - see table below). Moreover, according to the recent study on the regional impact of the

Table 9.8 : Breakdown of EAGGF Guidance Section appropriations for 1979 according to the field concerned

	Commitment appropriations		
	1979 Budget from 15.12.78 & appropriations carried over from 1978 (million eua)	Appropriations actually committed (million eua)	
1 Socio-structural Measures	208.2	141.1	68%
2 Production Structures	301.3	171.5	57%
3 Marketing and Processing	145.5	136.7	94%
4[1] Disasters	-	12.1	-
Totals	655.0	461.4	70%

[1]The arrangements for incorporation in the Budget and the necessary appropriations were contained in Supplementary and Amending Budget No. 3 of 13th December 1979.

Source: 9th Report on Guidance Section Activities, op cit, p.2.

CAP, this problem has been most acute in Italy and Ireland.[55] This suggests that the regulations covering the structural and social measures are inappropriate, since there is an obvious lack of eligible projects which qualify for structural improvement aids in areas of greatest need. Moreover, it suggests that the bureaucracy and paperwork involved discourages would-be applicants, particularly small-scale farmers in Ireland and Italy; the percentages of appropriations actually committed are far from satisfactory.

3. Conclusions on the effect of CAP on regional disparities

Despite efforts to redistribute income in agriculture and to achieve a coherent structural policy aimed at making agriculture more efficient and the consequent changes required in certain regions easier to bear, the recent report on the CAP's regional impact demonstrated the effects of CAP operations was just the opposite.[56] The report showed that the richer regions of northern Europe, where farms were of a larger scale producing milk, cereals and sugar, enjoyed higher income levels and were gaining at the expense of the poorer Mediterranean areas. It claimed that the regional gap in farming incomes has widened in the past decade and that agricultural workers in one of the EEC's five wealthiest farming areas (Schleswig-Holstein, the Ile de France, Holland, the Champagne area and Lower Saxony) earn, on average, seven times more than workers in the five poorest areas (Umbria, Molise and Basilicata in Italy, and Donegal and the West of Ireland). Climate, poor soils and outdated farming techniques take some of the blame but the Report maintains that the CAP has made matters worse.

Most of the Community's farm spending is devoted to supporting high market prices (see above). Moreover, a 'Community index of farm support' was calculated in the Report to show the destination of CAP finances. It was claimed that if the average level of EEC support was taken as 100, then the Paris Basin, Central and South East England, and Northern Germany receive support amounting to 125% of the average, whilst the Mezzogiorno, Northern Italy and the South of France receive less than 80%. The problem was considered from a different angle, namely through the volume of EEC agricultural spending per work unit, and the picture appeared far worse; on this basis Northern Germany, Benelux and Denmark were 50% above the Community average whilst a third of Italy was 50% below the average figure. Thus in 1979, milk, sugar and cereals accounted for more than 75% of the 9.7 billion ecu (£5.4 billion) dedicated to farm support spending.

The apparent bias against Italy occurs because of the type of food supported by the CAP's Common Market Organisations; North European products such as milk, sugar beet, cereals and beef have profited from generous guaranteed prices and open-ended intervention guarantees. By contrast, fruit, vegetables and wine, the staple crops of the Mediterranean regions, have suffered from weak price support and low levels of protection from the World market.

The Report also demonstrated the relative paucity of the FEOGA Guidance Section resources vis à vis the money available for price support under the Guarantee Section (see above). Moreover, the structural policy aid under the Guidance Section, to help poorer farmers move into more profitable crops and to modernise, has also flowed largely northwards: farmers who already have capital have been more ready to put forward projects to receive EEC funds.

It must be concluded that, despite some success in developing secure food supplies for the Community along with the promotion of stable farm incomes and food prices, the CAP and its operations have severely aggravated regional income disparities amongst those engaged in agriculture in the member states.

In order to alleviate this problem steps must be taken to amend the operations of the price support and market mechanism to take more account of the regional situation of Community agricultural products. Moreover, a shift in the balance of price support to the South is required. Until such measures are taken the operations of the CAP will continue to aggravate the regional problem in a way that the meagre resources available to the Guidance Section, or indeed to the ERDF (in 1979, when 75% of the 9.7 billion ecu dedicated to farm support spending went to milk, sugar and cereals, it should be remembered that 945 million ecu were available to the ERDF), can do nothing to counteract.

Recently the European Parliament has added its voice to the criticisms of the CAP.[57] Whilst agreeing that the three central principles of the CAP - common prices, Community preference and financial solidarity - must remain the basis of European policy, and accepting that the CAP has promoted significant agricultural expansion in some fields, especially the dairy sector, it has however led to increased disparities in income between sectors, with the northern farmers and their produce gaining at the expense of the smaller scale, less efficient, southern farmers. For these reasons the European Parliament is now advocating a revision of the price support system to help create the conditions for the long term development of efficiency in European agriculture and to provide stable incomes for all farmers. As far as agricultural structural and regional policies are concerned the EP proposes, inter alia, the creation of a rural fund to embrace both agricultural and non-agricultural activities. It has called for a Community agricultural policy based on 'regional programmes' to be backed by all Community financial instruments, not just the Guidance Section of FEOGA.

V. COMPETITION POLICY

Article 3(f) of the Treaty of Rome states that:

> for the purposes set out in Article 2 (the need to create harmonious development of economic activity throughout the Community, continued and balanced expansion, increased stability and an accelerated raising of the standard of living) the activities of the Community shall include ... the institution of a system ensuring that competition in the Common Market is not distorted.

Therefore the economic system envisaged in the Treaty of Rome requires Competition to be undistorted and to provide '... economic circumstances under which producers and users enjoy a certain amount of liberty in their choice of what, where and how to produce or to buy.'[58]

Such liberty requires free movement of goods in the whole Community; the setting up of the customs union led to the disappearance of tariff barriers for intra-Community trade and non-tariff barriers are in the process of being dismantled. However, the EEC Competition rules aim to prevent the establishment of new obstacles to free trade between member states.

Nevertheless, Article 2 of the Treaty of Rome talks of the need to create harmonious development and balanced economic expansion in the European Community, aims which the European Regional Development Fund and other Community financial mechanisms, operating in depressed and backward areas, strive to achieve. Thus it is necessary to strike a balance in an effort to ensure that the common market operates in a manner which maximises efficiency and minimises market distortions. In this respect, Article 92 of the Rome Treaty on state aids forbids aids to be granted by national governments which threaten to distort competition by favouring certain undertakings, or the production of certain goods, in so far as they affect trade between member states. These are deemed incompatible with the common market idea. However, exceptions are laid down permitting aids of a social character, for example, and which promote the economic development of areas where the standard of living is abnormally low or where there is serious under-employment.[59]

Thus, by providing for exemptions from the fundamental Community principles of market unity and optimum utilisation of resources, it is recognised in the Treaty that considerations of a social or political nature may override the concept of economic efficiency with respect to regional aids. As the Court of Justice pointed out in the judgement in the Europemballage and Continental Can versus Commission case: the Treaty allows 'restraints on competition under certain conditions because of the need to harmonise the various objectives of the Treaty'.[60]

Therefore, it is the responsibility of Directorate General IV of the European Commission to ensure that regional aid is allocated on a pro-rata basis to the areas of greatest need and that in the allocation of such aid, the detrimental effects on competitive forces are minimised. Under Article 93 of the Treaty of Rome, the Commission is entrusted with the task of keeping all systems of aid operating in member states under constant review and of proposing to the latter any appropriate measures required by the progressive development or functioning of the Common Market. In this way, the Commission has, subject to the legal control of the Court of Justice, the exclusive right to administer the exceptions to Article 92 of the Rome Treaty. To this end member states are obliged to inform the Commission of any 'plans to grant or alter aid' (EEC Article 93(3)) in sufficient time to enable the Commission to submit its comments (two months according to the Court of Justice). If the Commission considers such aid to be incompatible, it will initiate a formal procedure thereby preventing the member state in question from putting the proposed measures into effect.

One of the major problems in the effort to make the aims of Community competition policy compatible with those of achieving a balanced economic expansion and a reduction in regional disparities, is that these two policy-areas are the domains of different directorates-general.

Hence the two policy-areas operate according to different standards and aims and attempts at inter-departmental communication and coordination of policy objectives suffer from the problems of compartmentalisation inherent in the Commission's structure and discussed in Chapter two of this study.

Nevertheless, in June 1971[61] the Commission recognised the need to make aid systems more transparent, to make territorial and sectoral aspects more specific and to slow down outbidding by fixing ceilings of aid intensity, limiting the amount of aid which a member state may grant to an investor in the 'central regions' ('those parts of the Common Market which are industrially developed but face structural problems in adapting to current economic conditions'[62]) to 20% of the total net value of the investment.

On 20th October 1971, the Council of Ministers passed the 'First Resolution on General Regional Aid Systems'[63] and the member states agreed to abide by these principles in applying regional aid systems. As from 1st January 1972 the Commission applied these principles to general systems of regional aid already in force or due to enter into force in central regions of the Community'.

In addition to the 20% limit on investment aid in 'central regions' the resolution on general regional aid systems requires that assistance is characterised by 'regional specificity'. Consequently, it must be established that the region is in need of assistance compared to the other regions in the same country and in the Community as a whole and that the proposed aids do really constitute an incentive to regional development. Thus the Commission must establish these facts on the basis of information received from the interested member state and in this way becomes more and more involved with the economic policies of the member states.

A Commission communication to the Council on 28th June 1973[64] incorporated the new member states and their problem regions into the system: Ireland was classified as all peripheral; in the UK, areas receiving regional aid, except Intermediate Areas, were given the same status (i.e. Special Development Areas and Development Areas); and in

Denmark, Greenland and some of the islands and the Special Development Area in Northern Denmark, were granted peripheral status.

When the table below is considered, the small percentage of aided investment and planned public aid accounted for by ERDF expenditure becomes apparent. Moreover, the size of DG IV's vetting task can be appreciated, a task which goes beyond the investment aid granted by the Community financial instruments to incorporate all regional aid schemes in operation in the member states. Moreover, the task is made more difficult by the fact that each member state pursues its national regional policy according to its own priorities and economic goals, within the constraints laid down by DG IV. These differing priorities can be seen if the high number of projects assisted by West Germany (and the high proportion of these projects receiving ERDF funding), is compared to the lower number of assisted investments in the three member states with the most serious regional problems: UK, Italy and Ireland. In France and Ireland, a high proportion of aided investment receives ERDF assistance whereas the figures are lower for Italy and UK. Finally, the job creation and maintenance figures need to be treated with special caution but the low figures for Italy and Ireland (cf West Germany) indicate that more emphasis is placed on the provision of basic infrastructure in the relatively underdeveloped economies.

VI. COMMISSION ATTEMPTS TO COORDINATE THE FINANCIAL MECHANISMS OF THE EEC

In 1977, the Commission accepted the need for a more global and comprehensive view to be taken of EEC regional policy because of the differing criteria on which the various Community financial instruments cited above operated.[65] The Commission also recognised the need to optimise allocation of resources which were recognised as being all

Table 9.9 : Regional Aids in 1978 (MEUA)[1]

Member State	Aided investments[2]		Planned public aids		Jobs		Investment per job created[3]	Public expenditure per job created[3]
	Totals	of which by Reg. Fund	Totals	of which by Reg. Fund	Created	Maintained		
Belgium	986	14	153	1	7,138	-	0.138	0.021
Denmark[4]	85	-	11	-	2,532	-	0.034	0.004
Germany	4,853	999	154[5]	49	51,154	124,698	(0.095)	(0.008)
France ('77)	689	466	81	29	34,296	-	0.020	0.002
Ireland	1,143	523	253	15	39,992	-	0.029	0.006
Italy[6]	2,033	294	577	50	65,842	-	0.031	0.009
Luxembourg	42	-	5	-	615	-	0.069	0.008
Netherlands	403	77	72	6	1,821	-	0.221	0.040
United Kingdom	2,210[7]	564	945	57	123,557[8]		..	..

[1]Average exchange rates 1978.
[2]Investments for which aid has been decided. Data not available for investments made.
[3]These data to be interpreted with special caution.
[4]Except Greenland.
[5]Excluding the investment grant, which may be estimated at 250 MEUA.
[6]Excluding aids by way of interest rebates.
[7]Without Northern Ireland.
[8]According to offers of regional selective financial assistance.

Source: ERDF 5th Annual Report, COM(80) 460 final, Brussels, 29th July 1980, p.14.

too limited and could well act in conflict to one another (see above details of FEOGA and ERDF). At the same time the importance of coordinating the regional policies of the member states was stressed and it was confirmed that the Regional Development Programmes should be the appropriate framework for ensuring such coordination. In addition, a system of regional impact assessment was proposed in an attempt to take account of the regional implications of other Community policies. (The details behind these proposals and the subsequent debate and agreement in the Council of Ministers have been discussed in depth in Chapter six.)

Agreement on the amended ERDF was reached in February 1979. Therefore the new mechanisms described above are at a relatively early stage. The Regional Impact Assessment has been criticised because of the lack of Commission resources in DG XVI allocated to the exercise while the Regional Development Programmes have been criticised for being inadequately prepared by the member states.[66]

Nevertheless attempts have been made by the Commission to take account of imbalances in regional development through a certain number of Community policies.[67]

Within the framework of the EMS the Council adopted on 3rd August 1979 a Regulation to give interest rebates relating to investments carried out in less prosperous member states.[68] It was decided that Ireland and Italy would benefit from these measures and that the interest rebates would be allocated one-third to Ireland and two-thirds to Italy.

With regard to the further enlargement of the Community, the Commission communicated its view to the Council in April 1978 that this could endanger the development of a certain number of weak Community regions, principally in the Mezzogiorno and South-West France.

Thus adequate corrective measures would be required and the Commission proposed the reinforcement of regional development measures in these areas in the field of agriculture (see above) in the form of a Mediterranean Programme. Additionally, many of the specific measures under the ex-quota section of the ERDF, concerning further enlargement, fall into the same category (see Chapter eight).

Despite recognition by the Commission of the inherent problem for backward and depressed Community regions and their attempts to counteract the adverse effects of certain Community policies in these areas, the preponderance of agricultural spending in the Community Budget and its apparent anti-regional policy effects, dwarfs efforts to take account of the regional impact of Community policies. Moreover, because of the relatively small size of financial instruments such as the Social Fund, ECSC loans and indeed the ERDF, the increased proportion of spending from these sources in the less-developed regions can have little overall effect.

Nevertheless, in 1979 the Commission continued to develop the idea of regional development integrated operations, involving the coordination of aid from ERDF, Social Fund and the Guidance Section of FEOGA, EIB loans and loans from the ECSC and the New Community Instrument (NCI).

According to the European Commission,

> an integrated operation should take the form of a consistent and coordinated group of measures and direct public and private investment designed to promote economic and social development in a defined geographical area; national and local authorities will contribute to implementing these measures as will the Community through the various financial instruments for structural policy purposes.[69]

The Commission also stressed that areas subject to an integrated operation should be covered by regional development programmes and have particularly serious development problems. Moreover they should be in receipt of substantial financial aid from the national authority and should possess features to render them eligible for aid from several Community financial instruments. Increasing emphasis has also been placed upon the principle of additionality, and the need to adhere to the concept.

It is the Commission's aim that integrated operations should form a frame of reference within which the various decision-making bodies concerned could cooperate and integrate their operations. However, this will not alter the distribution of responsibility amongst the authorities responsible for measures in the area in question. Thus the Commission's responsibility for the operation will be vested in the Commissioners responsible for the various Funds and instruments through which they could intervene. Funds for the operations should derive from the ordinary budgets of the institutions concerned.

The first areas chosen for integrated operations were Naples and Belfast. In Naples, a working group was formed in October 1979 at a meeting of those politically responsible for the operation.[70] The Commission's departments taking part in the working group were the Directorates General for Regional Policy (ERDF), Agriculture (FEOGA, Guidance Section), Social Affairs (Social Fund), Economic and Financial Affairs (NCI-EMS). Additionally the EIB sent an observer to the meetings.

A general programme has been drawn up for the Naples operation which involves projects costing approximately 4,500,000 million Lira (£2,700 million), of which some 70% are for basic infrastructure. Other sectors involved relate to productive investment, vocational training and scientific research.

The Commission has claimed[71] that the integrated operation has promoted increased coordination between central government, the Campania region and the Naples Commune. Moreover, all Community financial instruments have now become involved in the operation, with the ERDF and ESF having had a particularly significant impact. The Commission maintains that the impact on the region produced by the operation will benefit from the synergy effect (it will produce results greater than the sum of improvements gained by individual projects carried out in isolation).

The working document for the Belfast integrated operation was prepared by the Department of the Environment for Northern Ireland and was sent for consideration by DG XVI in May 1980. Projects chosen are in the transport sector, aids to restructure the port and to control the water level of the River Lurgan by means of a dam. Additionally projects for constructing houses and for providing water supply and social services have been included as have measures for industry such as erecting industrial premises, providing incentives to investments and vocational training programmes. The total cost of these measures to be included in the integrated operation is estimated at £375 million over five years (1980-84).[72]

The Secretary of State for the Department of the Environment for Northern Ireland has created 'the Belfast Coordinating Committee'[73] and two working groups: 'the Belfast Housing Group' for housing problems and the 'Belfast Areas of Need Working Group' for social problems.

With regard to the Housing Programme for Belfast, the European Parliament passed a resolution on 19th June 1981, declaring its intention of granting substantial long term aid to Northern Ireland, and in particular to the city of Belfast. In its recommendations the EP urged the Commission to make a special study of 'housing stock renewal and renovation of accommodation in certain areas (particularly Belfast) is a matter of urgency, since job-creation must be linked with improved living conditions'.[74]

Belfast's housing problems have been described as the worst in Europe by the Commission and despite ten years of work by the Northern Ireland Housing Executive,[75] the problem has remained intractable.

The Commission has insisted that the aid must be provided for specific projects and not used by the Treasury or the Northern Ireland Office simply to 'balance the books'. Indeed in its resolution of 19th June 1981 the European Parliament stated[76] that, as far as additionality is concerned:

> EEC aid ... is often kept by the government of the UK to assist its own high expenditure in Northern Ireland instead of being paid over as clearly identifiable additional outlays ... Compliance with the principle of additionality is the key to genuine economic and social assistance from the Community to Northern Ireland.

The operational documents for integrated measures were submitted to the Commission by the Under Secretary of State for Northern Ireland in the UK Northern Ireland Office on 14th May 1981.

Certain projects within the programme could be eligible for finance from the ERDF quota and ex-quota section and from the EIB and NCI. Also, there are vocational training programmes, which could be eligible for finance from the ESF. However, given the urban character of the area it is unlikely that FEOGA financing will be involved.

Commission attempts to strengthen vertical coordination between local, regional, national and European bodies and horizontal coordination between the various Commission DGs responsible for the Community financial instruments will doubtless be enhanced by these integrated operations. Nevertheless, it is highly unlikely that the Community regional problem will be solved by these ad hoc attempts at combining Community finances.

Thus in spite of the trend towards coordination present in the Commission's thinking, the organisation is plagued by the obstacle of inter-departmental compartmentalisation (see Chapter two). Moreover, national regional policies have achieved no real measure of coordination in the Community; Regional Development Programmes have so far been ineffective and heavily criticised. There can be no hope for a thorough and efficient European Regional Policy whilst incompatible aims and priorities exist at the national level compared with EC level, though it must be recognised that 'the regional problem' is different in nature in the north and south of the EEC.

However, the most serious and insurmountable problem facing the Community is that of the CAP price support system, its domination of the budget and overshadowing of the Guidance Section of FEOGA and indeed other Community financial instruments at work in the problem regions of the EEC.

Notes

1. EIB Review (1958-78) p. 9.
2. Article 11, EIB Statute, updated 1st January 1981.
3. EIB Information, No. 26, July 1981.
4. See 'Grants and Loans from the European Community', EC Commission publication, April 1979.
5. EIB Annual Report 1980, p. 53.
6. The EIB grants a global loan to a bank or financial institution. On a proposal from the bank or financial institution and with the EIB's agreement, the amount is then on-lent to assist schemes of economic benefit which, although they satisfy the Bank's criteria, may be too small to quality for a direct individual loan.
7. EIB Review (1958-78).
8. Ibid, p. 13.

9. EIB Annual Report 1980, p. 27.

10. EIB Annual Report 1980.

11. EIB press release 2/81, Luxembourg, 26th January 1981.

12. EIB press release 13/81, Luxembourg, 30th April 1981.

13. Ibid.

14. For further details see: EC - 12th General Report, Pt. 96.

15. ERDF, 5th Annual Report, COM (80) 29, July 1980, Pt. 21.

16. EIB Annual Budget 1979.

17. EIB Annual Budget 1980.

18. Councillor Birch, Merseyside County Council - House of Lords Report by Select Committee of the European Community, Report on Regional Policy HL(93) 1980-81.

19. The government has now extended its exchange risk to cover these EIB loans.

20. EIB Annual Report 1980, Table 4, p. 41.

21. ERDF, 5th Annual Report 1979, op. cit., Table 5, p. 82.

22. The funds required for the loans are raised by floating public and private loans on the capital market, while the funds required to offer reduced interest rates on certain types of loans and to provide grants are taken from the ECSC own resources.

23. Ref. COM (80) 623 - 30th October 1980. Aide-Memoire on the fixing of the ECSC levy rate and on the drawing up of the ECSC operating budget for 1981.

24. Fourteenth General Report from activities of EC in 1980, p. 67.

25. ECSC 14th General Report, op. cit.

26. Council Decision 71/66 (EEC).

27. The above decision was amended by decision 77/80 (EEC)

28. See: Commission of the EC : European Social Fund, official texts, Brussels 1979, V/189/79.

29. Art. 2 - Council Regulation (EEC) 2396/71 of 8th November 1971, implementing Council Decision of 1st February 1971 on the reform of the European Social Fund, as amended by Regulation (EEC) 2893/77.

30. See: 8th Report on Activities of the Social Fund, 1979 (COM(80)) 365/final 2.

31. Greenland, French Overseas Territories, Ireland, Northern Ireland and the Mezzogiorno.

32. See: 9th Report on Activities of the Social Fund, 1st July 1980 (COM (81) 343 final.

33. The high volume of refunds reflects an increased observance in member states of the obligation to notify over-estimations to the Commission before the end of the year following that in which the programmes to which they relate were approved.

34. OJ, No. C 116, 19th May 1978.

35. This calculation involves working out a weighted reduction co-efficient for each member state on the basis of the average unemployment rate and GDP per capita at current exchange rates.

36. See: 9th Report on Activies of the Social Fund, COM (81) 343 final.

37. Ibid, p. 35.

38. In 1981 separate budgetary allocations were introduced.

39. Op. cit., p. 48.

40. See: Select Committee on the EC, H o L, session 1980-81 - 14th Report, Reg. Pol. HL 937.

41. Ibid.

42. FEOGA: The French abbreviation for EAGGF - European Agricultural Guarantee and Guidance Fund.

43. For further details:
'Agricultural Situation in the Community : 1980 Report'.
72/159/EEC on Modernisation of Farms.
72/160/EEC on cessation of farming activity and the allocation of utilised agriculture area for purposes of structural improvement.
72/161/EEC on provision of socio-economic guidance for acquisition of occupational skills by persons engaged in agriculture.

44. See Table 7, Study of the Regional Impact of the CAP/RICAP/ SEDES Group, Decmber 1980.

45. Ibid, Table 8.

46. 9th Financial Report on EAGGF 1979 Guidance Section, Annex 31.

47. Regulation No. 355/77/EEC (replacing 17/64/EEC) on the improvement of the conditions under which agricultural products are processed and marketed.

48. 'Agricultural Situation in the Community', op. cit., p. 93.

49. Article 6 of Regulation No. 729/70/EEC allocated 285 million eua per year to the Guidance Section. Regulation No. 2788/72/EEC increased this to 325 million eua on Enlargement of the Community. However, Regulation No. 929/79/EEC altered the method of allocating funds to the Guidance Section. Since 1st January 1980 there has not been a fixed annual allocation for the Section. Instead the appropriations in each year's Budget are determined in accordance with nominal budgetary procedure. However, the total amount for the five years 1980-84 has been set at 3,600 million eua.

50. See: 9th Financial Report on EAGGF (1979) - COM (80) 639 final, Brussels, 3rd November 1980.

51. Regulation 1078/77/EEC.

52. The 60% balance is financed from the Guarantee Section resources.

53. Regulation 159/72/EEC.

54. 9th Report on Guidance Section Activities, op. cit., p. 3.

55. Op. cit.

56. Op. cit.

57. European Parliament Working Documents 1981-82, Document 1-250/81 A and B, 27th May 1981; Motion for a Resolution on possible improvements to the Common Agricultural Policy, rapporteur: Sir Henry Plumb.

58. P. Mathijsen, Ch. 7, Competition Policy in the UK and EEC, K. George and C. Joll (eds.), Cambridge (1975), p. 180.

59. Article 92, Rome Treaty (1958).

60. Judgement of the Court of Justice of 21st February 1973 in case 6/72, Continental Can Company Inc., Europemballage Corporation vs EEC Commission, European Commission Report (1973), p. 215.

61. Official Journal, No. C.111, 4th November (1971), p. 7.

62. Mathijsen, op. cit., p. 188.

63. Official Journal, No. C.111, 4th November (1971), p. 1.

64. Third Report of Competition Policy of EEC (1974).

65. Guidelines for Community Regional Policy, 7th June 1977 (COM 77/195).

66. See chapter seven of this study.

67. See ERDF, Fifth Annual Report, 1979, COM (80) 460 final, pts. 20-29.

68. The volume of loans to receive interest rebates is fixed at 5000 million eua for five years, distributed in annual instalments of 1000 million eua. The volume of interest rebates is 1000 million eua distributed in annual instalments of 200 million eua.

69. 'Integrated Development Operations - General Principles and Experience - Naples and Belfast' (XVI/122/80), Brussels, 13th June 1980, p. 2.

70. The Commissioner responsible for Regional Policy, on behalf of the Commission, the Minister for the Mezzogiorno, the President of the Campania region and the Mayor of Naples.

71. Op. cit., p. 24.

72. Op. cit., p. 28.

73. Formed from representatives of central government departments, City Councillors and Chairmen of the 'Statutory Boards for Housing, Health and Education'.

74. European Parliament Resolution, European Parliament Document 1/177/81 (1981).
See also: Official Journal of the European Communities : Debates of E.P., No. 1-272 (1981-82), p. 230.

75. The Northern Ireland Housing Executive is Europe's largest public management body with almost 200,000 tenants. It was established in 1971 by an Act of Parliament to take the control of housing out of the hands of District Councils and to end the sectarian allocation policies which had been a focal point of criticism from the Civil Rights' Movement in the late 1960s.

76. Ibid - New Statesman. It is planned that £30 million will be spent on Belfast's housing during 1982 of which the EEC will contribute £16.6 million.

CHAPTER TEN : CONCLUSION

The final chapter of this study will firstly draw together and summarise the conclusions reached in previous chapters regarding the characteristics of the European Regional Development Fund, its administration and evolution since its establishment in 1975. Secondly, an attempt will be made to provide general conclusions relevant to the Community decision-making process on the basis of the findings of this thesis, and these findings will be related to the different ideas and claims of academic integration-theorists, which were described in Chapter one. Thirdly, an assessment will be made of the prospects for the establishment, at the Community level, of an effective Common Regional Policy on the basis of the recent Commission proposals for an amended Fund regulation and in the light of the developments of the last seven years.

1. Summary of Previous Conclusions

(a) The Treaty of Rome and lack of progress in the regional policy field during the 1960s

No specific mandate for the establishment of a Community Regional Policy was provided by the Treaty of Rome. It must moreover be remembered that the basis of the Treaty setting up the EEC was a mutual agreement between the French and German governments in a relatively prosperous economic climate, whereby France would provide agricultural products for West Germany and the latter would sell its industrial goods in France. In addition, it was generally assumed that the setting up of a European Economic Community of six member states, with the concomitant removal of trade-barriers and larger market, would produce increased economic growth from which all regions of the Community would benefit.

No progress was made in the regional policy field during the 1960s whilst the period of relative economic prosperity persisted and when the timetable for the removal of tariff-barriers and the establishment of Treaty mandated common policies, such as the CAP and the Competition Policy was pursued. Furthermore, this lack of progress was unaffected by various Commission calls for a specific regional policy and their insistence on the need for a fund, whose main aim was the reduction of regional imbalances in the Community.

However, following the merger of the executives of the three Communities - EEC, ECSC and EURATOM - DG XVI was established within the ranks of the European Commission with specific responsibility for regional policy.

(b) Background to the proposed establishment of the ERDF

The first major push factor in favour of the establishment of a regional fund came with the commitment made to the achievement of Economic and Monetary Union (to be reached by 1980) at the Hague Summit in 1969. It was recognised that this task would be rendered more difficult, if not impossible, without the necessary reduction in regional disparities.

The second push factor was provided by the imminent enlargement of the EEC in the early 1970s to include UK, Ireland and Denmark. These three new member states would bring an added dimension to the Community regional problem, in the form of the old industrial areas of the UK and a further backward, mainly agriculturally based, economy in the Irish Republic. Moreover, the increased economic pressure aside, the entry into the EEC of the UK provided significant political pressure for the setting up of a regional fund; the British public and the Heath Government were well aware and mistrustful of the large net budgetary contributions to the CAP which the British would incur through EEC membership and fearful of the peripheral position of the UK in the EEC. Therefore, the political significance behind the ERDF's establishment, set up to appease British dissatisfaction with the overall budgetary situation, must not be underestimated; the Fund was seen by the British government as an attractive selling point and trade-off in the face of a sceptical domestic electorate.

It was also significant that a British Commissioner, George Thomson, should be given the post of head of DG XVI on the accession of the UK to the EEC in 1973. He was quick to stress the links between EMU and regional policy and indeed between the further development of the Community as a whole and regional policy. Responding to the call of the Paris Summit to take the appropriate measures to set up a Regional Fund, he produced his Report on the regional situation in the EEC and stressed three basic reasons behind the need to establish a Community Regional Fund. Firstly for moral reasons: regional policy would demonstrate a common will to assist those in relatively poor areas of the EEC. Secondly, there was an economic need to put the poor regions on a more equal competitive footing. Thirdly, steps must be taken to alleviate the physical poverty of the poor regions of the Community. Thomson distinguished between three types of regional problem which suffered from:[1]

(i) a preponderance of agriculture with the consequential effects of low incomes and under-employment;

(ii) areas of structural unemployment with high outward migration and lack of infrastructure;

(iii) areas with declining industries, slow growth rates and high unemployment.

(c) <u>The search for agreement: The Commission's tactics</u>

In the search for an agreement in the Council of Ministers on a policy to solve the above problems, Thomson and the Commission pursued a policy of gradualism and realism. Thus no sweeping moves were proposed to replace the various national regional policies already in existence by a Community Regional Policy. The stress was rather upon the need to coordinate these national regional policies and the different Community policies and financial instruments already in operation. Despite calls from ECOSOC and the European Parliament for the concentration of the ERDF's resources and despite the initial rejection by the Commission of the principle of juste retour, Thomson fully recognised the political importance of a nine-nation fund and put up little opposition to the Council of Ministers' insistence upon the setting up of a fund based on a fixed national quota system of sharing out the resources between all the member states.

Thus Thomson gradually built up agreement in the Council of Ministers for his Regional Fund proposals; he won support for his eligibility criteria before generating more conflict by publishing his list of proposed eligible regions. Moreover, his stance typified Commission attempts to mediate and compromise diverging viewpoints held by the different member state representatives in the Council forum. His policy was one of openness to all shades and areas of opinion and he not only visited all the national capitals but received reciprocal visits in Brussels from local, regional and national representatives to discuss his proposals. He also heard the opinions of the European umbrella organisations such as UNICE, ETUC and the Standing Conference of European Chambers of Commerce. Thomson's actions contrasted starkly with those of the highly politicised and secretive Council meetings and debates.

The eventual agreement which emerged in March 1975 (some 15 months late according to the timetable envisaged by the 1972 Paris Summit Meeting) produced a small fund of 1300 million ua for three years.

According to the communiqué of the Paris Summit of December 1974, the Fund was designed 'to correct the principal regional imbalances in the Community, notably resulting from agricultural predominance, industrial change and structural unemployment'. Indeed this was a mammoth task for such a poorly endowed financial mechanism. Nevertheless, the ERDF was never designed or intended to be a substitute for domestic regional policy but rather to complement national expenditure and operations.

From the outset of the debate surrounding the establishment of the ERDF, therefore, three issues have been dominant; these concerned the size of the Fund, the distribution of the resources between the member states and their regions, and finally the administration of the ERDF. The conclusions reached in previous chapters will therefore be drawn together under these headings.

(d) The size of the Fund

The ERDF was established in March 1975 and endowed with a paucity of resources for the task with which it was charged: 1,300 million units of account for 1975-77 (300 million ua 1975, 500 million ua 1976 and 500 million ua 1977).

Since 1975 the size of the ERDF has increased steadily and in 1981 total ERDF resources amounted to 1540 million eua in commitment appropriations. In 1982, the corresponding figure is 1,759.5 million ecu (£966.8 million). The table below shows the growth of the ERDF since its establishment.

The Fund has expanded faster than the Community budget as a whole; in 1975 the Regional Fund was equivalent to 5% of the total budget, whilst in 1982 it accounts for 7.5%.[2] However, the relative increase in the Fund's resources has been far from uniform as the table for the 1980 Community budget expenditures below demonstrates.

Table 10.1 : Growth of ERDF - Commitment Appropriations

	Commitment Appropriations
1975 (mua)	300
1976 (mua)	500
1977 (mua)	500
1978 (meua)	581
1979 (meua)	945
1980 (meua)	1,170
1981 (meua)	1,540
1982 (meua)	1,760

Exchange Rates: ua1 £1 = 2.4ua

1978	£1 = 1.5 eua
1979	£1 = 1.55 eua
1980	£1 = 1.59 eua
1981	£1 = 1.82 eua

Source: House of Lords Select Committee on the EC Session 1981-82, 12th Report, p.VII.

Table 10.2 : EC budget expenditures (%) by broad category (1980)

	%
Agriculture - guarantee	71.5
- guidance	2.3
Social	2.4
Regional	2.6
Research, Energy, Industry, Transport	2.6
Cooperation	4.0
Staff Administration, Information etc.	4.0
Repayment to members	5.0
Other	5.5
	100.0

Source: European Parliament Secretariat : Europe Today : State of European Integration, 1980-81, Luxembourg (1981).

Note: The above table refers to budget payments only and not to budget commitments.

Much of the responsibility for the increase in ERDF aid available must be accorded to the European Parliament, which has consistently increased the figures proposed in the budgetary procedure by the Council of Ministers with some significant measure of success.

However, if the size of the ERDF is compared with domestic expenditure on regional policy in the member states, then the resources appear very meagre and the scale of ERDF operations would seem relatively too small to merit the debate and conflict which they generate. Even so, in times of recession any additional source of finance is welcome to member state governments.

When the size of ERDF resources is further compared with that of those provided for the operations of the CAP, the potential effect of the Fund on the regional economic problems of the Community seem further diminished; the operations of the CAP and mainly of the price support system for agriculture have almost always accounted for at least 70% annually of total Community budget resources. In addition, the price support system has been shown to favour the relatively rich Northern farmers and their produce at the expense of their poorer Southern counterparts and thus to have had an anti-regional policy effect.[3]

The problem of the relative paucity of ERDF resources was increased in recent years by the fact that payments from the Fund have been significantly smaller than the payments authorised. As demonstrated in Chapter eight, the percentage figures were as low as 32.7% for 1978 and 33.1% for 1979.[4] However, there was a significant improvement in the utilisation of payment appropriations in 1980: 96.2%[5] which must in part at least be accorded to the establishment of the system of accelerated payments.[6]

(e) The distribution of the Fund's resources and attempts to improve the coordination of member state regional policies

The potential impact of the Fund's limited resources have been further restricted and limited by the fixed national-quota system which has governed the distribution of ERDF aid. Although over 70% of aid was destined for the regions of the three worst-off member states: UK, Italy and Ireland, under the original Fund regulation, each member state had at least one region eligible for Fund assistance. Hence a ceiling was imposed on the extent of money available from Brussels to aid projects in the regions of any one member state.

In order to qualify for Fund assistance an area had to be designated as eligible for assistance under the domestic regional policy of the appropriate member state. Thus no account was taken of 'black spots' or 'pockets of economic problems' in the relatively well-off regions of the member states, such as inner-London. In addition, some regions in the richer member states, for example West Germany, were eligible for Fund aid despite enjoying a per capita GDP greater than certain ineligible regions in the less well-off member states such as the UK, which remained ineligible for ERDF assistance. This situation arose because of the rules governing the respective domestic regional policies in the UK and West Germany and the Fund's reliance upon nationally-designated assisted areas as a guideline for the fixing of its own eligibility criteria. Thus, within the framework of German regional policy the areas of Schleswig-Holstein and Niedersachsen would be eligible for ERDF aid although they enjoyed a per capita GDP greater than all the regions of Italy, Ireland and the UK.[7]

Recently a Commission official argued[8] that one of the main reasons behind the need for a European regional policy and fund was that regional problems do not necessarily look the same from a national and supranational standpoint. The official cited the example of the German Bayerischer Wald being economically backward by German standards but prosperous in European terms when compared with the Mezzogiorno or Northern Ireland. This is a valid point but the Commission's ability to force governments to appreciate the European scale of their regions' problems has been severely restricted by the close links forged between ERDF operations and national regional policies.[9]

In 1977, the Commission published guideline proposals for regional policy and a protracted debate ensued before the ERDF regulation was amended in February 1979.

The Commission recognised that regional imbalances had not been reduced and were indeed sharpened by the effects of the economic crisis of 1973 and the subsequent recession. Thus, the aim of the amended ERDF and Community Regional Policy would be the reduction of existing regional imbalances and the prevention of new imbalances, caused by the changed world economic climate or by the adverse effects of Community policies in the weaker regions. In this respect, the Fund was to be divided into two sections: firstly a quota section, which would deal with the underdevelopment of regions and those regions experiencing industrial or agricultural change and therefore problems of reconversion and redevelopment. Secondly an Ex-Quota section would be set up to deal with problems of a specific, Community nature, caused by changes in the world's economic structure or by the operation of existing Community policies. This section would also concern itself with border areas, especially in Germany. The agreement reached established a ratio of 95%:5% for the quota and Ex-Quota sections respectively.

When the agreement was reached in 1975 on the ERDF regulation, it was stipulated[10] that assistance from the Fund could only be granted to projects falling within the context of a Regional Development Programme to be submitted to the Commission by the member states. In 1979 when the regulation was amended the RDPs were confirmed as the most appropriate framework for coordinating national regional policies and of assessing the geographical impact of the main Community policies.

The RDPs drawn up by the member states have been generally very poor and sketchy in content and can hardly be said to have formed a satisfactory basis for the distribution of Fund aid.

The UK has had particular problems in this respect because it does not have a regional level of government. The Regional Studies Association[11] has commented that 'perhaps not surprisingly, countries operating a decentralised administrative structure such as Germany or Italy, present a better account of the spatial dimension of resource allocation'. Moreover, there are several central government departments in the UK with regional responsibilities. The Department of Industry thus claims that 'the preparation of regional development programmes necessitates the creation of an administrative layer which has no other purpose than to produce programmes for the ERDF'.[12] At the same time local authorities claim that they have had little opportunity to influence the United Kingdom RDPs and the authorities of Yorkshire and Humberside were so dissatisfied that they prepared their own regional development programmes.[13]

Finally, the practical value of RDPs has been limited by a number of factors.[14] Firstly, member states were only required to submit programmes for regions which were in receipt of positive measures of national regional assistance. A second limiting factor occurred because ERDF assistance could only be granted to individual projects submitted by the member states. Thus although the regional development significance of the projects was supposed to be justified by the RDPs, there was no requirement for them to be mentioned in the RDP document itself.

'This extremely loose relationship between RDPs and the individual projects meant that in practice almost any investment project could be "justified" by reference to the relevant RDP'.[15]

(f) The administration of the Fund

The problems of the small absolute and relative size of the ERDF and of the national quota system and lack of effective coordination between national regional policies, have been compounded by the procedure fixed for the administration of the Fund's resources.

Responsibility for the ERDF's administration was placed firmly in the hands of the member state governments. The latter exercise control over the submission of project applications to Brussels. Hence it is the appropriate national government department which initiates the forwarding of any project proposal to Brussels. Moreover, no formal procedure was laid down in the Fund regulation for the effective participation of local and regional authorities in the decisions taken on project applications.

Thus, in the UK and other member states, as far as industrial projects are concerned, firms play no active role in the submission of requests for aid (see Chapter five): the procedure is simply a book-keeping exercise. With infrastructure projects the situation is slightly better but the national government level and not the Community level is still the major and decisive hurdle for applicants. Indeed officials in the Department of the Environment considered it to be a waste of time for local authorities to establish direct contact with the European Commission and the French government has expressly forbidden this. The Commission itself has recognised that it has no control over decisions on projects taken at the crucial initial stage and that it would be more appropriate for local authorities to lobby national governments in support of their applications.

Hopes were entertained by many local authorities and regional government bodies, especially in France, that direct elections to the European Parliament would pave the way for the Community's regions excercising more influence on the national governments in the Fund's administration. These hopes, however, have not been fulfilled. The European Parliament has continued to fight, and with considerable success (notably in 1980), for increased resources for the ERDF. Nevertheless, it has been reluctant to become too involved in the details of the Fund's administration; the Regional Affairs Committee of the European Parliament, for example, refused to make an own initiative report in 1980-81 expressing its views in detail for the Commission on the forthcoming revision of the ERDF regulation.

A House of Lords investigation into the ERDF's activities[16] raised the question during an interview with a Department of Industry official as to whether a straight cash transfer to national governments would be easier without projects being named at all. The answer returned was that it would indeed be a simpler procedure but would not really give a Community policy or image to the Fund's operations.[17]

However, the question which has troubled officials of the European Commission and commentators on the activities of the European Regional Development Fund probably more than any other is that of whether Community contributions to projects in member states have been added to and not substituted for what would have been spent anyway, namely the problem of additionality.

It is a political decision whether one believes the claims of the national governments that they do indeed adhere to the principle of additionality, especially in a time of economic recession, and it is impossible to prove conclusively if such be the case.

Successive reports by the House of Lords Select Committee on the

European Communities have, for example, discussed the importance of and inherent difficulties in demonstrating that the size of each member state's regional aid programme is larger as a result of the ERDF and have suggested that the situation was unsatisfactory.[18]

The enquiry conducted in the 1980-81 session of the House of Lords maintained that no evidence had come to hand during the Committee's enquiry which showed that the UK government adhered to the principle of additionality. The report claimed that disrespect for the additionality principle throughout the Community called into question the value of the ERDF. Indeed it makes a mockery of any attempt to establish a specific Communautaire regional policy financial instrument.

The bulk of Regional Fund aid (approximately 70%[19] per annum on average) has been provided for infrastructure projects. In the UK, this aid is passed on to local authorities, in the form of reductions in their borrowing requirement, and thus more tangible benefits are conceived than with industrial aid which merely tops up the Treasury coffers. However, infrastructure aid makes an uncertain contribution to the economic development of a region, at least as far as long-term job creation is concerned. Moreover, criticism has been levelled at the Fund regulation for being too vague in its eligibility criteria for infrastructure aid and for not providing finance for replacement investment such as decaying inner city sewage systems, one of the major problems of the old industrial areas. The Fund regulation also stipulates that small infrastructure projects of less than 50,000 units of account are ineligible for assistance. Some local authorities cannot generate projects above this threshold and therefore lose out in terms of Fund receipts.

Regional Fund operations have also been hindered by a problem of compartmentalisation and a lack of coordination between the operations and policies of the Directorates General comprising the Commission's structure. Since 1977 DG XVI has made some attempt to overcome this problem by the setting up of a task force under Commissioner Giolitti to strive to coordinate the financial mechanisms of the EEC. In addition an effort is being made to coordinate the regional policy objectives of the various Community policies and a system of Regional Impact Assessment has been established for non-regional policies. Two major problems have been encountered in this venture; firstly DG XVI has been denied necessary manpower and resources to carry out such a huge task effectively because of Council restrictions, and secondly some DGs, notably DG VI (Agriculture) and DG IV (Competition) have resisted the incursions of DG XVI, emphasising the separate legal basis of their policies.

Various other Community financial instruments and mechanisms have employed the bulk of their resources in the depressed regions of the EC (see Chapter nine). However, the basic problem once again has been one of the effective coordination of aims and resources. Since 1979, the Commission has been working on an experiment which launched two integrated operations in Naples and Belfast. These operations combine several sources of EC finance which are managed by committees of representatives of all the relevant Community, national, regional and local authorities, thus making the effective implementation, coordination and administration of these operations difficult to achieve.

(g) Summary

To summarise, it has been shown that the decision to create the ERDF was hindered by the lack of the specific Treaty mandate and was eventually agreed more in response to political rather than economic pressures in the wake of the imminent enlargement of the EEC to include UK, Ireland and Denmark and the need to provide a trade-off for the

British to compensate for heavy net payments to the CAP. In addition, the aspirations towards EMU also provided a boost for the ERDF, although by the late 1970s the goal of EMU had faded.

The ERDF since its creation has increased steadily in size but the effectiveness of these increases has been overshadowed. Firstly, 70% of the Community's resources have been spent on a price support mechanism for the CAP which has been shown to have an anti-regional policy effect. Secondly, there are grave doubts as to whether the Fund's resources are in fact used additionally to member state regional expenditure. Thirdly, there have been delays in the payments made by the Commission from the ERDF.

95% of the Fund's resources are still distributed according to the fixed system of national quotas which spread the resources thinly over the regions of the member states. There have been delays in agreements upon the drafting of special programmes required to permit the implementation of aid grants under the EQS. Thus assistance contributing towards the solving of problems of a 'specific Community nature' have only just begun.

The administration of the Fund is firmly controlled by the national government level and because of the methods adopted for Fund payments and the submission of project applications, little scope is afforded for interest articulation at the local and regional level.

One UK County Council official claimed:

> By submitting only marginally more schemes than necessary to ensure that the UK receives the full amount of its grant entitlement it eliminates any question of European priorities. The government operates its own rationing system. England receives 40% of ERDF aid, Scotland 25%, Wales 20% and Northern Ireland 15%. Priority is given to SDAs and DAs at the expense of Intermediate Areas. Any European dimension is ignored.[20]

Progress towards the effective coordination of national regional policies has been poor because of the poor quality of RDPs and coordination of the Community's financial instruments has been rendered difficult because of the compartmentalised structure of the Commission bureaucracy and the consequent problems of communication between DGs. The recent experiments with integrated operations in Belfast and Naples are still in their initial stages and it is still an open question whether they can overcome the administrative barriers that give rise to this compartmentalisation. Finally, Commission attempts at setting up a Regional Impact Assessment of other member state policies have been hampered by the lack of manpower resources in DG XVI and the lack of cooperation from other key DGs such as DG IV and DG VI.

In conclusion, one of the major problems facing ERDF operations is the fact that it embraces two major and contrasting economic problems in regions whose aspirations and needs are polarised. The problem divides geographically into the old, industrial urban areas of Northern Europe and the underdeveloped, backward, agricultural regional of Southern Europe. Officials in such areas as Merseyside have argued that the Fund places too much emphasis on undeveloped rural regions and does not provide sufficient support for the regeneration of older industrial areas. The converse of this argument is naturally a valid one and begs the question of whether it would be more appropriate for the Community to have two separate and distinct funds to deal with the urban and rural regional problems. The urban:rural problem will be aggravated by the further enlargement of the Community to include Spain and Portugal. From the British point of view this will increase the problem of a larger share of the Fund being allocated to backward agricultural regions. In this respect, it may well be in British interests to press for two separate and distinct funds. However, the Council of Ministers set a precedent when agreeing upon the Greek quota, in so far as no member state was worse off after the incorporation of Greece into the quota system: the budgetary allocation of the ERDF was increased sufficiently to take account of this.

2. The Community decision-making process

In the first two chapters of the study the evolution of the Community decision-making process and the integration theories of academics observing the development of the EC were considered and assessed. It was concluded that the traditional idea of a Council-Commission dialogue, in which the latter proposes an initiative and the former takes a decision on the basis of this proposal, was not sufficiently detailed to describe the actual Community decision-making process. This was said to be merely the tip of the iceberg. Indeed this study of the regional policy-area has borne out the claim. On the member state side of the decision-making arena COREPER has played a decisive role with its consideration of Commission proposals and its drafting of Council working documents and positions on points of detail concerning firstly the establishment of the Fund and then proposed amendments to its size and administration. However, when disagreements have persisted at Council level it has been the European Council of Heads of State and Government which has been asked to pronounce, from above, upon issues such as the size of the ERDF (in December 1977), confirming the highly politicised nature of the Fund and the extent of national jealousies concerning its finances and administration. Thus the representative of the European interest and the defender of the Treaty provisions, the European Commission has been faced by an increasingly powerful, well-organised and determined bargaining 'partner'. Indeed on the very issue of setting up a Regional Development Fund, it was the European Council or summit meeting in 1972 (in Paris) which instructed Thomson to take the necessary steps to establish the Fund, thereby effectively superceding the Commission's basic right of initiating Community proposals.

Thus, the Commissioners responsible for regional policy, firstly George Thomson and subsequently Antonio Giolitti, have had to put forward realistic proposals which might have a chance of providing the basis for a compromise proposal in the Council of Ministers. In this way, the Fund was established with national governments still in firm control of its administration and the discretionary powers of the Commission severely circumscribed. The Commission has with each successive debate on amendments to the Fund regulation increased the 'European' element in its proposals; in its 1977 guidelines it introduced the need for a more comprehensive approach to regional policy. Hence a small ex-quota section was established to alleviate regional problems of a specific Community nature and a system of Regional Impact Assessment of other Community policies was introduced. Furthermore a task force was set up under Giolitti to encourage the coordination of the EC's financial instruments. Despite the basic difficulties faced by such initiatives they do represent gradual steps in the right direction as far as the Commission is concerned and a pragmatic and piecemeal construction of a European Regional Policy. The Commission has taken its proposals one step further in its recent proposals for a revised regulation which will be considered below.

The more subsidiary linkages in the decision-making chain have also been active in the field of regional policy. In this respect the study has revealed the publication of numerous documents in support of a Community regional policy from national and European organisations such as the CBI, TUC, Chambers of Commerce at the national level and UNICE, ETUC, European Standing Conference of Chambers of Commerce, the

International Union of Local Authorities and the Council of European Municipalities. The Commission has granted the latter two bodies (conjointly) informal status but there is little scope for the defence and furtherance of local and regional interests under the existing Fund arrangements (see above) and the Commission has avoided giving any pretext to national government fears about contacts with local and regional authorities. National bodies such as the CBI and TUC consider the issues surrounding regional policy from a national viewpoint and the European umbrella organisations, which often lack cohesion in their structure, are confined to broad and general statements, usually in support of Commission proposals. Thus the actual influence upon the outcome of a debate at the Community level is minimal.

The Economic and Social Committee of the EC, which has a right to pass non-binding opinions on Commission proposals, has also generally backed the Commission wholeheartedly. However, again it is a mere light-weight when pitted against the might of the Council framework.

It has been the European Parliament which has scored most triumphs against the Council of Ministers in the field of regional policy. Indeed the Parliament has on occasions criticised the Commission for not being ambitious enough in its proposals. The EP used the Regional Fund budgetary appropriations as a test-case in its conflicts with the Council over the control and fixing of non-obligatory expenditure and went so far as to reject the EC budget of 1980. The Parliament has been instrumental in achieving significant rises in the ERDF appropriations and notably defended itself against the European Council's fixing of a three year provision for the Fund in December 1977. The Parliament also exercised its right to voice an opinion and exert an influence upon the Council in the framework of the conciliation procedure over the discussions preceding the agreement on Fund regulation amendments in 1979. Thus the European Parliament has been a useful and forceful ally of the European Commission on budgetary issues concerning the ERDF. It has, however, shied away from becoming involved in details concerning the Fund's administration and recently declined to make an own-initiative report on the Commission's latest proposed amendments to the regulation.

Therefore the study of the establishment and development of the ERDF has demonstrated that the idea of a Commission-Council dialogue is far too simplistic to describe the decision-making process of the EC. On the one hand there is the open-ended policy of the European Commission and the input from the local, regional, national and European subsidiary linkages. On the other hand this side of the scales is counterbalanced and indeed outweighed by the strength and intransigence of the member state representatives in COREPER, the Council of Ministers and the European Council. In addition the member states have exercised control over the Commission through their representation on the Fund Management and Regional Policy Committee which consider and control the decisions taken on project applications in Brussels. This provides a further example of the restrictions and limitations of the Commission's power. These institutions cannot be considered as the mere sum of their constituent members. Each member represents the tip of nine (now ten) domestic political icebergs and account must be taken of the need to compromise and appease inputs of different shades of opinion. This makes the Commission's task of gaining agreement for its proposals all the more difficult because of the rigidity of member state stances on an issue once they have been formulated in the national capitals as a result of domestic political interactions.

Finally, the European Parliament has carved itself a more important role than the other subsidiary linkages in the Community decision-making process. Certainly it has acquired legitimacy from its direct elections and has exerted a sizeable influence upon the Council budgetary issues. Nevertheless, it has no legislative role and no right of initiative and thus no control or way of controlling the administration of the ERDF, except indirectly through the Court of Auditors.

The Court of Auditors has been a rising force in the Community decision-making process. It can be conceived as an ally of the European Parliament in so far as its examinations of Community finances question whether the Community is getting 'value for money'. Nevertheless the Court could also be considered to be an ally of the Council of Ministers by pointing out where the Commission has been careless in its administration.

Richard Mayne[21] posed several questions of the status of the nation-state at the end of the second world war and concluded that in continental Europe it was at such a low ebb that the conditions were ripe for the setting up of a different political entity, perhaps on a supranational scale. Events in the field of regional policy seem, however, to have reaffirmed the status of the nation-state. Regional policy is in a particularly problematic position with regard to the establishment of a common policy because of the regional implications of other Community policies and because the national level has remained dominant in the ERDF's administration and in the field of regional policy.

Integration theorists emphasised different paths and end products in their attempts to describe, explain and predict the course of European integration. It was shown in Chapter one that these can be classified into theories emphasising socio-economic variables and those stressing political variables as being crucial along the integration path, and those which emphasised the emergence of some kind of state model as opposed to those laying stress on a Community model as the end product of the integration process. It was, however, concluded that no one theory provided a satisfactory scenario for discussing the politics of the EC but each had a contribution to make.

Intergovernmentalists rejected the claim that the national political, economic and social systems had become so interdependent and penetrated by the Community that governments cease to be sole arbiters of Community affairs. They argue that, conversely, governments define their own position in rigid terms in the Council of Ministers and adopt an uncompromising stance in defence of their interests. This claim is certainly borne out by the long protracted debates in the Council when discussing Regional Fund issues in search of a compromise agreement.

Ralf Dahrendorf[22] claimed that the Commission's stature would decline as Europe gains in importance and that as European matters become proportionally more important to member states the latter would be more defensive and resistant to the integration process. Certainly this would appear to have been true with regard to attempts to establish a structural policy to aid the depressed and backward Community regions. This step along the road to positive integration entailing Commission involvement in the economic policies of the member states and the control in Brussels of significant resources to be distributed in the regions according to Community-wide indicators and criteria, has been repeatedly resisted by the member state representatives in the Council of Ministers.

Stanley Hoffman, another intergovernmentalist, drew the distinction between high politics and low politics. High politics included areas such as defence and foreign policy where member states would be expected to defend their own interests. By contrast low politics involved more technical, economic issues which would generate little conflict in the

Council of Ministers. The latter area would thus incorporate regional policy, a potentially ideal policy-sphere in which integration could be generated. However, this study and the protracted disputes, debates and conflicts and the jealous guarding of national government control over the regional policy area, have demonstrated the failure of Community politics to slot into such clear-cut classifications. Any issue involving member state contributions and potential Commission involvement in domestic policies can be elevated to the position of 'high politics' which Hoffman reserved for defence and foreign policy.

The antithesis of intergovernmentalist arguments is provided by Federalists. Proponents of this viewpoint stress that such a political Community would balance size and uniformity with smallness and diversity. Thus the efficiency of the central bodies at the European level would be complemented by the democratic element provided by local decentralised political organisations. In this way, the concept of the nation-state would be superceded by the European and regional levels. Obviously regional policy would be of particular relevance and significance in such a political structure. However, the ideas and ideals behind such a system are in complete contrast to the organisation of ERDF administration which is totally dominated by the national governments.

One proponent of the federalist argument, the Italian Communist, Altiero Spinelli, claimed that the Council of Ministers has been suffering from increasing laxness and paralysis since the completion of the transition period. The events and debates in the regional policy-area would certainly back up this claim and would also give credence to Spinelli's assertion that there is an increasing trend to transfer difficult matters up to the European Council from the Council of Ministers. It has certainly been shown that this is the case during the conflicts over the establishment and amendment of the ERDF regulations.

Neofunctionalists would maintain that political integration is the result of the interaction of political forces, interest groups, parties, governments and international agencies seeking to exploit pressures and pursue their own ends. Haas recognised that this was bound to be a frail process and that the notion of spillover (see Chapter one) would depend upon self-motivation and self-interest. In the regional policy-field this has equalled the self-preservation and self-defence of national government interests which have proved dominant in interactions with other bodies. Thus national governments, in neo-functionalist terminology, have not seen their interests to be best served by the delegation of national decision-making to a new supra-national body.

Haas also recognised that events external to the immediate debate could influence progress in a particular policy-area. This was proved true in a positive sense for regional policy with the push-effect of the 1973 enlargement of the Community and of the aspirations for Economic and Monetary Union in the early 1970s. Conversely, 1974 witnessed the blocking of progress towards the ERDF's establishment owing to the two UK elections of 1974 and the subsequent renegotiation issues, the election of Giscard d'Estaing as President of France in May 1974 and the appointment of Helmut Schmidt as Chancellor of West Germany in the same month.

Neofunctionalists would argue that it is very difficult for political actors to adjust to the behaviour and goals of negotiating partners when defending their own interests. This has been borne out in debates surrounding the Regional Fund where rigid, uncompromising positions have been seen to be the norm and have rendered the Commission's mediating task more difficult.

Lindberg defined political integration as 'the emergence or creation over time of a collective decision-making process'. Thus political institutions would evolve to which governments would delegate decision-making functions to European authorities, or with which they would decide jointly via the more familiar intergovernmental negotiation. The latter is the case for the regional policy-area and thus according to Lindberg's definition political integration could be said to be evolving. Furthermore, in Lindberg's terminology events in the regional policy-area would appear to be somewhere between his two extremes of 'action and success' and 'inaction and failure'. Initial steps have been taken towards the adoption of a comprehensive approach to regional policy according to European standards, in the form of the Ex-Quota section, Regional Impact Assessments, Regional Development Programmes and the attempts to coordinate the financial mechanisms of the Community. Although varying degrees of success have been achieved in this respect, initial steps have been taken. Nevertheless as Krause pointed out (see Chapter one) the negative integration of the EC is still incomplete and numerous non-tariff barriers still exist such as the failure to harmonise professional standards. He continues by claiming that there needs to be a collective political will on the part of member states to render political integration possible. Economic integration alone will not provide sufficient pressure for political integration. Indeed, this will has been shown to be generally lacking in issues concerning the ERDF.

Transnationalists have argued that nation-states share the international arena with multinational companies, international pressure groups and organisations. Therefore due to the increased economic and technological interdependence and increases in global communication and transport and movement of finance, governments must increasingly modify policy formulation to take account of the views held in other member states.

Regional policy debates by contrast have shown national governments to be uncompromising and the appropriate forum still to be conceived as the national level. Keohane and Nye saw the establishment of transnational non-governmental alliances as significant. However, bodies such as UNICE, ETUC, CEM and IULA have been seen to be powerless against the might of the national governments.

In conclusion, the intergovernmentalist attitudes of member states have shown through in debates in the regional policy-area. However, each of the other theories or frameworks considered have provided relevant conclusions. Thus the national governments dominate discussions, no moves have been made towards the establishment of a federalist structure and the self-interest motivation of national actors in the regional policy-field has been one of self-defence and the preservation of national control over regional policy. In addition, increased technological and economic interdependence have not encouraged the construction of a supranational policy.

Nevertheless, by having established such a dominant position of control over the Fund's administration, the national government representatives in the Council of Ministers leave themselves open to attack by the Commission, the European Parliament and local and regional authorities. The system of financing individual projects from ERDF resources has been tried and discredited and the Commission is now proposing a three year transition to a programme approach to Regional Fund spending. This would involve the active participation of two of the most vociferous critics of the Fund, namely the local and regional authorities, both in the drafting of programmes of aid and in the compilation of Regional Development Programmes which would constitute the coordinating framework of ERDF operations.

At the same time, the Council has repeatedly blocked any increases in Commission staff because of national government reluctance to sanction higher administrative expenditures generally coupled with fears of potential increases in the Commission's powers. Yet the size of the ERDF has been continually increasing, mainly due to the insistence of the European Parliament, and a system of Regional Impact Assessments, for other Community policies and proposals, has been established. Therefore, the limited manpower resources in DG XVI have been severely stretched both because of the increased size of the Fund, the corresponding rise in the number of project applications for the Fund, and because of attempts to assess the regional implications of other policies. Staff constraints have thus become a powerful lever for changing the whole ERDF administrative system.

In conclusion, therefore, although intergovernmentalist attitudes have shown through in debates in the regional policy-area, and although national governments have completely dominated the Fund's administration, this very domination coupled with the pursuit of national jealousies has placed them in a position where they are open to considerable pressure to change the status quo. Moreover, cracks have begun to occur within the Council of Ministers itself during recent discussions of the future administrative arrangements for the ERDF (see below).

3. Prospects for Community Regional Policy

In 1981 the Select Committee of the House of Lords called for a large increase in the ERDF's resources as a precondition of the Fund making a significant impact on the Community's regional problems.[23] The Commission has also called for a disproportionate growth in the Fund's resources relative to the EC budget as a whole.[24] Furthermore, member states agreed at the November 1981 summit meeting in London that ERDF resources should grow faster than the real increase in EC revenues.[25]

As stated in Chapter eight, the Commission has proposed to increase the impact of the limited ERDF resources by distributing the quota section (at least 80% of the total Fund) in only six areas of the Community which suffer from structural underdevelopment.[26] There appears to be little opposition in the Council of Ministers to the principle of concentrating ERDF resources. However, the London Summit of November 1981 is believed to have agreed that the Fund should cover all regions meeting certain specified criteria rather than be restricted to named regions in selected countries.[27]

The Commission has proposed that the Ex-Quota section of the Fund be increased to up to 20% of the total resources and that it should be distributed only to regions adversely affected by industrial decline or by other Community policies. Two problems arise in this respect: the Commission has only just paid its first instalments to programmes under the EQS and so has gained little experience with which to back up its arguments. In addition, member states making a net gain from the quota section of the ERDF such as the UK will calculate the size of EQS which would suit them best in terms of their total receipts from the Fund. At present it appears that the British government would favour an ex-quota section of 10% on the grounds that the UK's total receipts would be greater than would be the case with a larger EQS.

The Select Committee of the House of Lords among others has repeatedly been critical of the UK procedure for distributing aid to industrial projects. The Commission is now proposing to switch the allocation of Fund aid gradually, over a three year period, to a programme as opposed to an individual project approach except for very large projects.

These programmes, under the quota section, could contain a mixture of infrastructure, industrial, commercial and service projects. The New Regional Policy Guidelines have also suggested that regional policy measures should aim to encourage labour-intensive activities based upon modern technology as well as services. Quota section aid should now also be granted to small business, service and tourist ventures.

The gradual introduction of a programme approach for Fund aid over a three year period is partially an attempt to involve local bodies more directly in ERDF affairs. Thus programmes will be drawn up by member states and local and regional authorities. They should have a life-span of at least three years and be agreed by the Commission. These programmes would also be closely related to RDPs submitted by member states and ought to lead to some simplification of administrative procedures. This proposal is likely to meet with opposition in the Council of Ministers: programmes have yet to be proved to be of greater value than individual projects and, more significantly, national governments may be concerned that this approach could provide the Commission with more discretionary powers, possibly enabling them to lay down special conditions for the implementation of programmes.

Discussions in the Council Working Groups considering the Commission's present proposals have revealed that certain member states, notably the major net-contributors to the ERDF, such as West Germany and the Netherlands, favour the transition to the programme approach for distributing ERDF aid, at least in principle.[28] They are insisting, however, that the principle of additionality must be clearly demonstrated by such an approach and that the decision-making procedures for such a method of finance are clarified. Moreover, the Germans and the

Dutch are pushing for a more precise definition of the eligibility criteria for infrastructure aid than the requirement that projects contribute towards the development of the region in which they are located. Thus the net-financers of the Fund are striving to tighten their grip and control over the way in which their contributions are spent. They seem to be growing tired of merely topping up the treasury coffers of the member states who make a net-gain from the ERDF. To an important extent the member states who are net-contributors to the Fund have become allies of those European institutions and outside observers who are seeking a more effective and integrated vehicle for EC regional priorities.

Some academic authorities even claim that a switch to the programme approach would be advantageous for the following reasons:[29]

1. The approach would increase the effectiveness of ERDF assistance by concentrating aid within a coherent set of measures rather than in individual and sometimes disconnected investment projects.
2. It would reduce the administrative problems of assessing a large number of individual projects.
3. It would increase the possibility of securing the 'additional' character of the Fund by involving Community institutions in the formulation and implementation of the programmes.
4. The change would allow for more participation by local and regional authorities in the operations of the ERDF.
5. The programme approach, in which some projects would be wholly financed by the Community, would, because of the more active role envisaged for local and regional bodies, guarantee that the ERDF would be more openly in the public eye.

Therefore, in an attempt to ensure greater respect for the principle of additionality, the Commission has also proposed that member states be mandated to consult, if not work together with, local and regional authorities when preparing RDPs, when submitting programmes eligible for ERDF aid (see above) and when planning 'integrated operations'. This should permit more surveillance by sub-national authorities of the national governments' commitment to additionality. Secondly, in most cases, the regulation will specifically require member states to demonstrate how additionality is to be achieved. This proposal is bound to meet stiff opposition from the more centralist governments in the Council of Ministers. Nevertheless this opposition will be countered by the attitude of the Fund's paymasters (see above) who are seeking to tighten their grip on the administration of Fund aid.

Thus there are major disagreements in the Council of Ministers over the proposed amendments to the Fund regulation. This adds a further dimension to the picture presented, that the administration of the ERDF has been dominated by the national governments; the Council of Ministers cannot be considered as a homogeneous unit enforcing a blanket control over the Fund. This follows on from the occasion in 1980 when there was no qualified majority in the Council on the budgetary vote (see Chapter eight), which led to the ultimate rejection of the document by the European Parliament. The Council could not unite, on the issue of the size of the Fund appropriations for 1980, to a sufficient extent to overrule the proposed increases and does not now have sufficient unity to reject a major reform of the ERDF that might substantially erode their control of the Fund.

Thus although the issues surrounding the ERDF are still dominated by the member state governments and by intergovernmental attitudes, the argument must be qualified by the potential and evident chinks in the

Council's armoury.

The Commission has also insisted, in its latest proposals, upon the presentation by member states of more specific and coherent RDPs in an attempt to achieve greater coordination of Community and national regional policy measures. In addition it has made clear its intention to make extended use of RIAs for vetting and analysing current Community policies and proposals.

The new Commission proposals launched in October 1981 represent a major attempt by the Commission, having adopted a gradualist policy vis à vis the Council of Ministers, to expand its present foothold, to align Community regional policy to its objectives.

One local authority official in the UK[30] has claimed that:

> If implemented the proposals would go much of the way towards removing some of the criticisms made of the current effectiveness of the ERDF. Particularly welcome to local authorities will be the proposals on achieving closer relationships with the Commission. Local authorities in the UK have felt strongly that the current regional development programmes were inadequate. The proposal that these should be drafted in close association with regional authorities will be very welcome.

Brooke argued that the redefinition of Community level criteria for distributing Fund aid would be more rational than accepting member states' priorities. Nevertheless he warned that the data used to calculate the two criteria used for deciding the regions in which ERDF aid should be concentrated were outdated, referring as they did to 1977 (GDP for the regions and long-term unemployment). He claimed that were 1981 statistics used, because of the recent rise in UK unemployment, areas such as Yorkshire and Humberside would preserve their right of access to Fund aid.

Thus the debate in the Council of Ministers in the coming months will be crucial for the shape of Community regional policy in the 1980s.

In addition the establishment of an effective Community regional policy will be vital for further progress along the path of economic and political integration. A recent study undertaken at Cambridge University, financed partly by the Commission and partly by the Department of Industry[31] on centrality, peripherality and EEC Regional Development demonstrated conclusively that the EEC's central and peripheral regions differ markedly in their economic structure, performance and evolution. In particular a set of inter-related economic characteristics were identified which together rendered the inhabitants and firms of the Community's peripheral regions - in Italy, France, UK and Ireland - economically significantly disadvantaged relative to their counterparts in central regions.

Thus peripheral regions experienced higher aggregate and youth unemployment rates, a growing concentration of unemployed young workers, lower output and regional income per head and per employee, proportionally fewer job opportunities in manufacturing and producer services, with a greater dependence on agriculture and consumer services. Peripheral regions also experience unfavourable and deteriorating manufacturing structures and a bias towards economic activities which are declining or growing only slowly at the Community level. Furthermore, there is in these areas an increasing relative inaccessibility to economic activity because of faster growth in central regions. Even apparent relative improvements in peripheral job opportunities and female activity rates were found to be related to the growth of marginal consumer services or to the moving to certain peripheral regions of older, traditional manufacturing industries whose long-term prospects are likely to be poor.

Judith Marquand also stressed the point that:

> to the extent that it [the Common Market] truly operates as a unified market, it appears that several spatially biased factors - peripherality, urban structure, the spatial aspects of technological adaptation - will all operate to help the areas which are already richest to grow the fastest. In particular, Germany is favoured, and the UK, Italy, Ireland and the three applicant countries will have continuing difficulty in catching up, especially in a period of low overall growth.[32]

Thus the more advanced EEC countries are faced by an almost impossible policy dilemma; how to aid the new members (Greece since 1981 and Spain and Portugal later in the decade) to improve their competitive position while simultaneously dealing with the regional impact of the recession on their own economies.

The expansion of the EC from nine to twelve members will have serious implications for the overall character and severity of Community regional problems. Apart from parts of industrial Spain and Athens and Salonica, most regions in Spain, Portugal and Greece are relatively underdeveloped and largely agricultural-based economies. Moreover, in times of economic recession these structurally weak areas will be worst affected, and once trade barriers begin to be removed these regions will need protection against the competition of the more prosperous regions in order to prevent regional disparities from being further increased.

Thus there are pressing economic needs for the establishment of a cohesive, comprehensive and effective Community regional policy. However, two fundamental blocking points stand between the Commission and the achievement of such a policy. The first problem concerns the swamping of the Community budget by the CAP and its price support mechanism, made worse by the anti-regional policy effects of the system. The second, perhaps more basic, problem is that of the self-interested approach taken by national governments in the Council of Ministers. It has been shown that this tier of government dominates the administration of the Fund and each member state strives to pay as little into, and extract as much as possible from, a very shallow pool of resources, whilst ceding as little administrative power of decision as possible, either to the European Commission or indeed to regional and local bodies. There is no doubt that this is a question of the political will of the member states to make a Community Regional Policy effective and significant.

In the last couple of years member states have come to appreciate some of the absurdities of the Community's present budgetary priorities. However, the Community is a long way from the federal budget proposals of the MacDougall Report,[33] under which it was claimed that 2% of the Community's GDP could be redistributed at Community level with a very significant impact on the less developed regions.

A group of experts headed by Sir Donald MacDougall[34] studied the role of public finance in five federations,[35] including its contribution towards the reduction of regional disparities in income. The findings were compared with the situation in the Community's member states and potential effect of an increasing role for public finance at the Community level was assessed.

Public expenditure by member states of the Community in 1975 equalled 45% of the GDP of the area as a whole.[36] By contrast expenditure by all Community institutions was 0.7%. Whereas the redistributive power of public expenditure in the countries considered was up to 40% , the Community's power of redistribution was a mere 1%.

Thus MacDougall maintained that if Community public expenditure, in a pre-federal phase, was raised to between 2-2½% of GDP at the Community level regional inequalities could be reduced by up to 10%[37] provided that substantial expenditure was invested in the area of structural, cyclical, employment and regional policies.

Politically speaking, with the extent of discretionary powers of decision that would have to be transferred to the Community level, even at this 'pre-federal' stage, there would seem little chance of such a scheme getting off the ground in the foreseeable future. Despite the completion of the customs union and the progress made on reducing non-tariff barriers there has been a lack of commitment to accept moves towards positive integration and total economic and monetary union. Thus economically, and certainly politically, it would be misguided to consider that the EEC has reached a pre-federal stage.

Unless there is a noticeable shift in the attitudes of member state governments, the Community will have no effective regional policy, only Community finance for national regional policies with differing objectives, an approach which has already been discredited, even in the eyes of many member state governments, especially those who are not principal beneficiaries of the ERDF.

The Fund operates at present in a political environment where the major priorities and goals revolve around trying to pay as little as possible towards the cost of the ERDF whilst gaining the maximum possible financial advantage. These attitudes are futher reinforced by the general unwillingness to cede any more control of national economic policy to the Commission than is necessary to maintain the Fund along its present unsatisfactory lines. In such an environment, the prospects for the establishment of a Common Regional Policy at the Community level do indeed seem bleak, even if power within the Community's decision-making processes is more widely distributed than many authorities have so far recognised.

Finally it is questionable whether the ERDF is worth all the political arguments and conflict which it generates, particularly given its small size, both in absolute and relative terms, and the dubious adherence by member states to the principle of additionality. The Community certainly needs to spend money in its problem regions, both for political and economic reasons. Moreover, the cost-effectiveness of the ERDF may well be improved if the Council accepts the Commission's recent proposals, albeit in a watered-down form. However, in the absence of genuine additionality there could well be pressures to convert to a system of interest subsidies and/or loan schemes. This could be a way of financing more projects and of overcoming some of the difficulties encountered at present by the Community in administering the distribution of ERDF grants. Such a change could nonetheless run counter to present attempts to concentrate Fund aid since interest subsidies would distribute the Fund's resources more widely. Moreover, a Fund operating under such a system would lose its political impact in the Community's regions since local and regional authorities would be less aware of assistance received.

Notes

1. EEC Commission, 'Report on the Regional Problems in the Enlarged Community', COM(73)550, 3 May (1973), paras. 22-24.

2. Talk given by Lieselotte Klein to Regional Studies Association, King's College, London, 15 April (1982), XVI/78/82.

3. Commission of the EC, Study of the regional impact of the CAP on Regional Policy series, No. 21, Brussels (1981).

4. Court of Auditors Report for 1979, OJ 342, 31 December (1980).

5. Court of Auditors Report for 1980, OJ C344, 31 December (1981).

6. Reimbursements to the member states of up to 75% of the amount of aid granted, on condition that at least 30% of the payments constituting the basis for aid from the Fund have been made: Article 8(3) of the revised ERDF regulation (1979).

7. GDP/Capita in Schleswig Holstein (1975) = 110 (Community average = 100)

   GDP/Capita in Niedersachsen (1975) = 112

The highest GDP/Capita figure for:

Italy:Lombardia	= 80
Ireland	= 50
UK:South East	= 87

Taken from Economic Trends, August (1979), J.W. Gardner, 'The UK's Economic Performance : Comparison with other European Countries'.

8. Lieselotte Klein, op. cit.

9. Certain parts of the UK North-West region will lose their assisted area status in the changes coming into effect in August 1982 in UK assisted area boundaries. Thus a question mark hangs over some projects in these areas which are already before the European Commission for consideration. These include an extended runway for Manchester Airport, an airport which serves the whole of the North of England and North Midlands.

   See House of Lords Select Committee on the EC (1981), p.67.

10. Article 6(1) ERDF regulation: 'investments may benefit from the Fund's assistance only if they fall within the framework of a regional development programme, the implementation of which is likely to contribute to the correction of the main regional imbalances within the Community which are likely to prejudice the attainment of economic and monetary union'.

11. Written evidence to the House of Lords Select Committee Report : session 1981-82, op. cit.

12. Written evidence of Department of Industry, op. cit.

13. Regional Studies Association: written evidence, op. cit.

14. 'The Development of the Programme Approach in the CAP : An evaluation of the British Experience', M. Martins and J. Mawson, RSA Conference, April (1982).

15. Op. cit., p.4.

16. Select Committee on the EC, House of Lords, session 1980-81, 14th Report, HL.93, p.13.

17. Op. cit., p.14.

18. HL.75 (1976-77), paras. 16-18.
    HL.93 (1980-81), p.XV.
    HL Select Committee on the EC (1981-82), 12th Report on the Revision of the ERDF, p.XIX.

19. It should be remembered that the eligibility criteria for infrastructure projects was broadened in 1979 to incorporate projects which were deemed to contribute towards the development of the region in which they were cited.

20. 'The Likely EEC Impact in the 1980s : A Local Authority View', Rodney Brooke, Chief Executive, West Yorkshire Metropolitan County Council: Regional Studies Association, King's College, London, 15 April (1982), p.3.

21. See Chapter one, p.6.

22. See Chapter one, p.8.

23. Op. cit.

24. New Regional Policy Guidelines and Priorities, COM(81)152 final, 24 July (1981).

25. Agence Europe, 28 November (1981).

26. Greece (excluding Athens and Salonica), the Italian Mezzogiorno, Ireland, parts of the UK (assisted areas as from August 1982, located in Scotland, Wales, Northern Ireland and Northern and North-West England), Greenland and French Overseas Departments.

27. Op. cit.

28. See for example: Council Working Document, 'Avanti Projet de Rapport du Groupe Politique Régionale', Brussels, 12 February (1982).

29. For further and fuller details: 'The Development of the Programme Approach in the CRP : An Evaluation of the British Experience', M. Martins and J. Mawson: RSA Conference on EEC Regional Development, King's College, London, 15 April (1982).

30. Rodney Brooke, op. cit., p.6.

31. Findings summarised in: 'Regional Disparities and Trends in the 1970s', D. Keeble, P.L. Owens and C. Thompson: RSA Conference, op. cit., April (1982).

32. 'Spatial Change and Economic Divergence in the EEC', Judith Marquand, JCMS, September (1980).

33. Report of the study group on the role of public finance in European integration, Vol. 1, Economic and Financial series, April (1977), European Commission A13.

34. Chief economic adviser to the CBI.

35. West Germany, USA, Canada, Australia and Switzerland.

36. Op. cit., p.12.

37. Op. cit., p.16.

ABBREVIATIONS

CAP	Common agricultural policy
CBI	Confederation of British Industry
CEM	Council of European Municipalities
COMITEXTIL	Coordination Committee for the Textile Industries of the EEC
COPA	Confederation of Professional Agricultural Organisations
COREPER	Committee of Permanent Representatives
DA	Development area
DATAR	Développement à l'Aménagement du Territoire et à l'Action Régionale
DG	Directorate General
EC	European Community
ECOSOC	Economic and Social Committee
ECSC	European Coal and Steel Community
EEC	European Economic Community
EIB	European Investment Bank
EMS	European Monetary System
EMU	Economic and Monetary Union
EP	European Parliament
ERDF	European Regional Development Fund
ESF	European Social Fund
ETUC	European Trade Union Confederation
FEOGA	Fond Européen d'Orientation et de Garanti Agricole
IMLA	International Union of Local Authorities
NCI	New Community Instrument
RDP	Regional Development Programme
SDA	Special Development Area
TUC	Trades Union Congress
UNICE	Union of Industries of the European Community

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