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The European Commission's RECHAR Initiative and the Concept of Additionality

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THE POLITICS OF EUROPEAN REGIONAL DEVELOPMENT POLICY: The European Commission's RECHAR Initiative and the Concept of Additionality

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Documents leaked from Whitehall; divisions appearing in the Cabinet; a politically charged showdown between British Conservative Cabinet Ministers and the European Commissioner responsible for regional policy; and an eventual climbdown by the UK government after more than eighteen months of wrangling: can these high profile developments really surround the European Regional Development Fund (ERDF)? Until recently the ERDF had been regarded by political scientists more or less as an irrelevance, a hyped-up mechanism for budgetary redistribution amongst the member states of the European Community. Meny was representative of *pessimistic analysts* (see section I) when he wrote that, if it failed to move beyond its status as a mere 'clearing house', the Community regional policy should simply be scrapped (Meny, 1982, p. 388). This paper sets out to demonstrate that changes introduced in the wake of the Single European act (SEA) have redefined the balance of power between the various actors in this policy field, and moreover that these changes are indicative of broader adjustments in the character of the policy process in the European Community itself.

Article 130A of the SEA states that the 'Community shall aim at reducing disparities between the various regions and the backwardness of the least favoured regions'. With this Act the ERDF took its place in the Treaties alongside the other Structural Funds.[1] It was subsequently agreed at the European Council meeting in Brussels in February 1988 to double expenditure on these funds in real terms, from ECU 7bn in 1987 to ECU 1bn in 1983, and to concentrate spending on the Community's most disadvantaged regions (Landaburu, 1990, p. 97). Alongside this financial development, and probably obscured by it, fundamental innovations in the mode of administering the implementing funds were agreed. The reforms were based upon a number of broad principles, among which was the sensitive issue of additionality.

As a concept, additionality is deceptively simple. Since the inception of the ERDF in 1975 it has been the Commission's intention that grants from the Fund should be additional to, and not a substitute for, national aid to target regions. The concept has been given a progressively more precise form by the Commission over time in the face of the intransigence shown by governments of several member states. When additionality was incorporated in the now controversial Article 9 of the reforms' so-called Horizontal Regulations, (so called as it tied together the individual regulations for each of the Structural Funds), and thereafter stressed in each of the resultant Community Support Frameworks (see below), the battlelines were drawn for the ensuing confrontation.

From a Commission perspective, Mr. Bruce Millan was a highly experienced figure when he was given the regional policy brief on entering the European Commission at the time that the reforms came into effect early in January 1989. On taking office in Brussels he publicly made clear the dissatisfaction he had felt, whilst Secretary of State for Scotland between 1976 and 1979, towards the UK Treasury's stance on additionality. His personal experience, as well as the continuing disregard of the additionality rules (in Commission terms) by the Conservative government combined to make it less surprising that the United Kingdom government was singled out and had a proportion of its expected funding withheld. This stalemate continued until the Commissioner was satisfied that the additionality criteria were going to be met. It will be argued that the specific policy over which the confrontation developed, the Commission's Rechar initiative concerning the economic conversion of coal-mining areas, displays a particularly astute choice of battleground by the European Commission.

The central thesis of this paper is that the impasse between the UK government and the European Commission over the additionality (or the lack thereof) of contributions to the Rechar initiative represents an intervention by the supranational authority that defies previous accounts of the regional policy process in the Community as a virtual paragon of intergovernmentalism. This is not to claim that the EC is inexorably moving into a federal era. Rather, it is to suggest that an analysis of the controversy surrounding Rechar indicates a move towards a more advanced pooling of sovereignty than that assumed in previous writing on the European policy process in this field.

Of course, the reforms of the ERDF were introduced relatively recently and it will take more time before updated analyses of the policy process are published. However, these new analyses will have to take into account the changed operating rules and will have to move beyond straightforward characterisation of the ERDF in intergovernmental terms. To this end, the first section of this paper reviews the main literature on the history of the Community's regional policy process prior to the reforms and highlights the member state centred focus inherent therein. Secondly, an overview is given of the principal features of the reform of the Structural Funds, drawing evidence from the recent operation of the ERDF in Bruce Millan's native Scotland. The third section seeks to demystify the development of the concept of additionality, a key element of the reforms, as interpreted by the various actors. The history of the Rechar initiative and its stalled implementation in Scotland is considered, drawing attention to the debate surrounding the policy. Attention in this fourth section will also be focussed upon the warning shots fired by the Commission over the additionality of Rechar funds since the earliest inception of the initiative. The concluding section will examine the resolution of the deadlock and the concessions made by the UK government. By utilising the primary source material supplied through interviews[2] and various documentary evidence, supplemented by secondary source literature and newspaper reports, this paper concludes that the regional policy process at the EC level can no longer be described in simple intergovernmental terms, and hence that the role of the Commission in the process cannot be neglected.

I. THE EC REGIONAL POLICY PROCESS AS AN EXAMPLE OF INTERGOVERNMENTALISM

To date, analyses of European Community regional policy have focused on a variety of aspects. Some authors have examined the possible effects of further European integration on regional disparities (Begg, 1989), often criticising the free market ethos which they perceive at the heart of EC policy (Cutler et al., 1989, ch. 3). A related theme is the apparent preference of the Regional Policy Directorate-General (DG XVI) for investment in infrastructure rather than direct industrial incentives (Comfort, 1988). However, those accounts which look specifically at the Community regional policy process itself converge in their assessment that member states' governments play the overwhelmingly decisive role.

In putting the policy dimension to the centre of analysis and sketching how it might be handled in theoretical terms, Webb (1983) identifies the two major, diametrically opposed frameworks which have been used, either directly or implicitly, as the basis of most recent political interpretations of the EC: neofunctionalism and intergovernmentalism. The neofunctionalist approach argued that the staking of the claims and demands of group interests at the Community level implied a transfer of group loyalties to the supranational level. Hence, governments, interest groups, bureaucracies and eventually broader political elites would pursue their goals at the supranational level and so this level would progressively grow to resemble the domestic political constellation. There were two clear implications of such an approach: first, there would be a continually expanding mandate for the European Commission as its competences spilled over into various functionally linked sectors; secondly, bargaining could be envisaged as a 'variable sum game' in the sense that not all the gains made by one actor were necessarily balanced by the identifiable and equal losses of another (Webb, 1983, pp. 17-18).

For the purposes of this paper such a brief sketch of the neofunctionalist approach will suffice since intergovernmentalism, although lacking coherence as a theoretical framework, is best understood with reference to neofunctionalism in order to emphasise what it is not. While neofunctionalists have preferred a so-called 'cobweb' image of Community policy-making to stress the importance of interlocking and binding mutual interests at all levels, intergovernmentalism relies upon the 'billiard-ball' metaphor (Webb, 1983, pp. 17-27). Member states' governments are envisaged as hard-shelled, separate entities which come together and resolve policy matters at the intergovernmental apex of the Community structure. European level decision-making is portrayed very much as a zero-sum game, hence explaining the 'gladiatorial image' of policy-making as favoured in most press reports of Community negotiations (Webb, 1983, p. 26). Such a framework, in which the importance of member states' governments is institutionalised in the Council of Ministers, the European Council and the explicitly intergovernmental machinery of political cooperation' (Bulmer, 1983, p. 349) assigns an extremely limited role to the European Commission. It identifies the role of the state as gatekeeper and prime actor in the integration process as a constraint on the Commission's ability to shift allegiances towards itself and thereby expand its mandate (Hoffman, 1966).

Accounts of the emergence and early development of the ERDF have favoured such an intergovernmental framework to characterise the EC regional policy process (Wallace, 1977; Meny, 1982; Mawson, et al., 1985; Wise and Croxford, 1988). These accounts rely on three broad sets of evidence to support their claim that the dominant force in the field has been intergovernmental: the reasons behind the emergence of EC regional development policy in the first place; the way in which it was cut down from the ambitious initial report to a mere mechanism for budgetary redistribution reflecting dominant member state interests; and the way in which the policy developed in its first decade of operation, from 1975 to the mid-1980s. Each of these sets of evidence should be considered in turn.

(a) Why did Community regional policy emerge in the first place?

Regional policy emerged very much as a 'latecomer' among Community policies devised since the Treaty of Rome was signed in 1957 (Clout et al., 1989, p. 192). Despite the Preamble to the Treaty which stated that the member states were 'anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions', there was no provision for a common regional policy although the initial Structural Funds were established at this time. The reason for the initial absence of an EC-level regional policy lies in the fact that the founders of the Community expected the growth of the 1950s and 1960s to reduce regional disparities automatically. In fact, little headway was made in these years in reducing the disparities between the Community's regions in terms of income, productivity or employment rates (Pinder, 1983). Ultimately though, the spur for a Community level regional policy was provided by the first enlargement of the EC in 1973 with the entry of Denmark, the Republic of Ireland and the UK. It was evident that the largest element of the EC budget, the Common Agricultural Policy price support framework, had little to offer the UK (Shackleton, 1991, p. 95) while a regional policy would appeal to all of the newcomers since each had serious regional problems (Pinder, 1983, p. 18; Mawson et al., 1985, p. 24; Clout et al., 1989, p. 193). It was agreed at the Paris Summit of October 1972 (the first at which the Prime Ministers of the new member states were present) to analyse the extent of regional disparities throughout the Community and thereafter to set up a fund by the end of 1983. The responsibility for overseeing the preparation of the report and the establishment of the fund was given to George Thomson, holder of the newly created post of Commissioner for Regional Policy.

At that time regional policies at the level of the member states were usually justified with reference to three goals: the search for greater social justice; the strengthening or maintenance of political cohesion; the more efficient use of under-utilised national resources (Pinder, 1983, p. 12). Of course, such arguments could also be used to justify Community level policy. Moreover, it has been argued that EC regional policy may be motivated by a 'compensational logic' whereby a member state is compensated for some of the costs of membership, for example its loss of control over instruments of economic policy such as customs duties, currency flexibility, industrial subsidies and other measures which could otherwise have been used to protect the interests of its own national regions (Mellors and Copperthwaite, 1990, p. 23; Holland, 1976).

Such justifications were not uppermost in the minds of government representatives pushing for the creation of a Community regional policy. The 'Conference on Regional Economies' held in Brussels as early as December 1961 had been interpreted by certain governments as 'a declaration of war on the States' by European Federalists intent on constructing Commission alliances with regional authorities to undermine state legitimacy (Meny, 1982, p. 374). Following the enlargements of the early 1970s, however, there developed the highly sensitive question of 'who benefits' from the major instruments of the Community budget? Ultimately, a protracted and difficult debate between the 'demandeurs' (Britain, Ireland and Italy) and the chief paymaster (West Germany) resulted in a watered-down device for financial redistribution (Wallace, 1977, p. 144).

(b) From the ambition of the Thomson Report to the politics of the lowest common denominator?

In contrast to the minimalist interests of the member states' governments, the Commission's main consideration was to promote the political and economic cohesion of the group. *The Report on the Regional Problems in the Enlarged Community* (The Thomson Report), presented in 1973, summarises this view well:

> No Community could maintain itself nor have a meaning for the peoples which belong to it so long as some have very different standards of living and have cause to doubt the common will of all to help each Member to better the conditions of its people (Commission of the European Communities, 1973, p. 4).

The actual task of creating a regional development fund acceptable to all member states proved far from straightforward. From the presentation of the Thomson Report in 1973 until November 1974, 14 different funding arrangements were proposed by individual governments and the Commission. The deadlock was only broken when Italy and Ireland (the new Labour Government of the UK was too busy with its commitment to renegotiate the British terms of entry to become deeply involved in demands for regional policy at this stage) threatened to pull out of the Summit meeting of December 1974 if agreement was not reached immediately (Pinder, 1983, p. 18). The three main issues over which disagreement arose were: the definition of regions eligible for assistance; the size of the fund; the allocation mechanism. Over each of these issues there was a retreat from the ambitious proposals of the Thomson Report. Moreover, there was enforcement of the 'lowest common denominator' interests of the member states which led to fierce criticism of the fund eventually established.

- Although the Thomson Report had faced the difficult task of producing a standardised survey of regional disparities in the EC, bringing together diverse sets of data submitted by the member states, ultimately the only politically acceptable solution was to take as a basis those areas already defined by member states for the purposes of their own national regional policies.

- In financial terms Thomson's proposal envisaged a fund of £900 million sterling to be allocated by the Community during 1974-76. Problems arose when it became clear that West Germany would be the major net contributor. Consequently, the West German government advocated a slimmed down ERDF of £250 million for the same period. After almost a year of stalemate and wrangling, a compromise was reached on 1 December 1974 when the figure of £540 million was agreed for the period 1975-78 (Mawson et al., 1985, p. 25).

- Originally it was envisaged that the Commission would have the major role in the allocation of the fund. Predictably, the member governments objected to this proposal and in the end it was agreed to share the fund among the Nine according to a fixed quota system. Italy (entitled to 40 per cent), the UK (28 per cent) and the Republic of Ireland (6 per cent) were each net beneficiaries. France (15 per cent), West Germany (6.4 per cent), the Netherlands (1.7 per cent), Belgium (1.5 per cent), Denmark (1.3 per cent) and Luxembourg (0.1 per cent) were each net contributors (Clout et al., 1989, p. 195). Applications submitted from member governments and falling within the categories of industrial investment or infrastructural improvement were to be considered by a Fund Management Committee comprising of officials from the member states and the Commission.

The outcome of this fixed quota arrangement was that regions in the Netherlands and West Germany with higher per capita GDP than the richest regions of Italy and the UK qualified for ERDF aid. Even the Commissioner for Regional Policy in the late 70s, Antonio Giolitti, accepted many of the criticisms levelled at the ERDF when he acknowledged that it was merely 'an accompanying measure' developed to cope with the detrimental effects of the main Community policies (quoted in Mawson et al., 1985, p. 20). It was also an 'accompanying measure' in the sense that the Fund was to be distributed as an addition to member governments' spending programmes already in operation. However, as will be shown in the third section of this paper, the question of additionality has been problematic since the earliest days of Community regional policy. Resultant criticisms of what the House of Lords Select Committee on the European Communities in 1981 called 'the meagre reality of the ERDF' following the frustrated hopes of the early years, led to various attempts to reform the Fund (Mawson and Gibney, 1985, p. 158).

(c) Tinkering around the edges of a marginal policy?

In 1976 the Council of Ministers accepted a proposal to establish a Regional Policy Committee to coordinate the regional policies of the member states. In October 1975 this Committee accepted the need for Regional Development Programmes to be submitted regularly and updated by national governments who would forward schemes for assisted areas to qualify for ERDF assistance. The overall aim was to provide a strategic perspective by coordinating national regional policies and making other Community instruments more sensitive to regional problems.

In 1979 new guidelines were announced by the Council of Ministers. In addition to the Commission's regular reports on the extent of the social and economic development of the regions of the Community ('The Periodic Reports'), there would be greater efforts at vertical and horizontal coordination. Member states' policies would be better coordinated both with each other and with Community policy, and at the same time the Council of Ministers would take note of the regional implications of other decisions. The Regional Development Programme approach adopted in 1975 would be retained as the best framework for coordination. Moreover, a new quota-free section of the ERDF was introduced. Although amounting to only 5 per cent of the total Fund, the new section gave the Commission the ability to define eligible programmes for the first time. Member states would thereafter send applications to the Fund Management Committee whose decisions were still subject to unanimous approval in the Council of Ministers. There was still a major condition: although the money granted from the quota-free section could be allocated to areas outside those defined by national assistance schemes, programmes still had to be jointly funded (Mawson et al., 1985, p. 30).

The Commission was plainly keen to move from being a mere financing body tightly controlled by the member states to become a genuinely European-wide regional development agency. The tension between this desire and the reluctance of the member states to give the Commission such lee-way can be seen clearly in the continuously developing debate on the nature and structure of the ERDF in the 1970s and early 1980s. The 1979 guidelines did not grant the Commission the supranational programme of action it sought. Serious doubts remained over the utility of the ERDF as it then existed (Armstrong, 1978; Meny, 1982).

Further years of criticism and debate led to another round of changes in 1984 (Mawson et al., 1985, pp. 34-44). Once again it was agreed that the strategic programme approach (as opposed to individual projects) should be extended and refined. More importantly however, in an effort to introduce a more flexible procedure, the quota/quota-free distinction was discarded and replaced by a system of 'indicative ranges' (Croxford et al., 1987). The Commission thereby hoped to be able to exercise a scrutinising role and exert influence over the shape of Community regional policy. There were new ranges defining the minimum and maximum allocations each member state could receive from the ERDF. The minimum level was the amount that was guaranteed at the end of a three year period providing the national government submitted sufficient eligible applications. The minimum allocations totalled around 88 per cent of the Fund, leaving a margin of 12 per cent to be spent at the discretion of the Commission. The intention was also to increase the number of applications in order to place the Commission in a more flexible position.

By the mid-1980s then the ERDF had been modified and remodified through an almost continuous series of changes since its inception in the early 70s. Mawson, Martins and Gibney's (1985, p. 57) examination of this evolution of regional policy in terms of the 'Community method' led them to conclude that the guiding principle was one of 'strict attention to the interest of national member states'. Similarly, Wise and Croxford (1988) explained the limitations of the ERDF in terms of the continuing dominance of the wealthier member states within the supranational political structures of the EC. It is not the intention of this paper to assess these accounts as they related to the early development of the ERDF; rather, it will be shown that the dominant interpretation they offer of a regional policy process 'nationalised in the extreme' (Meny, 1982, p. 377) is no longer an accurate account of the post-reform reality.

II. THE STRUCTURAL FUND REFORMS

The publication of the Commission's White Paper *Completing the Internal Market* in 1985 succeeded in uniting all member states in a new zeal which led to the signing of the Single European Act. As part of this process a large research project on the 'costs of non-Europe' was set up, the results of which were collected together in the Cecchini Report (1988). The main claim of the Report was that the completion of the internal market would bring about an increase in Gross Domestic Product of between 5 and 7 per cent across Europe plus 'millions of new jobs'. However, it was apparent that the single market would place a heavy burden upon the weaker states and those affected by industrial decline (Cutler et al., 1989, chapter 2; Begg, 1989). This was recognised in Article 130 of the SEA which called for the maintenance of cohesion and the pursuit of convergence in the developing Community. With these aims in mind, the Commission was authorised to prepare 'a comprehensive proposal to the Council, the purpose of which will be to make such amendments to the structure and the operational rules of the existing Structural Funds as to clarify and rationalise their tasks in order to contribute to the achievement of these objectives ... and to increase their efficiency' (Article 130c).

The Commission responded in 1987, setting out the main principles underlying the reform of all three Structural Funds. They were: geographical and functional *concentration* of the Funds on specific objectives; a shift from projects to *programmes* (as the nightmare of processing over 14,000 applications every year reduced the Commission to little more than a bureaucratic rubber-stamp (see Laffan, 1989, p. 45); *co-ordination* horizontally with other Community policies and vertically with member state policies; *partnership* between the Commission, the member state concerned and the competent authorities designated at national, regional, local or other level, with each party acting as a partner in pursuit of a common goal; *monitoring and assessment* throughout the duration of schemes; and an insistence on the *additionality* of funds (Mellors and Copperthwaite, 1990, pp. 56-59). The changes were fleshed out during 1988 in three main Regulations which came into effect on 1 January 1989, the so-called 'Framework', 'Horizontal' and 'Implementing' Regulations[3]. A brief examination of the application of each of the above principles in the Scottish context gives greater insight into the reform of the ERDF.

(a) Concentration

The new Community structural measures have five priority objectives (see Appendix A). Of principal interest from the point of view of this paper are the Objective 2 areas. In line with the provisions of the Framework Regulation, these were determined according to three criteria: the average rate of unemployment recorded over the three years prior to 1989 must have been above the Community average; the percentage share of industrial employment in total employment must have equalled or exceeded the Community average in 1975 or any year thereafter; there must have been an observable fall in industrial employment compared with the reference year (Commission of the European Communities, 199lb, box [5.2]). Following consultations between the Regional Policy Commissioner, Bruce Millan, and various national government ministers early in 1989 (cf *Agence Europe* 4950, 8 February, 1989; 4957, 17 February, 1989), the Commission published a list of Objective 2 regions in the Community which covered almost 15 million EC inhabitants. The Commission also published an indicative percentage allocation between states covering 85 per cent of the allocation to be devoted to Objective 2 regions between 1989 and 1993. The UK was set an indicative allocation of 38.3 per cent, Spain 20.7 per cent, France 18.3 per cent and Germany 8.9 per cent. Greece and Portugal, although benefitting strongly under the Objective 1 criteria (Objective 1 areas were granted 80 per cent of the total ERDF allocation) and not eligible under the Objective 2 criteria (Commission of the European Communities, 1991b).

The distribution of the UK's ERDF allocation between Scotland, Wales, Northern Ireland and the English regions is a relatively harmonious process (House of Lords, 1988, Q.48-163). This is facilitated by the indicative allocation set out by the European Commission in the Community Support Frameworks for the nine Objective 2 areas of the United Kingdom (see below IIb).

Interestingly, although member states produced plans for Objective 1 areas to run from 1989 to the end of 1993, in the case of Objective 2 areas the original intention was to run frameworks of support on the basis of plans submitted to the end of 1991, and then the question of eligibility would be reconsidered. In practice, it emerged in March of 1991 that the Commission was contemplating a two-year extension of the list of regions included under Objective 2 (*Agence Europe* 5456, 21 March, 1991). The Regional Policy Commissioner later revealed that he had been lobbied by representatives of those areas in the UK which were not guaranteed to meet any revised list of eligible regions:

> The areas that were vulnerable, if we had a review this year, were in England and Wales, not in Scotland as it happens, where the criteria would no longer have been met based on unemployment figures. I will not say which these areas were, but the areas themselves know which they were, since they all came to see me in Brussels to ask me not to do it. They were well aware of it! (Millan, 1991, p. 9).

An Audit Commission report (1991, p. 32) on the theme of 'local authorities and the EC' has stressed that if authorities with the same type of structural problems jointly promote their concerns, the criteria determination stage may prove to be one stage of the ERDF process where DG XVI is open to lobbying. Ultimately, however, the list of eligible areas in this case was extended until the end of 1993, but new plans still had to be submitted late in December 1991 to allow the Commission to prepare new Community Support Frameworks for the 1991-1993 period.

(b) The Programme Approach

The move from a project to a programme approach has been compared by Laffan (1989, pp. 44-5) to a move from 'categorical' to 'block' federal grants in the United States of America. Categorical grants are those financial allocations made for individual projects in a very precise manner, thereby often leading to administrative difficulties, staff shortages and a general stifling rigidity. Given such constraints, the Commission's reliance on a project approach in the past severely limited its freedom of manoeuvre. The enhanced programme approach involves the adoption of a series of multi-annual measures summarised in the Community Support Frameworks (CSFs).

The reforms of the ERDF came into effect on January 1st 1989 and required the submission of plans to cover those areas listed as eligible. In the case of Scotland, two plans were submitted by the Scottish Office directly to the Commission, one for Eastern and one for Western Scotland (two plans were also submitted under Objective 5b for the Highlands and Islands and Dumfries and Galloway respectively). These plans formed the basis for a long period of negotiation with the Commission which ended with the successful acceptance of two Community Support Frameworks on December 20th 1989. Among the development priorities identified for Western and Eastern Scotland for the 1989-1991 period were the encouragement of small and medium sized enterprises; site provision and related infrastructural development for industry; transport infrastructure; improving the environment image of the regions; the promotion of tourism and research and development; as well as vocational training (Commission of the European Communities, 1990a, pp. 130-143). In line with these priorities, Operational Programmes consisting of a series of multi-annual measures are submitted to the Commission After checking for conformity with the relevant CSF, the Commission processes the application for funding within six months (Nugent, 1991, p. 2).

(c) Co-ordination

Evidence of co-ordination between the Funds can be found in the CSFs. Directorate-General XVI (Regional Policy) and Directorate-General V (Social Affairs) are now complementing respective actions partly through the emphasis on objective priorities and partly due to the work of DGXII, newly created to co-ordinate structural actions (HL 82,1988, pp. 14-15). Hence, the indicative financing plan of Ecu 246m for the CSF for Western Scotland included an allocation of Ecu 31m from the European Social Fund, while that for Eastern Scotland was broken down Ecu 55.2m from the ERDF and Ecu 7.8m from the ESF (Commission of the European Communities, 1990a, pp. 136/152).

The Commission's second annual report on the implementation of the reform of the Structural Funds points out that such a coordinated approach also brings its own problems. Development of 'the desired synergy' between the Funds 'may be hindered by administrative structures and allocations of responsibility at national and Community level which are designed for a purely sectoral approach' (Commission of the European Communities, 1992, p. 16). Nevertheless, efforts to promote co-ordination between the Funds will continue.

(d) Partnership

This concept was defined by Millan in the introduction to each of the Community Support Frameworks:

> 'Partnership' is an important innovation introduced by the reform. It means the close involvement of regional and local bodies with the Commission and national authorities in planning and implementing development measures in their areas. On the basis of the CSF, all the parties concerned in the partnership will develop programmes and projects which will turn the priorities identified in the CSF into

> actions on the ground. (Commission of the European Communities, 1990a, p. 6)

In practice in Scotland this implies that bodies such as Scottish Enterprise, New Town Development Corporations, the Central Scotland Water Development Board, Enterprise Trusts, Post authorities and Scotrail should be involved with the local authorities and the Scottish Office Industry Department at all stages of the ERDF process. However, as Laffan (1989, p. 47) has pointed out, Article 4 of the Framework Regulation states that the competent authorities involved in the partnership covering the preparation, financing, monitoring and assessment of operations shall be designated by the member state itself. Moreover, the Audit Commission has suggested that, in practice, from a local authority's point of view, 'partnership' has meant a lot of effort to make measures fit Commission objectives while central government still retains the right of submission, and hence an effective veto over the content of any Operational Programme (Audit Commission, 1991, p. 15).

(e) Monitoring and Assessment

Operational Programmes are implemented by Programme Monitoring Committees (PMCs), chaired by central government. In Scotland this task falls to a representative of the European Funds and Co-Ordination Division of The Scottish Office Industry Department. The Commission is represented on the PMC as are all the local authorities and public bodies involved in the 'partnership'. The Scottish Office submits Annual Progress Reports to the European Commission on each Operational Programme. In turn, the Commission reports to its relevant advisory committee on the implementation of operations (Nugent, 1991, p. 4). Although the Structural Funds are due to be overhauled once more at the end of 1993, there seems to be widespread agreement between the Commission and national governments that the monitoring and assessment procedure should be improved. It has been suggested that new procedures designed to this end, and to be set out in a document by DG XXII, are geared towards reassuring richer member states that their contributions are being wisely spent (Audit Commission, 1991, p. 37).

(f.) Additionality

An overview of the previous five principles in action would suggest that the Commission has, through the Structural Fund reforms, enhanced its position in the EC regional policy planning system. Until now, however, the political science literature has been slow to recognise the implications of the reforms on the policy process. The concept of partnership is understandably attracting some attention given its echoes of the old 'Europe of the Regions' dream (Anderson, 1990). However, this paper prefers to focus on another principle underlying the reforms: that the additionality of funds should be ensured. By insisting on this principle in its recent confrontation with the British government, the Commission demonstrated its independent capacity for manouevre. In order to understand how this impasse arose and to demystify the concept of 'additionality' the following section reviews recent developments.

III. GRASPING THE SLIPPERY EEL

Giving evidence to a committee investigating the Structural Fund reforms in February 1988, Mr. Philip Lowe, at that time Head of Service in DG XXII responsible for the preparation and presentation of the reforms, described the problem of additionality as a 'slippery eel in terms of financial assistance' (House of Lords, 1988, Q.19). It has been a topical issue since the debate on the establishment of the ERDF in the early-1970s. Nevertheless, although it 'assumes a central role in the theology of Community financial expenditure', national governments have paid little attention to Commission demands until now (Laffan, 1989, p. 47).

By invoking the principle of additionality the Commission clearly intends that funds should be additional to national government expenditure, in the sense that it should allow new or expanded projects that would otherwise have been impossible. The reality is that funds are often used simply as reimbursement to the national government for expenditure previously incurred. Meny (1982, p. 379) has pointed out that in the past, most member states failed to meet the additionality criteria as defined by the Commission.

The Commission's concern to prevent such abuse of the ERDF can be traced back as early as the Thomson Report of 1973:

> 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. (Commission of the European Communities, 1973, p. 12)

The debate surrounding the principle at the time of the negotiations led to the inclusion in the preamble to the original Fund Regulation the statement that: 'Whereas the Fund's assistance should not lead member states to reduce their own regional development efforts, it should complement those efforts'.[4] However, the suggestion by Preston (1983, p. 20) that the principle was thereby 'enshrined' indicates a large degree of optimism.

In the UK the House of Lords Select Committee on the European Communities has shown a persistent scepticism as to whether the principle is respected by the Treasury. Problems arise given the lack of transparency in the British public expenditure process. Local Authorities in Scotland, for example, as the ultimate recipients of funds, are required by statute to obtain the Secretary of State for Scotland's consent before incurring a liability to meet a capital expense. The granting of this consent does not involve a transfer of money, but rather sets a ceiling on the capital expenditure which the local authority is allowed to spend (Scottish Office, 1991). Under the financial planning system introduced in 1977 all local authorities prepare a financial plan of their proposed capital expenditure over the next five years. These plans are considered by the Secretary of State who then decides upon the allocation of resources among the local authorities. The system was devised to provide central government with an element of control over local capital expenditure.

Such a process allowed the Treasury in London to claim that the principle of 'global additionality' was built into British public expenditure arrangements. In setting the figure for capital spending in the public sector (a proportion of which is allocated to the territorial ministries and hence determines the ability of the Secretary of State for Scotland to increase capital expenditure ceilings for Scottish local authorities), the Treasury claimed to take into account anticipated ERDF receipts. The logic of global additionality is then that 'ERDF receipts are additional because without then the capital spending figure would have been lower' (HL 82, 1988, Q. 381).

The Department of Trade and Industry, as the lead Department on ERDF matters, claimed that additionality provisions were thereby respected by the Treasury when it received European funds. The following section will show that the Department of the Environment, the Welsh Office and the Scottish Office (as the co-ordinating ministers for English, Welsh and Scottish local authorities respectively) were less satisfied with Treasury assurances. At the heart of the problem is the lack of transparency involved in the process, as Lord Roberthall noted in 1981:

> The outside world has really to take ministers' words for it, has it not, because no one else will know whether, in the discussions between the Department (of Industry) and the Treasury, the Treasury jacked it up a bit because they knew they were going to get some regional assistance, or in their mind notched it down a bit less because they would get something there. (quoted in Preston, 1983, p. 23)

Additionality is therefore a notoriously difficult principle to enforce. However, even if the Treasury did raise the level of overall capital expenditure, additionality would still not be applied at the local level where Community funds are being directed. The Audit Commission recently highlighted this point when their pointed out that the government's stance reduced the incentive for a local authority to become involved in the time consuming task of pursing ERDF funds:

> From the perspective of the local authority which has got as far as the CSF/Operational Programme stage, however, the result is to reduce further the potential return on the effort invested in getting ERDF money. Government departments add anticipated ERDF receipts on an *aggregate* basis to the capital allocations for *all* local authorities (Audit Commission, 1991, p. 15).

Therefore, grants are not directed where they are most needed; at best they are used by the government to supplement the global budget in the fields eligible for ERDF support. When the Head of the Regional Policy

Division of the DoE told the Select Committee on the European Communities in 1988 that additionality was provided at a global rather than local level in order to conform to the 'strongly expressed view of the Local Authority Associations' (HL 82, 1988, Q. 372-382), the Committee remained sceptical. When they asked representatives of the British Sections of the International Union of Local Authorities/Council of European Municipalities and Regions (IULA/CEMR) to confirm this view three weeks later, they were told that it was not the case and that the government unilaterally set the rules on additionality (Q. 503).

The same representative of the DoE told the Committee that, 'the Commission accept the Treasury view that additionality of ERDF is secured at the national level so that there is no need to examine it – this is public expenditure, which the Treasury controls' (Q. 394). In the light of the various reforms highlighted above (section Ic), this claim seems extremely difficult to justify. The history of the indicative ranges and the non-quota section tell the story of a Directorate-General for Regional Policy anxious to move beyond a mere clearing house status in a process of simple budgetary redistribution. A key element in the Commission's strategy was therefore to ensure that the funds it released did not disappear into national Treasury coffers.

The re-writing of the groundrules provided by the 1988 reforms allowed the Commission to incorporate the strongest stipulation of the additionality principle. Article 9 of the Horizontal Regulation became the basis for the recent dispute and deserves to be quoted in full:

> In establishing and implementing the Community support frameworks, the Commission and the Member States shall ensure the increase in the appropriations for the Funds

> provided for in Article 12 (2) of Regulation (EEC) No. 2052/88 has a genuine additional economic impact in the regions concerned and results in at least an equivalent increase in the total volume of official or similar (Community and national) structural aid in the Member State concerned, taking into account the macro-economic circumstances in which the funding takes place (Art. 9, Regulation 4253/88 EEC).

The reference to CSFs is significant as it was a widely held view that the shift to a programme approach would help the Commission in its attempts to ensure additionality (HL 82, 1988, Q. 617). Thereafter, each of the documents outlining the support frameworks for each member state contained a chapter stressing that 'by agreeing to this Community support framework, the Member State also confirms its commitment to this legal obligation' provided by the Article 9 (Commission of the European Communities, 1990a, p. 156). By continuing to stress global additionality while the disputed Article 9 emphasises the 'genuine additional economic impact in the regions concerned', the UK government came into confrontation with the European Commission.

The Commission has been coming under great pressure from the Court of Auditors of the European Communities which points out that the attainment of true additionality is a prerequisite for achieving the increased impact sought by the reform of the Funds. The Court urged that the days when funds were 'reduced to a simple transfer of resources, which facilitates the relaxation of budgetary constraints, with positive effects on budgetary equilibrium, fiscal pressure or the redeployment of economic and social policies but without having any impact on the resources devoted to regional development' should be brought to an end (Court of Auditors, 1991, p. 104). In its defence, the Commission points out that it sent letters to each of the member states in August 1990 to render the concept of additionality operational. This letter, and another issued in April 1991, requested information to reveal the extent to which member states were in compliance with the principle. On this basis the Commission is now involved in a series of bilateral meetings with national authorities in order to examine the statistical data. Although the Commission's hand in these meetings has no doubt been strengthened by the stance it subsequently took against the UK government (see below), the Court of Auditors stresses that it wants the concept of additionality to be given 'verifiable operational effect to a greater extent than has been the case' (Court of Auditors, 1991, pp. 105-259).

In his 1983 article, Preston posed the question, 'Additional to What?', but pointed out that because of 'the fundamental power imbalance in the Community between member states and the Commission', the UK government merely has to ask this question rhetorically (Preston, 1983, p. 25). However, on taking up the brief of Regional Policy Commissioner in January 1989 when the reforms came into effect, Bruce Millan made clear the dissatisfaction he had felt towards such Treasury power during his time as Secretary of State for Scotland:

> Every quarter we drew up a list of projects or companies due to get national assistance. We knew roughly what the UK as a whole and Scotland would get from the EC each year. So we just picked out as many projects as were needed to make up the UK quota, and sent the list off to Brussels. Back came the EC money, and the Treasury simply lopped that amount off its expenditure. (quoted in Cutler et al, 1989, p. 92)

Millan obviously had personal experience of how the UK public expenditure process worked when he took up his responsibilities in Brussels. In the tour of national capitals made early in his new post to discuss the eligibility of various areas for aid (see Section IIa), he met the UK Trade and Industry Minister and the Scottish and Welsh Secretaries in London. Press accounts suggest that Millan fired an early warning shot when he stressed that, in drawing up the plans for ERDF support, Whitehall should identify the areas that it was willing to support with national money because the additionality criteria would be stressed (***Financial Times***, 17/02/89). Later that year, when the Objective 1 CSFs were nearing completion, Millan again reminded national governments that they had given a 'firm commitment' to meet additionality rules. It was at this point that he revealed that the principle would be written into each CSF and that he would 'challenge' those governments not honouring their commitment (***Financial Times***, 08/08/89). It had been the ***Financial Times*** which, on January 5th of that year, the day before he took up his responsibilities in Brussels, had described Bruce Millan as 'a poacher turned gamekeeper'. In light of subsequent events, this proved to be a most prophetic phrase. The paper will now turn to the specific terrain on which the confrontation with the UK government arose.

IV. THE RECHAR COMMUNITY INITIATIVE

Another development to emerge from the Structural Fund reforms, not touched upon in section II, was the strengthening of the Community initiatives. Before the reform of the Structural Funds, four Community programmes (Star, Valoren, Resider and Renaval)[5] had been implemented under Article 7 of the old ERDF Regulation. These programmes, a development upon the previous non-quota system, were the precursors of the Community initiatives. Article 11 of the Horizontal Regulation now enables the Commission to act on its own to complement the measures agreed with the member states in the Community Support Frameworks:

> By doing so, the Commission is laying the basis for a genuine Community policy since it focuses its initiatives in areas or sectors which it regards as paramount or essential for completion of the single market, and of particular importance for economic and social cohesion. (Commission of the European Communities, 1991a, p. 10)

Community initiatives may concern all three funds and the other Community financial instruments in all the objective regions (except Objective 5b). To this end Ecu 5.500m has been set aside for the 1989-1993 period. Although Ecu 1.700m was required for the four programmes adopted prior to 1989 and still being implemented, the remaining Ecu 3.800m allowed the Commission considerable room for manoeuvre. As Preston (1983, p. 24) pointed out in relation to specific Community measures as long ago as 1983, 'by funding programmes with a sectoral bias for steel, shipbuilding, energy, tourism and Community enlargement problems, the Commission hoped to become involved at an early stage in planning regional development, thereby increasing the leverage of Community funds and facilitating additionality'.

One interview source suggested that there is 'no such thing' as a purely Commission initiative. On the contrary, initiatives are usually drawn up in response to direct lobbying by local authorities in affected areas. The logic here is obvious: if the Commission engages the support of local authorities at an early stage in the process, it can thereby expect to have enhanced its position vis-a-vis the national government. Empirical research indicates that the Commission generally looks favourably on lobbying by groups of similar councils from different member states, as was the case with the Interreg initiative, when Ecu 800m was earmarked to prepare border areas for the opening of the Single Market after lobbying from the Association of European Border Regions (AEBR) (***Agence Europe***, 5527, 4 July 1991). A similar process can be seen in the recent creation of a Retex initiative following a conference in Guimarres, in northern Portugal, that brought together representatives of EC textile regions (***Agence Europe***, 5472, 15 April, 1991). After Millan announced at this conference that assistance may be given to textile regions to aid restructuring, the local and regional authorities represented at the conference decided to create an Association of European Textile Associations (ACTE). Following consultation with ACTE the Commission announced late in 1991 the guidelines for a Retex initiative in favour of regions heavily dependent on the textile and clothing industry (***Agence Europe,*** 5479, 25 April, 1991; 5633, 18 December 1991). The empirical evidence therefore supports the Commission's claim that, 'Community initiatives are transnational programmes but with an equally strong accent on the involvement of regional and local authorities in their preparation and implementation' (Commission of the European Communities, 1991b, para. 7.2.).

A similar pattern can be detected in the emergence of the Rechar initiative after years of lobbying by a UK led partnership. ACOM, the association of local and regional authorities in mining areas of the European Community developed from the activities of a working group first set up at a conference of mining regions in Strasbourg in September 1988. National associations of local and regional authorities provide representation for the following mining areas: Limburg (Belgium); Lorraine, Nord-Pas de Calais (France); Ruhr, Saarland (Germany); Asturias, Loen and Teruel (Spain) (European Parliament, 1991, p. 115). However, the secretariat of ACOM is provided by the Coalfield Communities Campaign (CCC), the association of around 80 local authorities in UK mining areas. At the annual conference of the CCC in Tynemouth on 3 September 1989, Bruce Millan announced the launch of an in-depth study into the problems of communities affected by the decline of the mining industries (***The Scotsman***, 4 February, 1989). From the earliest days of the initiative then, the Commission worked closely with local authority representatives, especially the CCC, in order to address the problems of mining communities.

In March 1978, the Labour Government had established an enquiry into 'coal and the environment'. The Secretaries of State for Energy, Environment, Wales and Scotland (Bruce Millan) had appointed the Commission on Energy and the Environment 'to advise on the interaction between energy policy and the environment'. While the eventual report concluded that many of the environmental problems involved were similar to those associated with any major industrial development, the members of this Commission were 'struck from the outset by the unique character of mining communities':

> Mining has often been highly localised in areas which have become almost exclusively dependent on this single industry with very limited alternative opportunities for employment. With it have grown up extremely closely knit communities with a exceptionally developed sense of group identity reinforced by a strong tradition.. (Commission on Energy and the Environment, 1981, p. 2).

Hence, the Commission on Energy and the Environment urged that the socio-economic impact of put closures on local communities should be viewed against this background. Inevitable restructuring and rationalisation of the mining sector caused the loss of over a million jobs in Europe over the last three decades, with the rate of job losses actually accelerating between 1984 and 1988 (European Parliament, 1989, p. 10). When lobbying the European Commission on the creation of the Rechar fund, the CCC was able to point to the loss of almost 80,000 jobs in the UK between 1985 and 1988 alone (European Parliament, 1991, p. 122). Moreover, the bitter legacy of the year-long miners' strike of 1984-85 was that the Thatcher Government and the National Coal Board stressed the concept of 'uneconomic' pits, leaving aside the earlier recommendation of the Commission on Energy and the Environment that the impact on local communities should not be neglected (Winterton and Winterton, 1989). In pointing out to the European Commission the scale of job losses, and the anticipation of more to follow, the Coalfield Communities Campaign (itself a collection of overwhelmingly Labour-controlled local authorities) found a more sympathetic ear, and a Commissioner who would associate himself with a coal-related initiative.

By the summer of 1989 the UK government received confidential papers which proposed a coalmining programme and sketched possible allocations. On 2 August 1989 the Commission approved Millan's proposal to establish an initiative similar to the Resider and Renaval programmes for the steel and shipbuilding industries. The essential goal would be 'to strengthen the efforts intended to create new economic activities likely to supply jobs for former miners in the coalfields as well as to improve the physical and social environment' (***Agence Europe***, 5071, 4 August, 1989). The proposal was informed by ACOM suggestions that Europe's mining zones faced common problems (as the community spirit referred to above might actually hinder reconversion measures): in many such zones, the coal industry was the sole source of employment as well as cultural, leisure and sporting facilities; the communities were often highly localised with poor communication links; mining regions had a high concentration of housing problems; skills developed in mining, where a low level of educational attainment usually suffices, were not easily transferred to other industries; mining was overwhelmingly a male activity, and in most countries was relatively well paid labour, hence the workforce participation of women in mining areas was abnormally low; moreover, subsidence, spoil heaps and river pollution had a dire effect on the local environment (European Parliament, 1991, pp. 115-120).

The guidelines approved by the Commission on 17 December 1989 to address these problems were published in the Official Journal of the European Communities on January 27th 1990. Member states wishing to benefit from Rechar were asked to submit to the Commission their proposals for the detailed definition of coalmining areas in conformity with specified criteria before February 27th 1990. Given the fact that to satisfy the conditions the eligible area had only to show that it had lost at least 1,000 coal-mining jobs since January 1st 1984 (or that the announced job losses would take the total number of jobs lost over 1,000), there was never any doubt that British mining communities stood to gain a great deal from the Ecu 300m set aside for Rechar. The areas thereafter accepted in the Community list would be invited to submit Operational Programmes with the priority of restoring the local environment, modernising social infrastructures in mining villages, establishing new economic activities, promoting tourism or providing vocational training (Commission of the European Communities, 1991a, p. 21).

On April 19th the Commission published the list of the 28 eligible coal-mining areas in six EC member states. Twelve of these areas were in the United Kingdom (Commission of the European Communities, 1991a, p. 37). Initially, the Commission had asked the member states to utilise the administrative level 3 of the Nomenclature of Territorial Statistical Units

(NUTS). In practice this proved difficult. The civil servant responsible for the drawing up of eligible Scottish areas pointed out that coal mining communities are too localised to correspond to NUTS level 3 figures; hence, for the first time local authority wards and districts were utilised alongside travel-to-work-areas (TTWAs).

Between 1979 and late March 1988 the Scottish coalfield saw a drop in the number of collieries from 16 to 4, with a corresponding drop in the number of employees from 21,000 to 3,000 (Najan, 1989). The further closure of Bilston Glen and Barony collieries has left Scotland with only one coal-producing complex employing over than 1,000 men. Given such statistics, the Scottish Office was highly successful in securing eligibility for Scottish coal-mining areas (see Appendix B), failing only to have the three City of Edinburgh wards of Craigmillar, Niddrie and Gilmerton included as part of the contiguous Midlothian coalfield, despite the claim that a significant number of ex-miners lived in these areas. In line with the CSF procedure (see section II) it was decided to establish two Programming Monitoring Committees to oversee Operational Programmes, one for the cluster of coalfields in Eastern Scotland and one for Western Scotland. In partnership with the relevant local authorities, British Coal Enterprise[6] and the Scottish Development Agency (before its merger with the Training Agency to become Scottish Enterprise), the Scottish Office prepared Operational Programmes which were passed on to the Department of Trade and Industry for submission to Brussels along with those from Wales and England on 26 July, 1990. This marked the end of the implementation of the Rechar initiative in the UK. No money was released and no further progress was made for 18 months because of the deadlock over additionality.

Under normal circumstances the Commission would have had six months to deliberate on the Operational Programmes before deciding on allocations. Early in March 1991 the Commission announced spending in coal-mining areas in Spain, Belgium and France under the Rechar initiative (***Agence Europe***, 5450, 13 March, 1991). Around this time, Bruce Millan told a meeting of ACOM representatives in Strasbourg that he would block the UK's 120 million pound bid (12.5 million of which was destined for Scottish coalfields) until the Government met the Commission's additionality requirements. Significantly, Peter Boyes, Scottish chairman of the Coalfield Communities Campaign, stated publicly that the Campaign fully supported the European Commission's stance (***The Scotsman***, 21 March, 1991). Meetings were then arranged between the UK Trade and Industry Secretary, Mr. Peter Lilley, and Bruce Millan to try to settle differences. The deadlock, however, became firmer and the Regional Policy Commissioner announced in Brussels on July 25th, at the same time as unveiling a further series of spending measures under the Rechar initiative in other member states, that the UK allocation was to be frozen (***Agence Europe***, 5542, 26 July, 1991). Millan stated his case in the following terms:

> I'm not satisfied that the arrangements in the UK ensure that the funds have the impact in the areas in which they are intended. The way in which the funds and the capital allocations to local authorities are distributed doesn't give me that guarantee at the moment (***Financial Times***, 26 July, 1991).

The potential UK allocation was no less than 44 per cent of the total Rechar initiative, given the greater scale of job losses in the coal sector in the UK than elsewhere in the Community (Millan, 1991, p. 2). However, despite continuing meetings between UK ministerial teams and Commission officials, concern was expressed that the money would be lost to the UK if it was not released by the end of 1993 (***Local Government Chronicle***, 19 December, 1991.

Jellinek (1991)suggested that it was 'ironical' that Rechar funds, set up after nearly five years of lobbying by a UK led partnership, were later withheld at the request of the same authorities until the government allowed the money to be treated as additional. Alternatively, it could be argued that this represents an astute choice of battleground by the Commission on which to force alliances with local authorities where an element of resentment towards the Conservative Government is a continuing hangover from the 1984-85 Miners' Strike. The support of the Coalfield Communities Campaign has already been mentioned. Indeed, Mr. Harold Scrimshaw and Dr. John Evans, regional chairmen of the CCC for the Midlands and Wales respectively, have confirmed that during the consultation process, the Campaign asked the Commission to ensure that the additionality of funds would be guaranteed (***Agence Europe***, 5655, 27 January, 1992). Moreover, the National Union of Mineworkers (NUM) backed the Commission stance. When the freezing of the funds was initially announced in July 1991, the President of the Scottish NUM, Mr. George Bolton, indicated Union support for the European Commission: 'It is quite outrageous that areas of deprivation are being starved of funds and the UK government is to blame. This is a cruel deception - the British government is trying to obscure the fact that it is entirely to blame for the hold-up of EC funds' (***Financial Times***, 26 July 1991).

In their report on the creation of the Rechar initiative, the European Parliament's Committee on Regional Policy and Regional Planning had stressed from the outset that the additionality criteria should be emphasised to the respective member states in the implementation phase (European Parliament, 1989, p. 7). It has also been reported that the Court of Auditors of the European Communities, as a logical extension to its dialogue with the Commission highlighted in section III, put strong pressure on the Regional Policy Commissioner not to back down in his confrontation with the UK government. A strongly worded memorandum, sent to Millan by the Court of Auditors in December, 1991 was leaked to the press:

> The British system for local government financing prevents the application of the principle of additionality because it sets an absolute limit for local government expenditure, regardless of the source of financing. What measures is the commissioner taking to change the situation and to ensure that the Structural Funds programmes for the UK are truly additional? (***Scotland on Sunday***, 26 January, 1992).

Bouyed by the support of the coal-mining communities themselves in the UK, and under pressure from the European Parliament and the Court of Auditors, the Commission then announced at the end of last year that 850 million pounds of support due to be allocated to the UK under the CSFs for the 1992-1993 period would also be frozen (***Local Government Chronicle***, 19 December, 1991).

Sources in DG XVI have indicated that the Commissioner was enraged in late December 1991 that his strategy might have backfired when it took an overtly party political dimension. A Cabinet memorandum from the Environment Minister, Mr. Michael Heseltine, which was leaked to the Commission in November, was published by the Labour Party Shadow Trade and Industry spokesman, Mr. Gordon Brown, on 17 December 1991. The memorandum to the Chancellor of the Exchequer suggested that although ERDF money should be politically beneficial to the government, 'instead it has become a constant source of friction and recrimination both from the EC and from local authorities and MPs. We cannot afford such an "own goal" in areas that are politically important to us'. (***Financial Times***, 18 December, 1991).

The Commissioner's worries were that a politicisation of the debate in the UK along party lines would force an entrenchment of the position of the government, which would then be unwilling to be seen to back down publicly, and hence the resolution of the impasse would be made more difficult. These worries were eased to some extent in late January 1992 when the story took another twist and another document was leaked to the press. Following a barrage of allegations against Millan by Heseltine, accusing him of acting on behalf of the Labour Party in an effort to discredit the Conservative Government in the run-up to a General Election, the government's position was undermined by a leaked document. In this document which dated from the early days of the dispute and was addressed to the Secretaries of State for Wales and Scotland, the Environment Minister pointed out that the status quo was 'simply not viable', and that 'continuing failure to review the UK's current approach to public expenditure treatment of EC receipts will result in a reduced allocation of those receipts, a loss of prestige in Europe, to say nothing of political difficulties within the UK itself' (***The Guardian***, 28 January, 1992). In attempting to gain the support of the Secretaries of State for Wales and Scotland to force a change of opinion within Cabinet upon the Department of Trade and Industry and the Treasury, the Environment Secretary summed up the Commission's stance:

> The weaknesses of Treasury arguments is that there is no visible evidence that expenditure is necessarily higher than it otherwise would be. Even accepting it is, as the

> Commission may, there is no proper mechanism for ensuring that it is *regional* expenditure that is higher than it would otherwise be. The Commission realised this and are suspicious largely, we believe, because UK practice does not make transparent or capable of proof the distribution of additional resources.(***The Independent***, 28 January 1992)

It is against this background of leaked documents, Cabinet splits and rows, mentioned in the introduction to this paper, that meetings continued over many months in an attempt to resolve the impasse.

CONCLUSION: COMMISSION OBJECTIONS TEMPORARILY SATISFIED

The leaked Department of the Environment document suggested that there was 'simple, neat and logical changes' which could be made to satisfy Commission requirements. A radical option would have been the creation of either territorial, central or local pools of public spending (separate from the regular public expenditure process), from which funds would be released when ERDF grants were made available. In the event, the climbdown announced on 17 February 1992 by the Trade and Industry Secretary, Peter Lilley, was less radical but still satisfied Commission objections, (at least until the next reform of the funds at the end of 1993). While the present system for controlling public expenditure will remain unchanged, from April 1993 the Government's spending plans will indicate the European grants separately for each spending programme. The Government will no longer argue that it incorporates European grants globally. Moreover, the Department of the Environment confirmed that the new arrangements would mean that specific Whitehall spending approval would be given for local authorities to cover at least 50 per cent of European backed projects. On this basis the Regional Policy Commissioner then agreed, after 18 months of deadlock, to release the funds earmarked for projects in the UK. His insistence that special transitional measures were introduced to guarantee that the 'new rules' would apply to Rechar immediately and not just after 1993 was also accepted. Mr. Millan then stated that the Government had conceded his principal objection: 'The new arrangements will meet the essential requirement that I had asked of the UK government ... I am glad this point has been conceded' (***The Guardian***, 18 February, 1992).

Given the alliance with local authorities in the UK, and pressure from the European Parliament and the Court of Auditors, the European Commission found itself in a strong political position. Moreover, developments in the British coal-mining industry served to strengthen the Commission's bargaining position yet further: 3000 jobs were lost in the industry in January 1992 alone. On hearing of the possible closure of four pits in Yorkshire, Millan announced that he would propose an increase in the allocation available to the UK under the Rechar initiative, but only if the additionality criteria were met to his satisfaction (***Agence Europe***, 5653, 24 January, 1992). It was also significant that several of the original 55 redevelopment projects submitted to the Commission by the UK in July 1990 covered areas hit by pit closures in Conservative seats in the Midlands. Such political pressures in a General Election year proved irresistible and the Conservative Government was obliged to back down.

ACOM has argued that it is 'essential that the Rechar programme is extended beyond its 1993 expiry date, and that a second phase is funded at a significantly higher level' (European Parliament, 1991, p. 121). Given the record of ACOM co-operation with the Commission, it seemed likely that the initiative would be extended into a second phase.[7] A political scenario in which the UK (where the decline in the coal-mining sector largely led to the creation of the initiative and where the loss of jobs continues relentlessly) continued to receive no money from Rechar was within the legal capabilities of the European Commission. Its alliance with the local authorities of the UK would therefore have left DG XVI in a progressively stronger bargaining position.

It seems, however, that the damaging political confrontation with the UK government, and the prospect for other member states that it could happen to them, will lead to the principle of additionality attaining the 'verifiable operational effect' stressed by the Court of Auditors (section III). When the Structural Fund regulations are reconsidered at the end of 1993, it is likely that an even stronger definition of what the Commission and the Court of Auditors expect in terms of additionality will be incorporated.

Future political science literature will therefore have to take into account the actions of the European Commission over the Rechar initiative when characterising the EC regional policy process. This paper has not argued that the row over Rechar funds developed as the result of a personal grudge of the current Commissioner for Regional Policy, although his previous experience as Secretary of STate for Scotland was significant in shaping his views on the principle of additionality. Rather, the paper has shown that by ensuring the inclusion of the principle of additionality in the reform of the Structural Funds, and by building a strategic alliance with local communities over a highly sensitive issue in the UK, the Commission was able to pursue a case against a member state government and force a situation that will necessitate further legislation on the question of additionality. The pre-reform accounts of the European regional development policy process as a strictly intergovernmental affair, neglecting the role of the Commission, are now outdated. It should be noted, however, that the paper does not implicitly advocate a return to the neofunctionalist approach: despite the recent room for manouevre of the Commission, any new legislation on the principle of additionality will have to be passed by the Council of Ministers, albeit with strong prodding by the Commission and the threat of a repeat of the Rechar scenario.

In this context, lessons may even be drawn from the 'domestic politics approach' (Bulmer, 1983): the Cabinet split between, on the one hand, the Department of the Environment, the Scottish Office and the Welsh Office, and the Department of Trade and Industry and the Treasury on the other, proved highly significant in shifting the opinion of the UK government towards the concessions adopted. The fact that a member state government is not a monolithic actor at the EC level is highlighted by Bulmer and Paterson in their analysis of the Federal Republic of Germany and the European Community:

> We must reject the state- or government-centred assumptions of the 'power politics' approach. Its intergovernmental assumptions that sovereignty will be defended, that policy will be defined by a national interest and that a single coherent governmental European policy will prevail, cannot adequately explain the West German case (if any) ...

Similarly, however, they reject the neofunctionalist framework:

> ... nor can the neo-functionalist perspective, with its assumptions that states readily yield sovereignty to the EC, that interest groups are major actors at the EC level and that a European interest will prevail. (Bulmer and Paterson, 1987, p. 15)

By rejecting state-centred and neofunctionalist frameworks, the way is open for an explanation of European Community policy-making that does not neglect any level of the complex governmental relationships involved.

The Audit Commission report of 1991 recognised the intricacies of the policy process and the real significance of the impasse over Rechar funds when it stated:

> At the root of this dispute over accounting 'transparency' is a more fundamental disagreement about the influence the Commission should legitimately have over the destination of funding. Thus additionality is in effect the battle ground of contending concepts of where the power of decision is really located within the tri-partite partnership, and until it is settled local authorities are caught in the middle. (Audit Commission, 1991, p. 15)

As a contribution to the debate, this paper has shown that the European Commission's ability to force the crisis and carry it through earns it the right to a position nearer the centre of the picture than the marginalised role it was allowed in the pre-reform accounts of the European regional policy process.

FOOTNOTES

1. The other two funds which together with the ERDF make up the Structural Funds are the European Social Fund (ESF), which supports training and retraining measures, with special emphasis on young people and the unemployed; and the Guidance Section of the European Guidance and Guarantee Fund (EAGGF), which supports measures to speed up the adjustment of agricultural structures, with a view towards the development of the Common Agricultural Policy.

2. In order to elicit high-quality, detailed information from individual actors involved in the current debate, a series of interviews (ten in total) were conducted by the author with officials in the Regional Policy Directorate-General of the European Commission in Brussels and civil servants in the European Funds and Co-ordination Division of the Scottish Office in Edinburgh between December 1991 and January 1992.

3. Regulation (EEC) NO. 2052/88, OJ NO. L185, 24/6/88, pp. 9-20; Regulation (EEC) No. 4253/88, OJ No. 374, 19/12/88. pp. 1-14; and Regulation (EEC) No. 4254/88, OJ No. 374, 19/12/88. pp. 15-20.

4. Preamble to Regulation (EEC) No. 724/75 of 18th March establishing a European Regional Development Fund, OJ L73, 21/3/75.

5. The Star initiative was designed to improve the access of lagging regions to telecommunications services; Valoren was expected to improve regional development by promoting better use of the endogenous energy potential of regions; Renaval and Resider sought to ease the process of conversion in regions struck by the decline of the shipbuilding and steel industries respectively (cf. Commission of the European Communities, 1991b, box 7.2).

6. British Coal Enterprise was set up in the wake of the Miners' Strike to support and financially assist the small business sector to the benefit of local employment in coal-mining areas (cf. British Coal Enterprise, 1991).

7. At the time of writing it is now impossible to say whether there will be a Rechar II as the Member States and the Commission agree that the number of Community initiatives should be reduced after 1993. Moreover, Rechar II might not be implemented in the same way. Member States would like to see a reduction in the number of financial allocations to Objective 2 areas most affected by coalfield closures.

APPENDIX A

The reform of the Structural Funds introduced five priority objectives:

- The development and structural adjustment of regions whose development is lagging behind (Objective 1). Countries concerned: Greece, Ireland, Portugal, Italy (in part), Spain (in part), United Kingdom (Northern Ireland and France (overseas departments and Corsica).

- Support for areas hit by industrial decline (Objective 2). Countries concerned: Belgium, Denmark, France, Germany, Italy, Luxembourg, Netherlands, Spain and the United Kingdom.

- Combating long-term unemployment (Objective 3) and facilitating the occupational integration of young people (Objective 4). Countries concerned: all.

- With a view to reform of the Common Agricultural Policy the adjustment of agricultural structures (Objective 5a) and rural development (Objective 5b). Countries concerned by Objective 5a: all. Countries concerned by Objective 5b: all except Greece, Ireland and Portugal.

Source: *Commission of the European Communities,* ***Guide to the Community Initiatives****, 1st Edition, Luxembourg: Office for Official Publications of the European Communities, 1990.*

APPENDIX B

List of coalfield areas in Scotland declared eligible by the European Commission under the Rechar initiative:

Coalfield	Area Covered
Kirkcaldy	Kirkcaldy Local Authority District (LAD)
Central	Dunfermline LAD, Clackmannan LAD Stirling LAD (Argyll, Ladywell, Polmaise and Suchenford Wards)
Bathgate	Bathgate Travel-to-Work-Area (TTWA) Motherwell LAD (Benhar, Dykehead and Stane Wards) Clydesdale LAD (Forth Ward)
Midlothian	Midlothian LAD, East Lothian LAD (Wards of Musselburgh –East/Central/ West/South, Tranent North,Ormiston, Carberry, Prestonpans-West/East, and Cockenzie
Cumnock and Sanquhar	Cumnock and Sanquhar TTWA, Cumnock and Doon Valley LAD (Patna and Dalrymple Ward),Kyle andCarrick LAD (2 Wards Annbank/Mossblown/St. Quivox andTarbolton/Symington Craigie).

Source: Scottish Office letter to all Local Authority Chief Executives, May 1990.

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