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Cardiff Bay
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31 March 2004

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Dear Claire,

**EUROPEAN AND EXTERNAL AFFAIRS AND ECONOMIC DEVELOPMENT
COMMITTEES – 26 FEBRUARY 2004**

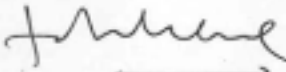
Thank you for your letter of 3 March about the meeting of the Committees held on 26 February.

Enclosed is a letter from me responding to the point raised at the meeting about the UK Government's position in relation to future funding of statistical effect regions, on which I undertook to write. I hope that this will be helpful in responding to the Committees' concerns.

Thank you also for forwarding to me a copy of the minutes of the meeting. If they have not yet been finalised and agreed, may I point out two small factual/typographical errors, and make a small suggested addition.

In paragraph 2.20, the reference should be to an "informal Ministerial meeting in Rome in October"; and in paragraph 2.41, the level of EU GDP referred to should be 1.0 per cent, not 0.1 per cent. The small suggested addition is in the last sentence of paragraph 2.20, where my reference was to assessing the "policy and budgetary implications" not just the "budgetary implications" of the Commission's proposals.

If there is any way in which we can be of further help to the Committees, do please let me know. In the meantime, may I take this opportunity to thank you for all that you did to prepare for and facilitate our appearance before the Committees in February.

Yours sincerely,

John Neve



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Dear Claire,

**EUROPEAN AND EXTERNAL AFFAIRS AND ECONOMIC DEVELOPMENT
COMMITTEES – 26 FEBRUARY 2004**

Thank you for your letter of 3 March about the meeting of the European and External Affairs and Economic Development Committees on 26 February concerning the future of the European Structural Funds. I undertook at the meeting to write in response to a question raised about the UK Government's position on the Commission's proposals for the so-called "statistical effect" regions.

First, it is important to stress that there is no European money currently on offer for any of the UK's regions. The Commission's proposals in the Third Cohesion Report are just that: both the overall policy approach and budget to support it have still to be agreed by the Council, and the debate remains at a very early stage.

As I made clear at the meeting, the UK Government's position is that the Commission's proposals are unrealistic and unacceptable. The receipts package implied by the Commission's proposed approach could only come through increased UK contributions to the EC budget, with inevitable knock-on effects on the amounts available for domestic spending. Existing Structural Fund receipts already come at a net cost to the UK, with each euro of receipts costing us 1.6 euros in increased contributions to the budget. And, with approximately three quarters of all regional development funding already resourced domestically, getting a good budgetary deal for the UK post-2006 is clearly in the interests of all our regions and nations.

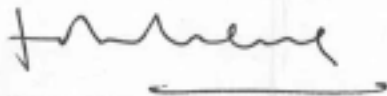
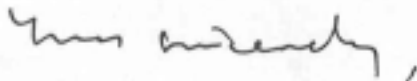
In the event that the UK Government's reform proposals are adopted, the Government has committed to ensuring that the nations and regions have sufficient resources to continue to be able to promote regional productivity and employment from increased domestic spending on regional policy, targeted on areas of high unemployment and low

Continuation 2

gross domestic product. However, these proposals are based on achieving an outcome in which the EC budget is concentrated in the areas where it would most add value, whilst respecting budget discipline. The Government could not make the same strong commitment in the event of an outcome involving substantially increased UK contributions to the EU budget.

It is too soon to say what the final Structural Fund arrangements will be for post-2006 and whether or not special funding arrangements for statistical effect regions will be part of those arrangements. The UK Government's proposals for Structural Funds reform include a clear commitment to achieving an outcome which supports and adds value to the Government's existing approach to promoting prosperity and reducing disparities between UK nations and regions, whilst achieving a fair deal for the UK in budgetary terms within an overall budget for Structural Funds that is constrained and focused on achieving maximum value for money. In continuing to pursue this approach, the Government will take full account of the continuing development needs of statistical effect regions, including Wales.

I hope that the Committees will find this helpful. Please let me know if you need anything further.



JOHN NEVE