OIC

cc P.C

FCS/84/143

A. J. C. 18/5
f.a.

MINISTER OF STATE FOR INDUSTRY

1. Thank you for your letter of 4 May. I have also seen Peter Rees' letter to you of 10 May.

2. As you will know, an acceptable compromise was reached on the outstanding issues at the 14 May Foreign Affairs Council and the way is now clear for agreement of a new Regulation in June.

3. On quota ranges we achieved our minimum requirement (ie a UK guaranteed minimum of 21.42%). I pressed hard for a general reduction of the upper ranges but received no support. On rates of grant the compromise of a 50% maximum with 55% for exceptional circumstances is satisfactory, given that Community Programmes are to be included within this ceiling. This, together with the other checks we negotiated on Community Programmes (ie voting procedures and a 15% limit) means that we have achieved our objective of adequate control of these Programmes. We also dealt firmly with the German attempt to add urban renewal to the negative infrastructure list, conceding only the addition of social housing.

IMPs

4. As suggested by Peter Rees, in agreeing these points I made it clear that this was on the basis that non-agricultural IMPs were included and the IMPs would be financed from the structural funds. Our efforts to have these incorporated in the Council decision were not successful. But I believe that the Presidency declaration, made at our insistence, that work on IMPs would continue on the basis of the provisional conclusions of the March European Council, meets our requirements. It was clear

/that

that the other Northern Member States share our view of the relationship between IMPs and the structural funds. They will continue to resist free-standing IMPs, but will be ready to agree the ERDF on the basis of the Presidency text.

5. I am copying this letter to members of OD(E) and to Jim Prior, George Younger, Nicholas Edwards, Patrick Jenkin, Tom King, Lord Bellwin and Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office

18 ~~June~~, 1984
May.

Mr Paul

MF 11/5 ✓ as OB

Treasury Chambers, Parliament Street, SW1P 3AG

10 May 1984

ECD(I)

Norman Lamont Esq MP
Minister of State for Industry
Department of Trade and Industry
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✓ PS
PS/Mr Rifkind
Sir C. Tickell
Mr Renwick

Dear Norman

ERDF: PROPOSED NEW REGULATION

I have seen your letters of 26 April and 4 May to Geoffrey Howe about the UK line on the new ERDF regulation. I understand that officials have since discussed the points raised and there are now two issues which I should like to clarify with you.

You suggest in your letter of 4 May that on the relation between non-agricultural IMPs and the new regulation, our line should be to agree the regulation first and then try to bring IMPs in and make them conform to the new rules. I think this is a risky approach: it provides the Greeks with the opportunity to argue that they agreed to the new regulation on the basis that IMPs were not included, and so to continue to press for separate IMPs. The better course would be to bring IMPs into the discussion of the ERDF now, and not to agree to a new regulation unless IMPs are to be covered. The Greeks are pressing for a larger share of the fund. We should make the point that such an increase could only be justified if IMPs were to be covered.

I therefore suggest that the line we might take at the Foreign Affairs Council should be that we cannot agree to the new regulation unless IMPs are to be covered. We should be able to secure the support of other Northern Member States in this, and the effect will be either to allow discussions of IMPs and the ERDF to continue in parallel or better still to reach agreement that IMPs be included.

In order to bring IMPs into the discussion elsewhere, and to make our line on IMPs more likely to be accepted, we may have to change our stance on one or two items, but this would be a price worth paying if we could secure agreement to the inclusion of IMPs in the structural funds. One is the proportion of the Fund devoted to Community Programmes. You suggest 15% as an absolute upper limit. If IMPs are to be included then it may not prove possible to maintain this line. If so then I would find a move to 20% acceptab

Turning to rates of grant, I accept that if isolated we may need to accept modest increases up to the level of 50%. However, we should do so on the condition that the rate applies across the board, otherwise we may find that a premium for special schemes is added to those higher rates. We should also support the Germans and others in arguing for setting a limit on the rate for Community Programmes. This rate should be that applying across the board and IMPs should be included in such a limit.

I hope that you will agree that this is the better approach to these aspects of the UK stance on the new regulation.

I am copying this letter to recipients of yours.

Yours ever
Peter

PETER REES

From the Minister of State for Industry

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CONFIDENTIAL

The Rt Hon Geoffrey Howe QC MP
Foreign Secretary
Foreign and Commonwealth Office
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Mr Paul

4 May 1984

4/5

Dear Geoffrey

ERDF: PROPOSED NEW REGULATION

My letter of 26 April, about the line to take in the ERDF negotiations, noted the comments in your own letter of 26 March and the comments from other Ministers.

At the 26/27 April Working Group, the Presidency made determined progress on a text for COREPER on 10 May, with a view to consideration by the Council on 14 May. So far as operational details are concerned, we have virtually achieved an acceptable text and remaining reservations are likely to fall away if the Council reach agreement on the wider issues outstanding.

Level of Ranges

A Presidency compromise might emerge for the minimum guarantees to cover a further 7% or so of the Fund. If so, we should try to use this to have our own guaranteed minimum increased as much as possible, even if that means accepting some matching reduction in the theoretical maximum limits.

Level of Rates

Even Germany has said it is willing to see rates up to 50%. So while I can agree that we still "keep our heads down", if we are not to be isolated we must be prepared if necessary to accept some increase - which we should try to keep related to the Commission's proposal for a 10 points increase in infrastructure project rates, or less. The best course to restrict excessive rate increases is then to go on seeking the same rates across the board and maintaining our opposition to discriminatory higher rates for special schemes, including national programmes. A modest increase would help us and involve no disadvantage as there are other Member States which, unlike us, can readily lodge applications greatly in excess of requirements.

Control of Community Programmes

Other Member States which might be expected to support a unanimous Council decision for Community Programmes now seem ready to consider accepting a qualified majority decision if other interests are met, and the Commission is intent on negotiating on that basis. While we should still support any renewed movement for unanimity, I suggest that we must consider alternative arrangements if we are not to be isolated. We should be ready to take up the Commission's suggestion that a qualified majority vote would have to include a positive vote by Member States affected by the programme, and we should support a German request for a limit on the rates for Community Programmes. I would attach particular importance to limiting the percentage of the Fund used for Community Programmes. It may be difficult to have this in the Regulation as the Commission would see that as returning to the present quota/nonquota division, but the Commission seems ready to offer a declaration in the Council minutes. If we settle for that, we should ensure that the text is as binding as possible; and we should take a firm line in aiming for a limit of 10-15% of Fund resources, only accepting the higher end if that is what is needed to conclude negotiations which are otherwise satisfactory. If unanimous Council decision cannot be achieved, we should have a percentage limit with meaning.

Negative Infrastructure List

We can accept the list as currently negotiated and we should resist additions.

Integrated Mediterranean Programmes

I should mention non-agricultural IMPS. We have pointed out in the ERDF negotiations that there is a connection, but I understand that IMPS have still to be brought clearly within the Structural Funds. I doubt if we could hold up the ERDF negotiations on this account. There is something to be said for settling the new Regulation, and then making IMPS conform, but you may wish to consider.

If there are points requiring further consideration, could notice please be given urgently so that the line can be clear for COREPER on 10 May.

I am copying this letter to members of OD(E) and the Jim Prior, George Younger, Nicholas Edwards, Patrick Jenkin, Tom King, Lord Bellwin and Sir Robert Armstrong.

NORMAN LAMONT

AJC

CONFIDENTIAL

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Date: 4.5.84

MOTION ON THE EUROPEAN COMMUNITY DOCUMENTS ON THE EUROPEAN REGIONAL DEVELOPMENT FUND

Tuesday, 8th May, 1984

Conservative Research Department,
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Enquiries on this brief to:
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MOTION ON THE EUROPEAN COMMUNITY DOCUMENTS ON THE EUROPEAN REGIONAL DEVELOPMENT FUND

BACKGROUND

The European Regional Development Fund (ERDF) was established under Article 235 of the Treaty of Rome. The ERDF enables the European Community to supplement the assistance given by national governments to underdeveloped regions where GDP is consistently below the national average; where there is above average dependence on agriculture or a declining industry or where there is a consistently high rate of unemployment or net emigration of the local population. An additional facet of the ERDF is to provide some compensation for the effect of Community policies (e.g. external trade) on the regions. The ERDF came into operation in 1975. Under the ERDF Regulation, national governments retained the right to define their assisted areas, and all applications for ERDF aid are forwarded to the Commission via the appropriate government department. 95 per cent of the Fund is distributed on the basis of national quotas. Since the accession of Greece in 1981, the United Kingdom's quota,originally 28 per cent, has been reduced to 23.8 per cent.

In practice, the quota system for disbursing the Fund has prevented ERDF aid from being concentrated exclusively on those regions which by Community standards need it most. To remedy this, a "non-quota" section of the Fund was introduced in 1979, and this currently accounts for 5 per cent of the Fund. It is intended to aid areas which have suffered from the effects of Community policies, for example as a result of the restructuring currently being undertaken in the steel sector. These non-quota grants have not been allocated to individual projects but go towards general development programmes. Within each programme, money is available for specific projects and also for general schemes, including those to assist small and medium sized enterprises which will provide a better vehicle for stimulating the local entrepreneurial potential for economic development. Commission proposals for non-quota expenditure at present require unanimous approval by the Council.

In October 1981, the Commission proposed a radical revision of the ERDF, to expand the non-quota section to 20 per cent of total spending and to do away with national quotas altogether. To replace this there was to be a system of quotas that would be distributed amongst specific regions; the whole of the Republic of Ireland, Northern Ireland and parts of Scotland, Wales and the North and north-west of England, the Mezzogiorno, the whole of Greece except Athens and Thessalonaki, Greenland and the French overseas departments. Under this proposal ERDF grants, which were paid in support of individual projects undertaken in Members States and which have received national regional aid in one form or another, would be subject to an alternative system under which Member States would be required to submit programmes which when approved would become the subject of "programme contracts" between the Commission and the Member State; grants from the Fund would then be payable in support of programmes rather than in respect of individual projects. The new regulations would have laid down detailed rules for the contents of programmes and would have given the Commission power to lay down special conditions for their implementation.

Negotiations on these proposals failed over a two year period to gain agreement amongst Member States. The proposed regulation would have concentrated the quota section of the fund on the less prosperous regions of the Community by substantially reducing the number of Member States receiving a quota. Although the increase in the UK quota which this would have entailed was welcome, it would have resulted in the exclusion of some of our own assisted areas from quota aid, notably Yorkshire and Humberside, the South West and Corby.

Table on ERDF Aid Commitments to the United Kingdom 1975-83

	Industry £M	Infrastructure	Total
NW England	73.99	107.83	181.82
Northern Ireland	78.90	163.32	242.22
Yorks and Humberside	6.65	72.30	78.95
East Midlands	2.80	10.33	13.13
West Midlands	0.03	4.15	4.18
South West	3.52	34.33	37.86
Northern Ireland	54.03	103.51	157.54
Scotland	77.94	262.52	340.46
Wales	69.75	141.43	211.83
United Kingdom Total	367.60	899.75	1,267.35

Note: For 1975-82, totals represent net values (i.e., commitments approved up to the end of 1982 less de-commitments agreed in the same period). For 1983, the figures are gross, no allowance being made for de-commitments made during the course of them year. Figures may not exactly tally through roundings.

(Source: Department of Trade and Industry)

The ERDF, while still only a small element of the total EC budget, has been rising as a proportion of total expenditure from 4.8 per cent in 1975 to 7.6 per cent in 1982. At present the fund may contribute to the financing of industrial investments which exceed £28,500, which are located in an assisted area, and which create or preserve a minimum of 10 jobs. Aid from the fund can cover up to 20 per cent of the cost of a project, and must not exceed 50 per cent of the aid allocated by the Member State. For infrastructure projects the fund's contribution can, exceptionally, be as high as 40 per cent of the total cost; normally, infrastructure improvements which contribute to regional development qualify for 30 per cent of the cost of projects up to £5.7 m, and between 00-30 per cent for more expensive schemes.

Requests for grants from the Fund can only be made by Governments. Once approved, payments are made to individual Governments, who can then forward the money to the project sponsor or treat the payment as part of its own regional spending. IO practice, the British Government has taken expected ERDF receipts into account when drawing up its own expenditure plans for regional aid.

<u>Proposed Changes to the Operation of ERDF</u>

The Commission, in the light of the failure to gain a consensus on its original proposals withdrew the package and replaced it with new proposals on 22nd Novwember 1983.

Although the Commission has stated that its long term aim remains the abolition of a national quota system, they have abandoned this idea in the short term. The new ERDF Regulation proposes that the non-quota section be abolished. The tasks of the non-quota section will be introduced into a new flexible quota system by means of new definitions of "Community Programmes" as distinct from 'national programmes of community interest'.

The new quota section will set a lower and upper limit governing a member state's share of the ERDF over a five-year period.

By introducing this element of flexibility, there is greater scope for the Community to concentrate assistance on those regions which require it most, while at the same time satisfying the national desire not see any of its own assisted areas excluded from aid under the quota section of the Fund.

Member State	proposed quota lower limit	upper limit	average of 1 and 2	previous quota
Belgium	0.85	1.20	1.025	1.11
Denmark	0.81	1.14	0.975	1.06
Germany	3.55	4.81	4.18	4.65
Greece	11.05	15.60	13.325	13.00
France	10.04	14.74	12.39	13.64
Ireland	5.05	7.13	6.09	5.94
Italy	30.17	42.59	36.38	35.49
Luxembourg	0.06	0.08	0.07	0.07
Netherlands	0.95	1.34	1.145	1.24
United Kingdom	20.23	28.56	24.395	23.80

(Source:- Commission.)

Activities helped by the European Regional Fund

The Fund may contribute to the financing of investments in the following categories:

1) Industrial, handicraft or service activities which are viable and which benefit from Government regional assistance. Preference is given to projects which create new jobs or preserve existing jobs. Service activities qualifying for assistance are those concerned with tourism and those which have a choice of location. The latter must have direct impact on the development and emplyment prospects of assisted areas. Since 1975 more than 500,000 jobs have been created or preserved with the aid of the fund.

2) Regional infrastructure projects financed wholly or in part by a public authority or a related agency. The Fund's contributution to these projects cannot normally exceed 70 per cent of the total fund. However, in 1983 due to the lack of applications for category 1)the European Parliament approved a Commission proposal that the 70 per cent could be exceeded and this was subsequently approved by the Council.

3) Infrastructure projects are eligible under the Council Directive on mountain and hill ,farming, provided that they are located within an assisted area.

In addition, cheap loans are available within the assisted areas, from the Euopean Investment Bank.

European Regional Development Fund Aid
1975–82
(in million units of account*; number of assisted projects in parentheses)

Country	Industry, Handicrafts, Services		Infrastructures		Hill Farming		Total	
Belgium	26.02	(62)	38.62	(205)	6.29	(37)	70.93	(304)
Denmark	8.96	(128)	71.05	(430)	NIL		80.02	(558)
France	273.60	(1.294)	848.59	(1.262)	13.87	(130)	1.135.96	(2.686)
Germany	208.51	(1.228)	178.11	(567)	NIL		386.62	(1.795)
Greece	22.48	(48)	450.67	(437)	NIL		473.15	(485)
Ireland	132.29	(233)	307.28	(387)	13.07	(72)	452.64	(692)
Italy	341.72	(1.128)	2,339.89	(4.752)	65.67	(1.080)	2.747.28	(6.960)
Luxembourg	NIL		7.12	(9)	NIL		7.12	(9)
Netherlands	17.22	(11)	81.42	(40)	NIL		98.64	(51)
United Kingdom	517.31	(591)	1.192.42	(3.502)	24.80	(138)	1.734.53	(4.231)
Total Eur. 10	1.548.11	(4.723)	5.515.17	(11.591)	123.71	(1.457)	7.186.89	(17.771)

*Approximate, since grant decisions are made in national currencies

(*Source:* Com (83) 566 final, 3rd October 1983)

The Review of Regional Policy

The Government published on 13th December 1983 a White Paper entitled Regional Industrial Development, Cmnd.9111. The White Paper upheld the Government's earlier commitment in the Conservative Manifesto 1983 to maintain an 'effective regional policy', though it makes clear that 'the case continuing the policy is now principally a social one with the aim of reducing regional balances in employment opportunities.' The main points of the White Paper were:

- There will be a shift of emphasis from automatic to selective assistance.
- There will be a cost-per-job ceiling on regional grants.
- There will be more aid for many, though not all, service industries.
- The map of the assisted areas will be redrawn on revised Travel-to-Work Areas. This is because the present boundaries are seriously out of date and include some areas whose problems are much less acute than those of other areas.
- The rates of grant will be reviewed with the intention of ensuring that regional aid becomes more cost effective.
- Legislation regarding the structure, geographical distribution, and rates of grant of the new policy is expected to be on the Statute Book by autumn 1984.

Mr. Tebbit has made it clear that the Government expects the ERDF to grow in real terms, and that it will therefore play an increasingly important part in the development of Member States' regional policies, including our own. The Government takes the expected contribution from the ERDF fully into account when determining expenditure on regional policy.

Aid for Special Assistance Programmes

On 18th January 1984 the Council of Ministers approved proposals for six regulations under Article 13 of the European Regiona; Development Fund Regulation, three of which will benefit the United Kingdom by enabling Community aid worth approximately £89 million to be given to a series of special assistance programmes in areas adversely affected by emp loyment losses in the steel, shipbuilding and textile sectors. The Government has been pressing for this aid for over two years. This represents a second series of measures under the non-quota section of the ERDF. These measures will provide £19m for elegible steel and £10m for shipbuilding closure areas as well as first time aid in respect of textuile closure areas. The aid will be available over a five year period once the Commission have approved the special programmes showing how it is to be utilised, which Member States are required by the Regulations to produce.

Subject to their inclusion in the special programmes, aid is available for projects for the improvement of run-down areas and the conversion of dis-used buildings into suitable new premises for small and medium sized enterprises (SMES) as well as aid to SMES through the provision of consultancy and common services, help on technical innovation and information, additional investment aid facilitating access to risk capital and the establishment or extension of economic promotion agencies. The beneficiary areas are listed below. This has been annotated to show those steel and shipbuilding closure areas which are curently receiving aid under the first series of non-quota measures.

ERDF NON-QUOTA - AID TO STEEL, SHIPBUILDING AND TEXTILE CLOSURE AREAS

Area coverage and aid involved

Steel

MECU 33 (£19M)

- *Strathclyde
- *Cleveland
- *Clwyd
- *South Glamorgan
- *West Glamorgan (including those parts of Port Talbot TTWA located in mid-Glamorgan)
- *Gwent
- *Corby EOA
- Llanelli TTWA
- Assisted Areas in Durham (incl. parts of Consett located in Northumberland at Tyne & Wear)
- Assisted Areas in Humberside (incl. parts of Scunthorpe TTWA located in Lincolnshire)
- South Yorkshire (incl. Sheffield TTWA)
- Workington TTWA

Shipbuilding

MECU 17 (£10M)

- *Strathclyde
- *Cleveland
- *Tyne & Wear
- *Merseyside
- *Belfast

Textiles

105 MECU (£60M)

Northern Ireland

Assisted Areas in Tayside

The following areas in West Yorkshire:

- Bradford TTWA
- Dewsbury TTWA
- Halifax TTWA
- Huddersfield TTWA
- Keighley TTWA
- Todmordon TTWA

The following areas in Lancashire:

- Accrington TTWA
- Blackburn TTWA
- Burnley TTWA
- Lancaster TTWA
- Nelson TTWA
- Rossendale TTWA

The following areas in Greater Manchester:

- Ashton under Lyme TTWA
- Bolton TTWA
- Bury TTWA
- Leigh TTWA
- Oldham TTWA
- Rochdale TTWA
- Wigan TTWA

*included in first series of Non-Quota measures adopted by The Council of Ministers on 7 October 1980.