- ANNEXES -

1/ Speech by Mr Robert SAVY, former President of the Limousin Region and former President of the « Sustainable development » Commission of the Committee of the Regions

2/ Speech by Mr Vicente ÁLVAREZ ARECES, President of Asturias and draft opinion of the Committee of the Regions

3/ Statement by Mr Milos KOTEREC, Member of the European Parliament

4/ Speech by Mr Frank GASKELL, President of Euromontana and representative of the EURADA network

5/ Speech by Mr Francisco Javier GARCÍA VALLEDOR, Councillor for Justice, Public Security and External Relations, Principado de Asturias

6/ Speech by Cllr Harry REES, Portfolio Manager for Economic Development in the Isle of Wight Council

7/ Conclusions by Mr Vicente ÁLVAREZ ARECES, President of Asturias
The political and territorial consequences of the Revision of State Aids

The draft guidelines from the Commission refer to one very specific aspect of the policy on State aids viz. regional aids.

State aids are part of the competition policy, an EU policy designed to serve EU objectives.

It has been a good idea on the part of the seminar’s organisers to highlight the subject that has brought us all here today and compare it to the concept of territorial cohesion.

It is an opportunity to give this very concrete issue its full political dimension.

And this is a particularly appropriate time to do so:

1) After 2006, all the EU’s main policies will be revised i.e. the CAP, Cohesion, Competition, and Services of General Interest. All these policies are interconnected and they should not, therefore, be considered in isolation.

2) The financial perspectives for the 2007-2013 period have not yet been decided and it is therefore an appropriate time either to adapt the resources to our ambitions or change our ambitions in line with our resources. For the moment, the question remains open and the most ambitious Europeans are lending their support to the most stringent limitations on resources.

3) It seems to me that the consequences of the Enlargement of Europe are just beginning to come to the fore and the way in which these consequences are managed will affect the nature of the European project. Will Europe be a powerful force or a mere marketplace?

4) At present, all discussion on the Constitutional Treaty takes place against this background. In fact, the debate refers to the nature and role of the EU in the world and to its relationship with the other great territorial entities i.e. the USA, Japan, China and India.

In this debate, I would like to begin by highlighting three aspects:

- The consensus on the part of the leaders in the fields of politics, business and trade unionism to approve the Treaty;

- The unexpected involvement of political opinion in the debate, particularly in countries in which a popular vote is expected or envisaged. We are no longer facing a consensus; instead, questions are being asked, for example in France, Poland, the Netherlands and the United Kingdom;

- The effect, on the constitutional debate, of controversies and disagreements on very concrete issues such as the Bolkestein directive and the reform of State aids.

In voicing an opinion on these collateral issues, it has to be said that the way in which they are dealt with seems to be an indication of one’s idea of Europe.
To return to the question of State aids for regional projects, this question falls within the scope of the competition policy and not the cohesion policy.

Hence my twofold proposal:

1. Competition and cohesion: the requirement for balance;
2. Competition and cohesion: what is the role of State aids?

I - Competition and Cohesion: the Requirement for Balance

A look at the basic legislative texts drafted in founding the EU teaches us 2 things:

I.1 The two principles have equal constitutional value

Art I.3 - EU Objectives

This article recognises competition: “a Single Market in which competition is free and fair.” To be more precise, the Single Market is the objective and competition is a means to this end.

It recognises cohesion: “It (i.e. the EU) promotes economic, social and territorial cohesion and solidarity between Member States.”

Hence the need to reconcile them, as required by Part 3 of the Treaty.

Art.III.115 states that: “The Union must ensure coherence between various policies by taking account of all its objectives.”

There is an important distinction between:

- Policies: competition, regional policy to serve these objectives.

Until now, reconciling these concepts has favoured competition (the Services of General Interest, or SGI’s, are an exception to the rules of competition – State aids are, in principle, incompatible with competition except when treaties provide for an exception).

There has, however, been a noticeable recent change in case law at the European Court of Justice (Rulings: Corbeau 1993, D’Almelo 1994 on SGEIs - Services of General Economic Interest).

This change must, of course, also affect State aids: the principle of their incompatibility with competition is not a foregone conclusion.

I.2 The two principles must be reconciled

- The Committee of the Regions recognised this in the paper outlining the reasons for its draft recommendation: the Rapporteur considered “that cohesion and competition policies are complementary. Both of them aim to achieve objectives as laid down in Lisbon and Göteborg.”

This confirms the notion that neither has precedence over the other.

Reconciling the two principles is necessary. How can it be achieved?

- The cohesion requirement must cease to be taken into account when there is a risk of seriously affecting the workings of the external Market.
- The competition requirement must cease to be taken into account when there is a risk of seriously affecting cohesion, especially in its territorial dimension.

The contents of these concepts has to be defined:

Cohesion:

- We must either take as our basis the 3rd report from the Commission (2004): “to achieve more balanced development by reducing existing disparities, avoiding territorial imbalance, and giving greater coherence to both sectorial policies which have a territorial impact and regional policies.”

Regional policy, then, is not a remedy designed to make the territorial effects of other policies less painful. It consists of a set of Community policies aimed at achieving common objectives.

- Or we must make explicit reference to Articles III.220 to 224 of the Treaty, the section dealing with cohesion:

Art.III.220 “The Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions.” There are, in fact, two targets – for the most
underprivileged regions, there is a need to catch up and for all other regions there is a need to lessen the differences between them.

Article III.220 gives an indicative list of the regions concerned and specifies that particular attention has to be paid to rural areas, areas undergoing industrial transition, areas with serious or permanent natural and demographic handicaps such as low density, insularity and mountains, and cross-border regions.

**Competition:**

As far as Articles III.161 to III.169 of the Constitutional Treaty are concerned, there are two types of rules:

- Rules applicable to companies i.e. Art.166 on SGEIs subject to the rules on competition on condition that they do not “obstruct the performance, in law or in fact, of the particular tasks assigned to them”.

- Rules applicable to the aids awarded by Member States. Article III.167 refers to aids which “affect trade between Member States”.

- Aids are not precluded unless they affect trade and I regret that, too often, we have moved from a conditional interdict to across-the-board prohibition. I would like to appeal for a non-ideological interpretation, from which we can learn a great deal.

- With regard to aids which affect trade between Member States, the Treaty tells us to look at them more closely. There are those which instigate, or threaten to instigate, unfair competition by giving precedence to certain companies or products (territories are not mentioned). In fact, we have to wonder whether the aids allocated to territories are subject to the same provisos as other aids.

The Treaty is more subtle. It tells us that we have to pay attention to aids but that they are admissible “if they do not adversely affect trading conditions to an extent contrary to the common interest.”

There is, then, a need for prudence, with care being taken to ensure balance and each situation being considered on its own merits.

These are the constitutional rules that apply to Member States, regions, companies and bodies within the EU, especially the Commission.

**II. Competition and Cohesion: What is the Role of State Aids?**

Here we have to look at the draft guidelines proposed by the Commission on the basis of the constitutional rules indicated above. We are looking at competition (DG Competition) but this also involves cohesion.

**II.1 To what extent do State aids awarded for a regional purpose compromise competition?**

This is something of a surprise. The informal document from DG Competition is not at all based on the risk of obstructing competition. Are aids excessive compared to the common interest? This point is not mentioned. If DG Competition was monitoring competition, it should be asking itself whether State aids for regional purposes affect trade between Member States. If they do not affect such trade, they are not liable to constraints; on the other hand, if they render unfair the competition between companies/products, they would be contrary to the common interest.

- DG Competition, however, works in an entirely different area. The European Council guidelines on which it bases its interpretation are designed to:

  - Reduce the general level of aids (this has nothing to do with competition but may have something to do with financial perspectives).
  - Tailor aids to measures that contribute to the EU’s overall competitiveness (this has nothing to do with competition either). Even the European Council is subject to the Constitution signed by the States. None of the changes proposed in the guidelines is based on the need to maintain competition.
  - DG Competition even strays into the area of cohesion when it states that it is “preferable, for reasons of equity, that regional investment aids to be targeted solely at the poorest regions”.
What equity? Who defines it? It seems to me that the Constitutional Treaty defined it quite clearly (Cf. Article III.220) and that its definition was not open to question.

**II.2 To what extent are the proposed guidelines compatible with cohesion?**

- Cohesion does not result spontaneously from market mechanisms, nor from various European policies. Cohesion results from the convergence of all Community policies. The various reports on cohesion all state this point of view. The ESDP, which was drafted mainly by the Commission, agrees with this, indicating on page 14: “... it is absolutely essential to intervene to ensure the balance between competition and the achievement of objectives in the general interest.”. State aids are one of the means to such intervention. Yet from the point of view of cohesion, the draft guidelines present considerable dangers which are highlighted by the draft recommendations from the Committee of the Regions.

There are two main areas of concern:

a) A decrease in the levels of intervention. The decrease in the overall cost of aids is not shared between regions to ensure cohesion (Cf. the CPMR analysis). Most of the effort will be brought to bear on the regions suffering the greatest difficulties (drop of 20 to 30%) and the outermost regions (drop of 5 to 20%), followed by the regions in former Objective 2 (drop of 10 to 20%). On the other hand, non-eligible regions will see their levels of intervention increase (by 2.5 to 5%). All this is contrary to the idea of cohesion as stated in Article III.220 (reducing differences) and to the desire to reduce expenditure.

b) Other regions, which are neither part of former Objective 2, nor extremely remote, nor subject to low population density, nor undergoing a phasing out or in.

The following are placed on the same footing:

- Rural areas undergoing decline.
- And areas undergoing industrial transformation.

Even though they are expressly indicated in Article III.220. This, then, is contrary to cohesion and it is contrary to the Constitution.

There is no question, at this juncture, of entering into more technical details. These are indicated in the draft recommendation. However, in my opinion, there is an absolute need:

- To re-establish criteria for territorial differentiation,
- To check the compliance of the proposals with the constitutional rules,
- To use assessment of the territorial consequences of Community policies as a regular, on-going procedure.

The Commission’s report on cohesion is a first step forward in this direction but we have to undertake an *ex ante* assessment and consider the probable consequences of the measures under consideration on the various territories.

To sum up, I would issue a warning – Beware of a schizophrenic Europe and the contradiction between speeches and policies.

This is not the way to encourage citizens to vote.
Introduction: the economic context of state aid reform

The European Commission is currently undertaking a process of reforms which will have a direct impact on the European political and economic model. Furthermore, European policies are undergoing constant change, in an unstoppable process of “European growth”. The European Union is not merely an area for the free trade of goods, capital and people. It is also a group of territories which are confronted by diverse issues, but united in a desire to share a common future and help each other become more prosperous.

The economic model outlined in the Treaties is based on free competition. To bring this about, numerous regulations determine the limits and conditions to be respected in order to avoid distortions in the free market, which penalise firms in the European internal market.

However, it must be recognised that, in practice, the conditions for free competition are distorted by the very way the market functions. Business concentration, both in geographical and economic terms (the latter due to the need to achieve economies of scale), gives rise to real barriers to the entrance of small and medium-sized businesses, especially in areas furthest away from Europe’s main economic centres.

The recent enlargement of the European Union has also led to a notable increase in various factors affecting the European economy: existing tax systems, production and labour costs, administrative structures, etc. They vary so widely in today’s Europe, thus complicating the variables that companies need to take into account when deciding where to locate their investments.

These circumstances have given rise to a progressive increase in territorial differences across the EU, which are clearly likely to increase in future years. However, both of these factors can be offset using some instruments public authorities have at their disposal, which are specifically designed for this purpose. This is the case for regional state aid.

European regional policy has demonstrated that it is a decisive support mechanism for helping promote economic growth and increased competitiveness in Europe’s territories via better use of its resources. State aid should not hinder the achievement of this objective, but should help reduce major existing differences between Europe’s various territories, while improving economic competitiveness levels at the same time.

The richest regions are the main drivers of European competitiveness and are no doubt the best placed to help pull the least prosperous regions up. But the help the latter need ultimately comes to benefit the former. Statistical data on the trade balance between countries and regions can be used to prove this point.

We believe that helping European regions to be more competitive at global level is to the advantage of the whole of Europe. The regions lagging most behind in economic development terms must therefore be supported in their efforts to overcome obstacles to their economic growth. Improvements in their purchasing power will be to the advantage of the whole European economy.

Growth and competitiveness policies in the European Union must be designed to benefit all. In the specific case of state aid to companies, it is therefore appropriate for there to be a neutral authority controlling the rules of the game in the European market. This role, which is played...
by the European Commission, must be underpinned by the support and cooperation of all the stakeholders involved.

**Less but better targeted aid**

The Stockholm and Barcelona European Council conclusions make it necessary to reduce the overall level of aid and redirect it at horizontal and cohesion objectives. However, consideration should be given to a number of facts which the Commission itself acknowledges in its reports.

In the second report on cohesion, the Commission states that “The more prosperous countries spend more than the cohesion countries, so offsetting to some extent the effect of EU structural policies in the latter”.

Similarly, in the third report on cohesion, the Commission notes that “Although most Member States have reduced state aid and reoriented it towards horizontal objectives, in line with EU strategy, reorientation towards cohesion objectives is less evident since regional aid has declined”.

The Commission has an important role in rationalising different countries’ and regions’ public expenditure on providing business incentives, in order to ensure that indiscriminate allocation of public resources does not have negative repercussions on some territories’ competitiveness.

However, the Commission should not oversimplify the matter by reducing maximum aid thresholds across the board, without taking account of different circumstances. Furthermore, it should give consideration to the need for transitional measures to avoid some regions having to shoulder the burden of EU enlargement. Such transitional measures affect a minority percentage of the population and areas where there has not been a great volume of regional state aid in recent years. So, the existence of sufficiently generous transitional support measures to help the regions achieve average levels of European convergence over the 2007-2013 period \(^1\) will not undermine the achievements of the compromises reached by the European Councils.

A distinction should be made between two very different situations in the European context: those parts of Europe which have major handicaps preventing them from converging with the European average, and other regions which have achieved growth but still need to increase their competitiveness. It is being proposed that each situation should be dealt with differently, by having graded maximum thresholds within both the guidelines for regional state aid (for regions with a lower level of economic development and structural, demographic and natural handicaps) and the horizontal aid frameworks (for regions which do not receive regional support).

**The need to take account of different territorial circumstances in state aid control**

Cohesion and state aid policies are complementary. Both aim to promote growth, competitiveness and sustainable development across the EU as a whole, in accordance with the Lisbon and Gothenburg agendas.

In its articles on cohesion, the Constitutional Treaty stresses the need to devote particular attention to particular territorial circumstances.

In the draft General Regulation on the Structural Fund, the European Commission reasserts a point made in its third report on cohesion. It is acknowledged that aid, depending on its nature, should take account of economic and social circumstances on the one hand, and specific territorial characteristics on the other. In the same way, it is planned that aid should go to areas with geographical or natural handicaps which hinder their development. More specifically, this means ultraperipheral and northernmost regions with a very low population density, islands, island Member States and mountain areas \(^2\).

The Economic and Social Committee also supports continued national and European solidarity for the benefit of territories with serious natural handicaps (ultraperipheral regions, island regions, mountain areas, with a very low population density, etc.), which need specific help to avoid a rural exodus \(^3\).

---

\(^1\) The regions most affected by the Commission’s proposals are those which are affected by the statistical effect and natural growth.


\(^3\) Opinion of the European Economic and Social Committee “Economic and social cohesion: regional competitiveness, governance and cooperation”.
In sum, it should be acknowledged that the least developed regions must be able to count on more help through EU funds and a greater margin of discretion when it comes to granting state aid. This will help provide incentives for investment and job creation and ultimately have an impact on their economic development.

Similarly, there are some notable differences between more prosperous regions which should be taken into consideration. This is why graded thresholds in the horizontal aid frameworks are being proposed.

**The Lisbon and Gothenburg strategies and regional aid**

The new cohesion policy for the 2007-2013 period should be consistent with the Lisbon strategy for making the European Union the most competitive knowledge-based economy in the world.

However, as an economic policy instrument for public authorities, state aid must be used for achieving the priority objectives of the Lisbon and Gothenburg agendas: research and development, innovation, workforce skills, sustainable development and, last but not least, the important transversal objective of ensuring the balanced development of the whole EU economy.

Public authorities, especially regional and local government, can contribute to achieving these objectives by making the most efficient use of public funds possible, both in quantitative terms and concerning what the funds are targeted at.

The major strategic objectives determining Europe’s future have been developed as a result of comparisons between the European model and that of other major world powers, particularly the United States. Nevertheless, even if we recognise the importance of improving the EU’s competitiveness at global level, we should not lose sight of the fact that there are key challenges within the Union, which are primarily due to the major lack of balance between the different territories in a European Union with 25 Member States.

The European model, which has pioneered efforts to achieve balance and convergence between different countries, approaches and circumstances, must base its policies on an understanding that there are major territorial differences across the EU. It should also ensure that this situation is turned into an opportunity: an opportunity to prosper together from the interaction between different peoples, and to share widely varying heritages.

**The role of local and regional authorities in competition policy**

All of the stakeholders in the European market have the major task of helping to increase wealth indicators and, more importantly, to improve on the European welfare state model.

Local authorities can contribute via policies to improve European firms’ competitiveness levels in various ways, notably by promoting innovation, information technologies, accessibility, the environment and sustainable development. State aid is an instrument which can help focus public intervention on priority objectives.

Furthermore, regional state aid regulations can be used to help offset existing imbalances between different European territories. Regional advantages in terms of competitiveness are of course due to a number of factors. Different realities should therefore be taken into consideration, and individual solutions should be developed for each of them.

I urge the European Commission, when carrying out its important and complex work, to seek the fairest solution to help develop the Union’s different territories. As a member of the Committee of the Regions and President of Asturias, I am at its disposal should it be interested in our point of view, and am confident that our efforts will help it in its task. I also hope that this seminar and the draft opinion will provide the Commission and all of the participants with food for thought on regional state aid.

**The main points of the draft opinion**

In brief, I would like to say that the draft opinion I will soon present in Brussels has been drawn up with the intention of being a useful document in the widest sense of the term. We hope it will serve to generate debate on new proposals and consequently enrich the ideas put forward by the Competition Directorate-General. The draft opinion I will present is structured around various issues:
Concerning the Commission’s proposal on maximum aid thresholds, we are concerned about the across-the-board reduction this would lead to. Our view is that it would at present be very difficult to achieve ambitious objectives with regard to cohesion as well as those set out in Lisbon, especially in the least economically developed regions. The same can logically be said – and I am thinking about regions such as the one I preside – for regions penalised by the so-called statistical effect. In the current proposal, an SME from these regions would lose 20% of aid compared with what it can currently access, while, on the other hand, aid would increase in non-assisted regions, leaving just a 15% difference. We must also remember that these regions will have a problem meeting criteria such as the employment targets set by the Lisbon Agenda.

We are therefore making some suggestions to help meet the challenges set by the European Council, while avoiding formulas penalising those in the most disadvantaged situation.

Emphasis is furthermore given to the impact an indiscriminate reduction would have with regard to the abolition of the net grant concept. Its substitution with a gross grant, as proposed by the Commission, would lead to an increase in the differences between aid that firms can receive, without meeting cohesion criteria. With the proposal we would gain in simplicity, but lose much in terms of fairness.

On the proposal for transitional measures for regions moving from being covered by Article 87(3)(a) to being covered by Article 87(3)(c), we propose that there should be a transition period during which statistical effect and natural growth regions should remain under Article 87(3)(a), during which aid would be graded. This would avoid them having to pay the costs of enlargement while simultaneously losing the largest percentage of aid.

As for the proposal on the classification of regions, we are making proposals to the Commission that take account of the various situations which handicap or limit European regions’ economic growth and development capacity. They are based on solid legal arguments inspired by the text of the European Constitution.

In the draft opinion, we make some suggestions which are likely to be effective and fairer from the point of view of regional and local authorities. One of them, and we believe this is of utmost importance, is that aid in a given area must be part of a strategic development plan. In other words, every country and region should provide a document explaining the purpose of the aid they intend to grant, so that the negative effects of disloyal competition between regions can be avoided. This would be in the interest of the countries themselves, as well as the Commission. Another big idea, in deference to the Lisbon Agenda, which is present in the whole of Europe’s political and economic life, is that other types of indicator could be used to assess regions’ economic situation, such as is the case with employment levels. Lastly, we also suggest that other forms of aid should be taken into account, of the sort that is easier to manage and less burdensome on public resources.

The Commission’s draft proposal contains some very important and highly successful elements in its proposals for a Regulation on regional state aid exemptions, the ideas on aid for large firms in non-assisted regions and the fact that more support should be given to small and medium-sized enterprises and the least economically developed regions. This is why we cannot forget that regional aid is an instrument designed to correct interregional imbalances.

We believe and, in the draft opinion, we urge the European Commission to make a greater effort to examine and tackle the diversity of regional situations which exist in Europe. While we aim to promote territorial cohesion and accept that a Europe with 25 members is far from being homogenous in nature, we must understand the extent of its diversity in order to be able to design more efficient and effective policies.

Lastly, we have tried to respond to the Commission’s request for an opinion on its documents, as is the case in the definition of initial investment or the eligibility of intangible investment and related areas.

To conclude, with the draft opinion on regional state aid, we hope to reflect the sentiment present all over Europe that territorial cohesion is essential for progress. We strongly believe that this can only be achieved by responding and being sensitive to the needs of those who, in face of the ever-increasing need to raise the Union’s level of competitiveness, encounter the most problems in achieving growth and find it difficult to keep up with the pace of those at the forefront of the European economy. So this document, in which we tried to seek a consensus so that everyone could feel that they were
represented, should provide a framework in which we can pursue our objective: territorial cohesion in a united Europe.

Thank you very much.
DRAFT OPINION

of the
Commission for Territorial Cohesion Policy

on the

Revision of the guidelines for regional State aids

Rapporteur: Mr Vicente Alvarez Areces (ES/PES)
President of the Principality of Asturias

This document will be discussed at the Commission for Territorial Cohesion Policy meeting to be held on 29 April 2005 from 10 a.m. to 5.30 p.m. So that amendments can be translated, please send them by e-mail to the commission secretariat no later than 22 April 2005 (e-mail address: COTER@cor.eu.int).

In accordance with Rule 51 of the Rules of Procedure, no amendments may be tabled to the explanatory statement.
THE COMMITTEE OF THE REGIONS,

Having regard to the decision of the European Parliament to consult it on this subject (20/01/2005);

Having regard to the decision of its President of … 2004 to instruct its Commission for Territorial Cohesion Policy to draw up an opinion on this subject;

Having regard to the non paper consultation document from the European Commission DG Competition on the review of the Guidelines for regional aid;

Having regard to the Communication from the Commission – Third Report on Economic and Social Cohesion (COM (2004) 107 final);


Having regard to its opinion on "The Third Report on Economic and Social Cohesion" (CdR 120/2004 fin)\(^4\);

Having regard to its opinion on "Building our common Future Policy challenges and Budgetary means of the Enlarged Union 2007-2013" (CdR 162/2004 fin);

Having regard to the conclusions of the Barcelona and Gothenburg European Councils, in which the Member States agree on the compromise to reduce the level of state aids in the European Union, orientating them to subjects of common interest, including economic and social cohesion;

Having regard to its draft opinion (CdR 77/2005) adopted on …by its Commission for Territorial Cohesion Policy (rapporteur: **Mr Vicente Alvarez Areces**, President of the Principality of Asturias (ES/PES);

Whereas:

1) Article III-220 of the Treaty establishing a Constitution for Europe strengthens the cohesion objective by introducing a territorial dimension, "*In order to promote its overall harmonious development, the Union shall develop and pursue its action leading to the strengthening of its economic, social and territorial cohesion*";

\(^4\) **JO C 318 du 22.12.2004, p. 1**
2) although the EC Treaty generally sees state aid as distorting competition\(^5\) regional aid is justified in the case of certain regions where its specific objective is to develop these regions\(^6\);

3) the existence of a regulatory framework for regional state aid can be instrumental in the redistribution of income and wealth within the EU as part of the European economic and social project and thus build a stronger foundation for sustained economic growth;

4) regional aid is one of the factors influencing investment location, and the phenomenon of relocation is emerging in the European internal market and globally; assistance from public authorities through state aid should be examined from two perspectives: in a European context and with reference to the phenomenon of globalisation;

5) regional aid can be a useful instrument in achieving the objectives of the Lisbon Strategy, in contributing to the balanced development of industrial policy throughout the EU and achieving sustainable growth with the creation of high-quality jobs;

adopted the following opinion at its … plenary session (meeting of …):

* *

* *

I. The Committee of the Regions’ views

General comments

The Committee of the Regions

believes that state regional aid is an instrument that can be used by public authorities to develop their economic and business policy. As regards compliance with the economic, social and territorial cohesion objectives laid down in the Constitutional Treaty, this recognised capacity of public authorities should be coordinated so as to avoid increasing the imbalances between countries and regions;

considers that state aid should have three clear objectives:

a. to offset market failures;

b. to help reduce imbalances between areas;

c. to boost the competitiveness of businesses and areas.

While regional aid has proved effective for the first and second of the above objectives, as shown by the studies available to the European Commission, the third objective might require more selective aid, such as horizontal aid (R+D, environment, training, employment, SMEs, etc). However, all these kinds of aid should be coordinated in terms of their aims and operation, and should be geared towards achieving the cohesion objectives throughout the EU;

\(^5\) Article 87 of the EC Treaty

\(^6\) Guidelines on national regional aid (98/C74/06), OJ C 74 of 10.3.98.
believes that all aid granted for a certain area should form part of strategic regional development plans in which those projects that clearly promote regional development are prioritised. This aid, together with other economic and business-related factors, has an influence on the location of companies and the improvement of regional competitiveness;

takes the view that cohesion policy has obtained positive results in recent years, and that the guidelines on state regional aid, along with the guidelines on multi-sectoral aid for major investment projects, have helped meet the objectives of European regional policy. Therefore, the European Commission's role in monitoring the aid granted by state authorities is very important for less prosperous regions;

considers that, in order to achieve balanced development between the different areas of the EU, it should be noted that European regions can be divided into two groups according to the two main problems they face:

− regions that have particular difficulties achieving economic development and the convergence objective at European level;

− regions with greater income and wealth than the above regions, that need to increase their competitive ability both in relation to more competitive regions of Europe and on a global level.

a) Assessment of state aid in recent years

The Committee of the Regions

takes note that various studies have shown that, in recent years, the volume of aid has tended to fall in less developed regions, while more competitive regions are increasing support to their businesses, through the development of different state aid schemes on the basis of the various derogations contained in the Treaty. This has had undesired effects, such as a notable drop in the effectiveness of regional aid, and an increase in the overall volume of public expenditure on state aid at Community level.

b) Rules

The Committee of the Regions

believes that the regional aid guidelines provide a framework of rules for coordinating other rules on horizontal and sectoral aid, and serve as a point of reference in response to the various questions often raised by the application of rules on state aid;

considers that the Commission's proposal to incorporate the new regional aid guidelines within a regulation on exemption from notification could serve to clarify and simplify
rules on state aid as desired; recommends, however, that the new rules should clearly set out the criteria, requirements and limits applicable to fundable investments;

**believes** that the proposal to incorporate the EU guidelines on multi-sectoral aid for major investment projects into the guidelines on regional aid could help simplify the applicable rules.

c) **New thresholds provided for by the Commission proposal**

**The Committee of the Regions**

draws **attention to** the Commission's proposal for maximum aid thresholds, based on the commitment made by Member States at the European Councils of Stockholm and Barcelona; believes, however, that the proposal for the general reduction of maximum aid thresholds set out by the Commission in its consultative documents may not be compatible – particularly in some regions – with the ambitious objectives of the Lisbon Strategy and the efforts required in terms of cohesion, due to the effects of enlargement; considers that the goal of reducing the overall level of aid could be reached in a way that coincides more closely with the European political project, by reorienting aid towards more selective horizontal or cohesion criteria, as established by the European Councils;

**believes** that the reduction of maximum aid thresholds should be graded, taking account of various criteria affecting regional economic development;

**considers** that the Commission should provide transitional measures for state regional aid, consistent with the regions’ new economic situation and the new objectives of the European cohesion policy. Thus, those regions in transition from one status to another would experience a gradual reduction in aid that would help to ease their loss of entitlement to use state aid as an instrument of regional development policy;

**considers** that the goals of rebalancing and harmonising economic development throughout the EU can only be achieved if different situations are dealt with in different ways. In this context, regional aid could help to compensate for unfavourable situations suffered by certain areas of Europe;

**Indicators:**

**highlights** the fact that the Commission is maintaining the classification of regions given in Article 87(3)(a) TEC, based on gross domestic product; **wonders** whether it would not be more in keeping with the wording of Article 87 TEC and the goals of European cohesion policy to include the employment rate of regions as an indicator; in the Lisbon agreements, the indicator set as an objective is the employment rate;
believes that unassisted regions should be classified according to their competitiveness. In order to determine their level of competitiveness, indicators other than the traditionally used GDP and employment rate could be applied, such as research and innovation potential;

Net/gross grant:

believes that the Commission's proposal to base maximum aid percentages in terms of gross grant (unlike the previous period in which the different taxation systems were taken into account via the net grant equivalent (NGE) formula) will, rather than reducing the overall volume of aid as the Commission states, increase the differences between aid that can be received by companies, taking account not of cohesion criteria but the taxation systems in different countries. Here, it should be noted that tax burdens vary greatly between the EU 25 countries;

considers that simplification is not in itself sufficient reason for eliminating the NGE calculation. This calculation is obtained by applying a formula, frequently used during the current programming period, which does not significantly complicate aid management. Moreover, the NGE formula should be used in order to calculate the real impact of state aid on regional development.

Areas that could be covered by the exception under Article 87(3)(a) TEC

The Committee of the Regions

notes that the Commission is proposing to reduce maximum aid ceilings and differentiate according to three per capita GDP categories, with bonuses for small and medium sized enterprises; proposes that this provision be adjusted so that the overall reduction of state aid be achieved by gearing aid towards more selective (horizontal and cohesion-related) criteria; the cohesion objectives should take specific account of the differences existing between the various regions of the EU;

proposes giving particular consideration to the various situations of regions with structural problems that hamper development. The existence of regional specificities requiring special attention should be recognised, as is the case for the outermost regions, which have already been granted favourable treatment by the Commission (inclusion under Article 87(3)(a)), in line with the Constitutional Treaty. This applies to island and upland regions, regions with low population density, rural or border regions or those affected by industrial change⁷;

⁷ Article III-220 of the new Constitutional Treaty.
points out that the regions suffering from the statistical effects of enlargement be included under Article 87(3)(a) for the duration of the programming period⁸; recalls that the Convergence objective of the Commission's new cohesion policy is aimed at less developed States and regions, including regions affected by the statistical effects of enlargement;

**believes** that the threshold of 75% of per capita GDP should be waived, in relation to state aid, for regions suffering from the statistical effect; otherwise, enlargement would primarily affect regions whose level of economic development is clearly lower than the EU average.

a) **Bonuses for certain regions**:

The Committee of the Regions

**believes that**, in line with the first document drawn up by the DG Competition of the Commission for the revision of the regional aid guidelines, which considers granting bonuses of 10% over the maximum aid threshold for outermost regions, bonuses should be considered for other regions suffering from natural, geographic or demographic handicaps. In this context, Article III-220 of the new Constitutional Treaty (re-drafting of Article 158) states the regional circumstances that should be given special consideration in the field of European cohesion policy:

- rural areas;
- areas affected by industrial transition;
- regions which suffer from severe or permanent natural or demographic handicaps, such as:
  - the northernmost regions with very low population density;
  - island regions;
  - border regions;
  - upland regions.

b) **Operating aid**:

The Committee of the Regions

**points out** that the current regional aid guidelines state that “In exceptional cases, such aid may not be enough to trigger a process of regional development, if the structural handicaps of the region concerned are too great. Only in such cases may regional aid be supplemented by operating aid”⁹;

---

⁸ As stated in the CoR Opinion on the Third report on economic and social cohesion (CdR 120/2004)
⁹ Guidelines on national regional aid (98/C74/06), paragraph 5 of the Introduction.
recalls that the circumstances that must be evaluated in order to determine whether structural handicaps are “too great” are referred to in Article III-220 of the Constitutional Treaty;

notes that the proposal for new regional aid guidelines exempts the outermost regions and regions with low population density from the general prohibition on operating aid. However, no mention is made of other clear structural handicaps, such as those suffered by island, border or upland regions. In the case of regions with permanent handicaps, it would make sense not to demand that operating aid be degressive and temporary.

c) Other consequences for regions no longer classified under Article 87(3)(a)

The Committee of the Regions

stresses the fact that, by no longer classifying regions under Article 87(3)(a), not only will aid percentages be reduced, but percentage bonuses will also be lost in various horizontal or sectoral frameworks, and exemptions from certain prohibitions or limitations will be lost, such as for operating aid, aid to companies in difficulty, ad hoc aid, etc.;

calls on the Commission to examine whether regions with natural, structural or demographic handicaps that are no longer to be classified under Article 87(3)(a) could benefit from the more favourable treatment granted to such regions.

Areas that could be covered by the exception under Article 87(3)(c) TEC

The Committee of the Regions

welcomes the fact that the Commission is willing to adjust the percentage of the population living in the regions coming under Article 87(3)(c) by including all those regions no longer covered by Article 87(3)(a); believes, however, that the regions suffering from the statistical effect of enlargement should, to all intents and purposes, be covered by Article 87(3)(a) and should therefore not be included in this section;

recalls that, as stated in the CoR Opinion on the Third report on cohesion, "the regions affected by natural effect" (regions no longer covered by Article 87(3)(a) due to economic growth) should "have a transition from Article 87(3)(a) to Article 87(3)(c) over the course of the aid period";

considers that, among the regions covered by the exception in Article 87(3)(c) (regions previously covered under Article 87(3)(a)), the following specific cases should be considered:
– regions no longer covered by Article 87(3)(a) for economic reasons;
– regions that, in addition to no longer being covered under Article 87(3)(a), are:
  • areas with low population density;
  • island, border or upland areas;
  • rural areas and areas affected by industrial transition;

considers that these regions should benefit from bonuses over the maximum threshold for general aid;

also requests that territories suffering serious economic crisis be temporarily eligible under Article 87(3)(c); this would apply to situations related to major restructuring measures (such as a large company closing down, with a large number of job losses);

also requests that regions suffering some of the handicaps listed above, with a GDP per capita of no more than 100%, or with an abnormally low employment rate, be temporarily eligible under Article 87(3)(c). The Commission should periodically review economic regional indicators, in order to assess the eligibility of regions receiving aid under RAGs;

considers that the different problems in each region should be evaluated in line with various criteria so as to measure the region's competitive and economic development potential, and that state aid should be granted in a flexible manner in accordance with these criteria.

Areas covered by the regional competitiveness and employment objective

The Committee of the Regions

welcomes the Commission's decision to take a thematic approach rather than one based on selected geographical areas, in order to achieve consistency between competition policy and regional policy and the objectives of Lisbon and Gothenburg;

with regard to the provision under which regions excluded from Article 87(3)(a) and (c) (except for the "phasing in" regions) can be eligible for horizontal aid, in line with the objectives set out at the last European Councils, warns that economic situations and territorial differences may need to be taken into account in order to meet the regional policy objectives;

proposes, therefore, that regions be classified according to their level of competitiveness, so that the horizontal aid can be received in a graded manner;

believes that the criteria for territorial classification of unassisted regions should be covered in the new regional aid guidelines, and that the horizontal frameworks should allow for more favourable treatment of regions with lower levels of competitiveness, based

CdR 77/2005 EN/ES-AC/VN/RD/mc       .../...
on the classification drawn up in the regional aid guidelines. This more favourable treatment could involve bonuses above the aid thresholds provided for in the horizontal frameworks;

draws the Commission's attention to the fact that, in its most recent proposal for maximum regional aid thresholds, the only percentage increase considered was for small and medium-sized enterprises in non-eligible regions. This contrasts with the considerable reduction planned for certain eligible areas (especially those affected by the statistical effect and natural growth);

believes that the cohesion policy objectives defined in the Treaty require different treatment in line with the various situations and problems that actually exist; calls on the Commission to define the different treatment required for each region, according to its level of development and competitiveness;

highlights the case of unassisted regions which share a land border with another, assisted region of a Member State; requests that in such cases, as well as drawing up maximum differential aid percentages between neighbouring regions, other parameters be taken into account that compare regions' economic and competitive capacities. This would prevent situations that are unjustifiable in terms of the European cohesion policy;

calls for ceilings to be established for volumes of overall state aid, according to the level of regional competitiveness. This figure could be determined in relation to per capita GDP or to the population.

Regional aid and horizontal frameworks

The Committee of the Regions

requests that, in order to meet the strategic objectives set at the Lisbon and Gothenburg summits, horizontal aid (R+D, environment, employment, training, etc.) should be boosted particularly in regions with a lower level of economic development or competitiveness; to this end, particular emphasis should be given to coordinating the various rules regulating regional and horizontal aid;

requests that for both assisted and unassisted regions, bonuses over the aid thresholds provided for in the various horizontal aid frameworks should be considered, both graded and in line with the various regional situations;

considers that de minimis aid, low-level aid, or aid with limited effects on Community trade cannot alone counteract low development levels in a particular region; on the contrary, this type of aid can be used to a higher degree in countries or regions with a greater financial capacity and, therefore, higher wealth indicators;
proposes, therefore, that the European Commission analyse and take into consideration the impact of this type of aid on regional development.

Sectoral aid and regional development

The Committee of the Regions

highlights the fact that aid granted in some sectors particularly affects the economic development of regions; this applies to aid in the transport sector, for example; draws attention to aid to low-cost airlines or maritime transport, which can boost the development of regions with greater economic problems, often caused by geographical barriers;

proposes making special efforts in this field in order to effectively coordinate all aid that impacts on regional development, so as to ensure favourable treatment of sectoral aid granted in less developed, less competitive regions;

welcomes the European Commission's efforts to develop the regulatory framework for services of general economic interest. It would also be desirable for less prosperous regions to have a more favourable framework for the development of their services of general economic interest.

Types of aid

The Committee of the Regions

recalls that regional aid is granted as direct aid to investment or investment-linked employment aid. However, other means of support have also proved particularly useful in boosting entrepreneurship and promoting productive investment to improve the economic climate; this applies to equity participation in enterprises, regional risk-capital funds, business incubators, guarantees, affordable industrial land (particularly in regions where it is very expensive), etc.;

believes that particular consideration should be given to aid consisting of bonuses or tax exemptions for investment. This aid offers major management benefits for public authorities, simplifying administrative and budgetary procedures; it also has the advantage of not differentiating between gross and net grant equivalents in the amounts awarded;

urges the Commission to consider adding new forms of support to regional aid, which would optimise the use of public funds and have a more limited effect on competition.
Aid and relocation

The Committee of the Regions

is pleased to note that the proposal for the new Community Structural Fund Regulations introduces a requirement to maintain investments for seven years, with Community aid forfeited if the recipient company relocates to another area before this period expires. However, exceptions could be made in the case of grants for technologically advanced equipment.

Definition of initial investment

The Committee of the Regions

believes that it is as important to modernise companies already set up in an area as it is to attract new companies. However, modernisation can be supported via the available horizontal aid mechanisms (environment, research and development, employment, training, etc.); therefore, investment eligible for regional aid could be limited to initial investment (i.e. for start-up). However, in any case, unfavourable treatment should not be given to companies already established in a particular area and investing in modernisation, as opposed to companies with similar investment projects that are setting up in the same area. Also, if support is only given for initial start-up, businesses might be encouraged to relocate;

considers that land purchase and development costs vary greatly from one region to another, depending on the physical features of the terrain therefore, rather than prohibiting the funding of land-related costs, it would be better to limit it as a proportion as the planned investment total, in regions where land purchase, development, etc. are a significant factor;

also proposes introducing systems or percentages for intangible investment in order to limit the maximum amount of funding in relation to the total investment.

II. The Committee of the Regions recommendations

The Committee of the Regions calls for:

1. the reform of regional aid in order to redirect it and reduce its overall amount, not just by reducing thresholds across the board but, rather, taking account of different regional situations and the priorities set out by the EU;

2. the drawing up of objective criteria to classify regions and grade regional aid in line with the cohesion objectives;
3. other classification criteria to be laid down in order to take account of the specific features of each region, independent of geographical location. This classification should be adapted to take account of the progress made by each region over time;

4. percentage bonuses to be given consideration for regions with natural, demographic or structural handicaps, whether classified under Article 87(3)(a) or 87(3)(c) of the EC Treaty;

5. the inclusion of bonuses to be given consideration in the horizontal frameworks for regions according to their levels of development and competitiveness (assisted and unassisted regions);

6. the coordination of regional aid guidelines with horizontal aid and the priority objectives of the Lisbon agenda;

7. the inclusion of coherent criteria in the regional aid guidelines relating to aid for sectors that play a key role in regional development;

8. special consideration to be given to new forms of business support (risk capital, guarantees, equity participation, tax relief, etc.).

_____________

Brussels,

The President
of the
Committee of the Regions

The Secretary-General
of the
Committee of the Regions

Peter Straub

Gerhard Stahl

* *

* * *

N.B.: Explanatory statement overleaf.
EXPLANATORY STATEMENT

The European Commission has just undertaken a revision of regional state aid, to adapt the regulations to the new objectives of the cohesion policy.

In the two documents submitted to date by DG Competition for consultation with the Member States, the main proposal is to lower the maximum thresholds for regional aid. This is based on the commitments undertaken by the European Councils of Stockholm and Barcelona regarding the reduction and re-orientation of state aid.

The rapporteur believes that the Commission should go further than to provide for a generalised reduction of the ceilings for aid without taking into account the diverse situations found in Europe and the impact on territorial cohesion. Furthermore, the need should be considered for transitional measures to prevent European enlargement adversely affecting some regions. These transitional measures would concern only a small percentage of the population and areas which have not received large amounts of regional aid over the last few years. Therefore, transitional aid measures that are sufficiently generous to enable regions to achieve the average European convergence levels throughout the period 2007-2013 will not jeopardise the fulfilment of the European Councils’ commitments.

In a European context, it is appropriate to identify two very different situations: those European regions with major handicaps preventing their convergence with the European average, and those regions that have achieved growth but need to improve their competitiveness. Each situation should be dealt with differently, grading the ceilings in both the guidelines on regional state aid (for regions with a lower level of economic development and with structural, demographic and natural handicaps) and the frameworks for horizontal aid (for regions not eligible for regional aid). Furthermore, in order to better assess the various regional situations, other indicators than the traditional measure of GDP, such as the employment rate, should be taken into account.

The rapporteur believes that the cohesion and competition policies complement each other. Both seek to meet growth, competitiveness and sustainable development objectives throughout the EU, in line with the Lisbon and Gothenburg agenda.

It should be recognised that less developed regions have to rely both on increased aid through Community funds, and on greater discretion in the granting of state aid, which can stimulate investment and employment, and therefore economic development.

There are also notable differences among the most prosperous regions and these should be taken into account. Therefore, it is proposed that grading is provided for in the frameworks for horizontal aid.

The rapporteur believes that state aid, as an instrument of government economic policy, should be aimed at the priority objectives fixed by the Lisbon and Gothenburg agenda: research and development, skills, innovation, sustainable development. In addition, the cross-sectoral objective of balanced economic development throughout the European Union should not be overlooked.

Some basic issues regarding state aid and regional aid

10 The regions most affected by the Commission’s proposals are those affected by the statistical effect and by natural growth.
Articles 87 and 89 of the EC Treaty provide the regulatory framework for state aid in the EU. The general rule established in Article 87(1) of the EC Treaty is that state aid is incompatible with the common market.

The criteria that define a state aid for the purposes of Article 87 are the following:

- it is granted by a Member State or through State resources (whether cofinanced or exclusively state financed). The reference to Member States signifies any of the Member States’ authorities, whether national, regional, local, public enterprises …;
- it affects trade between Member States;
- it distorts or threatens to distort competition;
- it favours certain enterprises or products;

A derogation from the general rule banning aid can be granted in various circumstances. Those that are most relevant with regard to regional policy are those recognised in Article 87(3)(a) and (c).

**Article 87(3)(a)** refers to “aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment”.

**Article 87(3)(c)** refers to “aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest”.

Article 88 of the EC Treaty specifically gives the European Commission the responsibility for determining if planned aid is compatible with the common market in accordance with Article 87.

The Commission is the author of the regulatory framework aimed at establishing the conditions under which aid granted by state authorities is judged to respect free competition within the European internal market. The rules on state aid are divided into three categories: regional aid, horizontal aid and aid destined for certain sectors of activity respectively.

To get round the general ban on state aid, there are procedures for notifying and communicating with the European Commission aimed at gaining this institution’s approval.
<table>
<thead>
<tr>
<th>COHESION POLICY OBJECTIVES</th>
<th>TYPE OF REGION</th>
<th>COMPETITION DG ORIENTATIONS</th>
<th>DRAFT OPINION PROPOSAL</th>
<th>SOURCE/LEGAL BASIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONVERGENCE OBJECTIVE</td>
<td>ART. 87.3.A) REGIONS</td>
<td>NUTS II Regions with GDP/cap &lt;75% • Outermost regions</td>
<td>• NUTS II Regions with GDP/cap &lt;75% and other indicators (employment rate)</td>
<td>• Economic surveys</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Outermost regions</td>
<td>• New Constitutional Treaty</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Statistical Effect Regions</td>
<td>• New Constitutional Treaty (ART. III-220)</td>
<td>• Oviedo Declaration</td>
</tr>
<tr>
<td></td>
<td>ART. 87.3.C) REGIONS</td>
<td>Regions losing 87.3.a) status: • Statistical effect • Economic development • Low population density • (Operating aid, bonuses in aid intensities)</td>
<td>Regions losing art. 87.3.a) status: • Economic development: • Low population density • Island regions • Mountainous regions • Rural areas • Industrial crisis affected Measures: • Bonuses in accordance with regional development level • Regions with these handicaps and GDP/cap within 75-100% or low employment rate: transitorily inclusion in art.87.3 c) status.</td>
<td>&quot;Natural effect&quot; regions Declaration.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• New Constitutional Treaty (ART. III-220)</td>
<td>• Draft Regulation on general provision on the Structural Funds (art.3.3.)</td>
</tr>
<tr>
<td>COMPETITIVENESS AND EMPLOYMENT OBJECTIVE</td>
<td>Rest of European territory</td>
<td>European Councils of Lisbon and Gothenburg</td>
<td>European Councils of Stockholm and Barcelona</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>---------------------------</td>
<td>-----------------------------------------</td>
<td>-------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>• Thematic approach &gt; horizontal aid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Reduced amounts of State aid and of certain aids with limited effect on trade</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Transitional measures for regions losing art.87.3 c) status</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Classification of regions based on their level of competitiveness.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Proposal of new indicators and bonus above the maximum thresholds of horizontal aid.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Establish maximum amounts of aid at regional level based on the regional competitiveness.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Unfortunately, I - as rapporteur on the report "State aid as a tool for Regional Development" for the Committee on Regional Development of the European Parliament - am not able to attend the seminar today due to other commitments. I regret not being able to take part in this important exchange of views.

I welcome very much the initiative by the Region of Asturias, together with the Committee of the Regions and the CRPM, of organising a seminar on the issue.

I can assure you that the European Parliament is paying major attention to the issue and would like to contribute to the discussions today by informing you about the state of play of our work on this issue.

Introductory remarks

Our Committee, the Committee on Regional Development, of the European Parliament took the decision to elaborate a report on the issue of "State aids as a tool for regional development". According to the Rules of the Procedure of the European Parliament, we are in charge of assessing the impact of other Union policies on economic and social cohesion. And - without doubt - State aids have an impact on economic and social cohesion.

It is not the first time the European Parliament has made its voice heard on the issue of State aids. Previous European Parliaments have adopted a number of reports prepared by the Committee on Economic and Monetary Affairs. Our Committee addressed also the issue, notably in April 2004 in its report on the Third Report on Economic and Social Cohesion in the EU. The debate is therefore not a new one.

However, it is the first time since the inception of our new Committee on Regional Development in September 2004 that we not only issue an opinion related to State aids, but we exclusively dedicate a report to this topic. This urges us to assess the issue in greater depth on the rather complex issue of State aids.

What is the aim of the European Parliament's report?

Put in a nutshell: To help to strike the right balance.

First of all, let me briefly remind you what we are specifically talking about. Since State aids distort competition in the Common Market, the EU treaty only allow State aids for specific purposes and under certain conditions. Article 87 § 3 lists the types of State aids, which are compatible with the Common Market. Among the 5 types of States aid compatible with the Common Market figure Art. 87 § 3 (a):

- Aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment.

and Art. 87 § 3 (c):

- aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest.

These articles are relevant for so-called Regional State aid. The EU Commission has the power, in cooperation with the Member States, to define more specifically the conditions under which
these two types of State aid are permitted. The current EU Commission's guidelines, which regulate Regional State aid, will expire at the end of 2006.

The current debate to review the current State aid regime was launched last year. It is driven by major stakeholders disposing of a large expertise on this complex issue such as:

a) DG Competition of the European Commission legally handling the authorisation of State aids,
b) The EU Member States' and regional administrations granting State aids on the basis of legal and economic considerations, and
c) Regions directly affected by European and national policies,

In order to exert its responsibility the European Parliament must reflect on the aim of its contribution to the deliberations. Hence, what should the Committee on Regional Development of the European Parliament be aiming at?

- We should try to watch over consistency between the new Cohesion policy and the reform of the State aids rules. There is a risk that negotiations on the reform on State aids rules with Member States, currently developing their own dynamic, go on in one way and the debate on the new Cohesion Policy following possibly another dynamic, in particular depending on the outcome of the negotiations on the financial perspectives, will go on in another direction.

- We should aim to ensure a balanced approach between the aim of reducing State aids and the capacity of the EU Member States to intervene with the aim of ensuring territorial Cohesion at national level as well as at European level by using State aids without distorting competition in an unfair manner.

- We should try to suggest alternative, innovative solutions for the contentious issues, which have already been singled out in the current debate about the new Regional Aid Guidelines to be tabled by the EU Commission. There is no doubt that the EU Commission, Member States' and regional administrations are well familiar with State aid rules and dispose of much more expertise, however, sometimes their experience, combined with vested interests, may limit their scope of thought.

Last but not least, I would like to mention that we believe that communication between all the different players involved in the deliberative process - the regions, the EU Member States, the EU Commission, the Council, the Committee of the Regions and the European Parliament – is crucial to ensure a valuable contribution of each stakeholder.

Where are we with the debate in the Committee on Regional Development of the European Parliament?

We had a first exchange of views on the issue during our last Committee meeting on the 29th of March.

At our next Committee meeting in two days, on the 20th of April, we will hold a hearing with 2 experts on Regional State aids...:

- Mr. Tvrdoň from the University of Economics in Bratislava (Slovakia) and
- Mr. Vuillermoz from the University of Turin
- together with Mr. Humbert Drabbe, Director of the Regional State aid Directorate within DG Competition of the EU Commission.

Following the debate this week and possibly after a bilateral meeting with Commissioner Kroes and consultations with the Committee of the Regions, I will present a draft report to our Committee on Regional Development in the European Parliament on 15th of June 2005. Hopefully, Commissioner Kroes will be able to accept our invitation to this debate and she will be in the position to present the Commission's State Aid Roadmap to our Committee during this meeting.

We have planned to vote on my report in our Committee in July, before it will be adopted by the Plenary next September.

In parallel to our report on State aids, we are discussing a report on relocation. We believe there is a link between these two issues, we should not ignore it.
What are the points we will focus on?

I would like to mention a couple of issues, which might be addressed more specifically in our report. Let me make the remark that at this stage of our deliberations, the list of issues is rather indicative than exhaustive or definite:

- Fair treatment of "statistical effect regions" in comparison with objective 1 regions,
- Possibility and conditions for EU Member States for granting State aids to large companies in areas outside the Statistical effect regions and convergence regions, which have to face socio-economic problems.
- Treatment of deprived areas in wealthier regions, in particular of so-called "urban poverty pockets",
- Setting of fair maximum aid differential in border regions between old and new Member States and provisions to avoid negative effects.
- Necessity and type of provisions to avoid financing by State Aid relocations causing a serious loss of jobs from one EU Member State to another,
- Time-span for reviewing the classification of regions,
- Definition of eligible expenses and initial investment,

In a wider context of the reform of State aid regime, our Committee should draw its attention to the following points:

- Transparency of the rules for granting State aid,
- The EU State aid regime as an instrument to realise the Lisbon Strategy. In this context, it might be discussed to what extent State aid to big enterprises for Research and Development and the environment should be granted for this purpose.

Conclusions

We believe that State aids, not only for regional purposes, are an important tool for regional development. We think that we have an important role to play in the process of reforming the EU State aid regime. We are aware that we are no experts on State aids, rather on regional development, therefore, in order to make a reasonable contribution, our Committee on Regional Development has to reflect thoroughly on the objective of our report.

We have recently embarked upon the process of deliberations and we would like to work closely with all other parties involved in the debate. Thank you very much for your attention.
Introduction

I must start by making two preliminary points. I feel that on behalf of us all I should thank CPMR for the diligence with which analysed and graphically presented this issue and the Region of the Asturias for its leadership in convening this meeting and especially for the draft Opinion prepared for the Committee of the Regions. This draft Opinion is excellent, lucid and comprehensive. EURADA, Euromontana, CPMR could have no better framework upon which to base our own arguments.

I am participating in this Conference in 3 capacities. As a Board Member and former President of EURADA, as the current President of Euromontana and my official capacity as Head of International Affairs for Highlands and Islands Enterprise, the UK Government’s Development Agency for the North of Scotland. Interestingly there is no significant conflict between these 3 roles. For the purpose of the credibility of what I am about to say, therefore, you should remember that the views I express are not just those of Euromontana and Highlands & Islands Enterprise but in principle are also shared by EURADA. Being the European Association of Regional Development Agencies, EURADA really cannot be accused of special pleading, having a regional geographic interest or a vested interest as Mr Koterec’s speech has just put it.

NO! Corporately EURADA sees the issue quite objectively. We acknowledge the need for reducing State Aid but NOT by simply reducing thresholds across the Board – nor do we think a horizontal exclusively ‘Lisbon Centric’ solution is appropriate.

In short EURADA emphatically supports the need or differentiation.

The Changed Context

We recognise the changed context in terms of enlargement, globalisation and the Lisbon Agenda.

The European Union has grown from 6 to 25 Member States and shortly will incorporate Romania and Bulgaria; responsibly we must also contemplate the possible addition of Croatia and the rest of the Balkan countries, the Ukraine and Turkey.

Globalisation means that public interventions in, for example, the USA and China is much more likely to disturb the competitiveness of European firms than public intervention in any European Union regions.

Clearly the European Union and world landscape has changed and we must respond but we must be very careful to ensure that the response is proportionate and takes into account the medium and long term perspective as opposed to immediate short term gain.

The Lisbon Agenda and the Threat of Polarisation of Economic Activity

The Lisbon Agenda’s concentration on growth and competitiveness is welcome but we have a responsibility to point out the significant differences in the way that these objectives can be secured and the respective dangers to the fabric of European society. We can either pursue short term achievement of growth by investment in areas of maximum growth opportunity (i.e. growth poles) and achieve agglomeration. From a theoretical perspective we cannot argue with the Economist’s simple proposition that Agglomeration = Growth.
OR alternatively we can Optimise/Maximise and Preserve all our uniquely diverse assets and arguably achieve longer term, wider based consolidated growth.

Surely though we must go for optimum efficiency!

The achievement of agglomeration by policies which favour growth poles will indeed clearly achieve growth. But in the long term this will encourage congestion and pollution in cities and central regions and will ultimately cause desertification in other more challenged areas and the neglect of their resources. The significance of pursuing the wrong policy here is difficult to over-state. Recent papers considered by Notre Europe – President Delors’ Think Tank and work produced by Nordregio, the Nordic Council of Ministers Research Institute, has drawn attention to a wide European phenomena of accelerating polarisation of economic activity and has warned of consequent serious social and civil dangers.

We recognise, however, the Lisbon arguments that if Europe as a whole is to be competitive in the World Market, we must address the key areas of:

- Research
- ICT
- Innovation
- Enterprise creation and gazelles (high growth, high technology companies)
- Provision of Equity Capital

In the past, we would have argued that aid should go exclusively to the disadvantaged regions, not to Centres of Excellence because “the market will look after those” but now we are in a global market that can easily promote Centres of Excellence in other continents (as I think the French speaker has pointed out) while EU Centres of Excellence fall behind.

This is the crux of the matter. The tension between State Aid as an instrument of Regional Development and State Aid as an instrument to realise the Lisbon Agenda.

How do we address this dilemma while also addressing the Stockholm and Barcelona’s requirement for less and better targeted State Aid and not exceeding the 50% eligibility of population rule?

**Regional Aid**

With regard to regional aids, it is fascinating that in State Aid proposals that show an almost total lack of consistency with the Structural Funds Regional Policy proposals, the only major consistency is entirely spurious – the perverse insistence that the Statistical Effect Areas must lose their Article 87(3)(a) State Aid status because they are being deprived of their Objective 1 Structural Funds status. There is no similar commitment to consistency with Structural Funds policy by conceding State Aid threshold flexibility to mirror the ERDF premium envisaged for mountain, island and sparsely populated areas. This omission must be rectified.

With regard to the Statistical Effect issue, there is a fundamental distinction: Structural Funds status involves a payment of European funding, State Aid status involves only the granting of a European permission. The Statistical Effect regions would be entirely justified in resisting the Structural Funds proposals on the basis that nothing whatsoever has improved in their economic predicament with the notional statistical improvement suggested by the decrease in the European average GDP caused by Enlargement. This is inequitable but the regions concerned recognise the hard reality that Structural Funds are severely restricted scarce means with alternative uses. The equitable recognition of their State Aid eligibility however has no European budgetary implications whatsoever. Moreover, the unjust treatment with which the current Statistical Effect regions are being threatened will be repeated in respect of some current Accession regions as the envisaged further Enlargement referred to earlier occur.

The Statistical Effect regions must be permitted to retain their Article 87(3)(a) status: it should be made a point of European honour.

In effect, severe reduction in Article 87(3)(c) coverage by comparison with the present current State Aid regime.

Looked at more broadly, the Regional Aid proposals in total propose a significant contraction in total coverage – Article 87(3)(c) status being severely restricted to specific ‘transitional’ based categories.
The result is that a remote/mountain/island location that is eligible for either Article 87(3)(a) or (b) status has to compete on the same State Aid playing field with entirely structurally ‘undisadvantaged’ central regions. Moreover the aid in the latter areas can inevitably achieve less additionality for the greater benefit of the European economy.

This unfair impact of the Commission’s proposals is entirely avoidable.

The German Federal Government has just calculated that the EC proposal leaves a margin of 17.5% of the EU population that could be granted State Aid eligibility without breaching the 50% population ceiling. It follows that consistency with the Structural Funds policy in respect of areas with structural disadvantages could be achieved by concessions to these areas. The target of LESS State Aid could still be achieved within that by greater efficiency or by imposing a ceiling on Member States’ total volume of State Aid.

There is also the issue of the Commission’s proposal to reduce thresholds across the board. We would worry that thresholds could eventually reach such a low level that aid would procure no additionality – assistance offered below a certain threshold has no impact on the recipients’ business decisions and is simply a gift.

**Horizontal Guidelines**

Finally, I would turn to the horizontal proposals where the intention is to relax horizontal guidelines in respect of research and development, innovation, training and SMEs.

The horizontal guideline proposals share the same flaw as the Regional Aid proposals in that regions not eligible for regional aid with natural, demographic or structural handicaps have to compete on precisely the same terms as those available to Oxford, Cambridge, Paris, Frankfurt etc. This relaxation of horizontal guidelines, therefore, can responsibly be described as favouring Europe’s Golden Pentagon of London, Paris, Milan, Munich, Hamburg over significantly more challenged regions but nonetheless could offer similar or better growth. It is difficult to see how the Commission’s proposals respond to the overriding injunction of the Stockholm and Barcelona Councils to achieve less but better targeted growth. They are in danger of failing on both counts.

At the recent Commission Conference in Brussels on 3 March, Commissioner Kroes stressed the importance of her horizontal guidelines proposals – as these activities are essential to achieve the Lisbon Goals.

The Commissioner was vigorously criticised – for the reasons I have just explained.

In subsequent discussion with the Commission – Euromontana, EURADA & CPMR have pointed out that at one end of the spectrum of horizontal guidelines, (Research & Development) there is more compelling reason for this approach than at the other (SME). One can understand the sense in allowing Member States the flexibility to support Centres of International Excellence in Research and Development in order to maintain competitive standing with counterpart Centres on other Continents but enhanced power to enhance SMEs has no similar justification and simply in practice gives an unfair advantage in a field perceived as vital to the wellbeing of the more challenged regions.

This might be resolved by the modulation of State Aid intensity based on territorial differentiation within each of the horizontal guidelines. One could see central prosperous regions sharing the same horizontal State Aid facility to support the highest level Research and Development excellence but not more orthodox standard Research and Development. There could be a similar differentiation in the other horizontal fields such as between standard training and sophisticated high tech training.

It is difficult to see what differentiation in favour of central regions could be justified in respect of SMEs.

Frank Gaskell
21 April 2005
Ladies and Gentlemen of the Authority, Ladies and Gentlemen,

Since the coming into effect of the Single European Act in 1987, social and economic cohesion has become a political imperative, as much for the Union as for its Member States. The objective of the policy of cohesion is transparent: to reduce the disparity of development between the least developed countries and regions and those most prosperous. Throughout the last ten years, these differences in development have progressively diminished. However, notable differences remain within certain Member States, as highlighted in the successive reports on cohesion produced by the European Commission. Today, we are able to affirm that the paradigm of this progressive reduction of the interterritorial disparities is in Eire, which, as one of the four countries of the cohesion, has become the country of the EU with the second highest level of revenue.

The founding of the cohesion policy resides in Community solidarity on the attribution of the expenditures of structural Funds and the Cohesion Fund to the budget of the Union. The most prosperous States do make a large financial effort, it has to be said, to contribute to the development of the least advantaged areas and towards a better well-being and a higher level of living for the citizens of these countries. This, no doubt, has reinforced in these countries the sentiment of belonging to the Union.

Additionally, the reunification of Europe, and the construction of "Great Europe", is founded on a common project based on cohabitation in peace, liberty, democracy and the respect of fundamental human rights. It has counted, and counts still, on the majoritarian support of the Member States and European citizens. The birth of Europe-25, the 1st of May 2004 and Europe-27 in 2007, with the entry of Bulgaria and Rumania, has been welcomed with satisfaction by the countries and cities that formed the Europe-15.

However, by the 1st May 2004, in the countries and regions of the ex-Europe-15, and in direct consequence of the expansion, the GDP per inhabitant had increased by nearly 12.5%, without their objective respective situations having changed. With the approaching entry of Bulgaria and Rumania in 2007, the difference between their average GDP and that of the EU will double, passing from nearly 30% below the average to nearly 60% below the average.

This increase in GDP per inhabitant has consequences on the regions in Statistical Phasing Out. If, in the time of the Europe-15, the GDP per inhabitant in these regions was less than the threshold of 75 % of the Community average, in the Europe-25 it passes this threshold of 75 %, which would render these regions ineligible according to the application of objective 1 in the cohesion policy. Taking into account the fact that these regions have exactly the same structural problems after the expansion, there are enough important reasons why aid should continue to be given to them beyond 2006, in order for them to be able to finish their convergence process, as attested by the third report on cohesion.
However, not only do we not put into question the fact that the cohesion policy should concern the least prosperous regions, notably the new Member States, but also we support the propositions of the Commission, as much on the plan of communication, as on the financial perspectives for the programmation period of 2007-2013, as set out in the third cohesion report. In this way, the main beneficiaries of the community resources destined for the cohesion policy should be the least privileged regions of the expanded Community.

Having said this, we consider that the policies of cohesion and public aids are complementary; both have the aim of contributing to the success of the objectives of growth, competition, and durable development over the whole of the EU. In the least developed regions, the challenge posed by the achievement of these objectives is, by definition, much larger than in others; hence the necessity of a more accentuated aid and considerable support by the EU budget.

Given that the current regime of public aid permits the favourisation of the least privileged regions, control of this type of aid must contribute to the attaining and reinforcing of the cohesion policy objectives. Thus, as regards the regions affected by this 'statistical effect' that have not yet finalised this process of real convergence, it would be reasonable that they continue to benefit from public aid in the same way as they do today.

With this in mind, we must show our divergence of opinion concerning the propositions of the Directorate-General for Competition on the revision of state regional aids: we note that the regions are obliged by the 'statistical effect' to make as much effort as possible, and that at the same time the capacities of the territories not included in the domains of priority of the cohesion policy are increased. In fact, in the propositions of the Commission relating to the regions of 'statistical effect', the aids authorised are reduced by 25%, 30% or 20%, according to whether it concerns large, medium-sized or small businesses at the end of the period of programmation.

Consequently, in accord with the Oviedo Declaration and to conclude:

1º. We understand the budget limit of 1.25% of the Community's Gross National Income (GNI) (1,14 % payment obligation) is the minimum that can be asked to be able to continue to develop a policy adapted to economic, social and territorial cohesion over the whole of the Union.

2º. In order to attain a cohesion policy that brings a truly adapted response to the increase of region disparities brought about by the expansion, it is necessary to give over at least 0.46% of the Community's GNI to this policy, as in 1999 with the EU-15.

3º. Despite the fact that the previous Commissioner of Regional Policy, Michel Barmier, declared before the European Parliament that the regions affected by the 'statistical effect' were attributed a transitory aid of around 2/3 of the aid they receive for the period 2000-2006 for them to complete their convergence process, we believe that, given the particular difficulties of these regions, they should be included in the objective of 'Convergence' to all useful purposes.

4º. As concerns the Cohesion Fund, we think that a transitory period should be established for the countries of the EU-15, of which the Gross National Production (GNP) is superior to 90% of the Community average after expansion. A case in point is that of Spain, where the cohesion fund has played a fundamental role in aid to the least developed regions. Otherwise, in the case where the proposition of the Commission is put into practice, this would suppose a supplementary penalisation for these regions, including those affected by the 'statistical effect'.

5º. We ask that the regions affected by the 'statistical effect' should be included in the field of application of article 87.3 a) of the EC Treaty with regard to the attribution of public aid, during the whole of the programmation period 2007-2013. This concerns in fact the regions "...in which the level of living is abnormally low and the rate of unemployment very high...", as stipulated in the text of the said article.

6º. We also ask that the proposition of the Directorate-General for Competition with regard to the platforms of regional aid to businesses of the regions affected by the 'statistical effect' be revised, as we consider that they could be particularly detrimental in these regions.
Dear Mr Chairman,

This presentation should have been made by The CPMR’s Islands Commission President Mr TSOKAS who sends his apologies as he has been chairing the Islands Commission Conference in Martinique which has been debating the impact of D G Competitions proposals on the review of regional state aid and other matters. I will make reference to the final declaration that was taken in my concluding remarks.

It will not come as any surprise that my brief is to convey to you the impact D G Competition proposals if activated will have on the EU Islands.

Bearing in mind the time factor involved I have assumed that those gathered here today are fully aware of where we started and what is now in front of us.

I am thankful to CPMR for the technical paper they prepared (7th February 2005) headed the Territorial Impact of D G Competition’s Proposals on the Review of Regional State Aid. I now refer to the spatial consequences these proposals will have on the EU Islands.

One of the main consequences of these new proposed measures will see the total elimination of all forms of Territorial differences within the EU. Adopting a one size will fit all, if a region or in our case an Island does not fall within the following categories.

1) Convergence objective regions (former OBJ1)
2) Outermost regions
3) Regions with low population density
4) Phasing out and phasing in regions

This will mean that as far as current Objective 2 areas are concerned, wealth at a National, Regional and Sub Regional level would no longer be taken into account. The capacity to attract businesses or to encourage growth would, for instance, be considered to be exactly the same for:
- The Centre of London, Frankfurt, Paris or Milan.
- Rural areas in decline
- Areas in the process of Industrial Restructuring
- All Territories suffering from permanent handicaps (Islands being an example) that are not eligible under objective one phasing in or out.

These proposals undermine the principles of economic and territorial cohesion.

We know that the main objective as approved by the Council is an overall reduction in State Aid spending.

However in achieving this objective the possible consequences of such actions could see a decline in the growth of the EU’s Economy contrary to what the Commissioners wish to achieve. The depth of impact will vary because of the diverse and varying needs of the Regions/Islands that will be affected by these proposals.
If one compares the current situation to that being proposed one can see where the burdens will fall.

Yet in contrast the unassisted regions will have their capacity increased. Surely this cannot be right!

It should be noted that amongst the losers will be the outermost regions and objective 2 areas. Despite the outermost regions being subject to a special condition status endorsed by the Commission.

The current system ensures that state aids are specifically focused and fine tuned onto Regions/Islands agreed by the Member States with the Commission.

These proposals will remove such a focus and see a more diluted approach in how state aids are to be spent in the future. Again, I ask can this be right?

In reaching these proposals, no reference or consideration seems to have been given to the “Pure Statistical Changes” that has occurred as a result of enlargement. Not because the Region or Island has achieved real economic growth. Article 87-3A does not take this factor into account. By example, Regions and Islands formerly identified as being in need of financial support suddenly are now seen to be more affluent. I refer to the artificial growth in the EU/GDP’s percentage figure. Bearing in mind that the criteria for objective one funding is still set at Nuts Level 2 and below 75% of the EU average. The GDP percentage now recorded gives a false impression as to the real economic/socio position of such areas.

These state aid proposals do in part conflict with the Commissions proposals in the draft general regulation of structural funds, in which they acknowledge the E.U. Island’s case by giving such Islands a bonus with the co-financing rate. Do you not consider that in the name of consistency this should also apply to the allocation of state aids as well?

I acknowledge there is no perfect mechanism in terms of allocating funds to the E.U. Island though one could consider an average 10% bonus for Islands in each of the respective categories. This establishes the principle of differation between an Island and a mainland region which would not undermine the commission overall classification mechanism. Higher rates could be considered for the small E.U. Islands and those in the outermost regions.

This should also be applicable to the horizontal aid, guidelines, innovation, environment etc. Such a course of action would support that contained in the new treaty i.e. reference on several occasions to the objective of “Territorial Cohesion”, alongside economic and social cohesion.

The attention given in the treaty to services of general economic interest is in line with the principle of economic, social and territorial cohesion article II-96 and III-122. The E.U. Islands are highly dependent on these services on account of their remoteness restricted market size and the lower levels of competitiveness.

The clarification given to article 158 (now article III-220) recognises the existence of territories suffering from severe or permanent natural demographical handicaps including all the EU Islands.

The clarification and strengthening of the provisions concerning the outermost regions, in Articles 3-424, 3-167 and Article 4-440. (D.G. Competition Proposals for State Aid negate these provisions as far as State Aid is concerned)

The Island Commission challenges the Commissions future guidelines for Regional State Aid which will penalise the Unions poorest regions subjecting them to the biggest reduction in caps on subsidies while significantly raising the ceilings applicable to the wealthiest regions (my earlier reference to one size fits all) pays no heed to the specific situation of Islands as recommended in Article 111-220 of the Treaty.

I did refer earlier to a possible bonus mechanism that would address this situation.

The Islands Commission notes the uncertainties which surround the Commission’s Budget proposals.

The Island Commission are aware of the various proposals put forward by the Commission which tends to encourage either tax dumping (i.e. replacing the net grant equivalent NGE rate with the gross grant equivalent GGE rate as part of this regional aid review or social dumping (proposed directive on services))

All of these measures constitute a negation of the objective of territorial cohesion advocated in the Constitutional Treaty.

The Islands Commission are concerned that most of these risks could be implemented before the treaty actually comes into force yet the effects of same will be felt long after it’s ratification.
The Islands Commission therefore urges Member States and European Institutions

- To be aware of the dangers of wishing to ratify a Treaty, while at the same time drawing up policies that are diametrically opposed to the very principles that constitute some of its most significant achievements;

- To convey without delay a strong signal to the Union’s island populations by introducing a territorial cohesion policy backed by the adequate financial and regulatory resources;

- To bring in measures (particularly as part of competition policy) that will allow islands to open up their markets while helping to cope with their exposure to greater economic, social and environmental difficulties, given the very specific context of island markets;

- To introduce measures under the state aid regime, allowing Member States to apply a differentiated system to the islands in proportion to their economic and social situation and to the intensity of the handicaps encountered, to help put them on a more even footing with the E.U. landlocked mainland regions.

Mr President, I know from bitter personal experiences the shortfalls that existed in the methodology applied in 1998; both in state aid and the allocation of structural funds.

I refer to the Isle of Wight whose EU GDP at that time was only 69% of EU average. It failed to attract either state aid or structural funds. Why? Because the Isle of Wight is a NUTs level 3 area. It is coupled to a much more affluent county of Hampshire to form a NUTs level 2 which produces a EU GDP in excess of the EU 100. The enlargement of the EU still sees the Isle of Wight with a GDP average a little over the magical 75% qualifying rate. If these proposals stand the citizens of the Isle of Wight will once again slip through the net of support. I am sure there will be others.

Finally, Mr President, I offer a friendly warning to those responsible for these proposals. We are all aware that referendums are to be held in a number of member states. As things stand, for some citizens it will be like asking turkeys to vote for Christmas!!

Once again I say to those responsible, please look into the mirror and see what is actual & factual not what you would like to see!

Mr President, fellow delegates, thank you for allowing me to make this presentation and plea on behalf of the EU Islands residents.
The positions presented during this seminar are no doubt as diverse as the variety of situations that exist in Europe. However, we can say that we have provided opinions which will enrich the debate.

We believe that regional state aid is a vital tool for managing economic policy. It can be used to offset imbalances arising as a result of the single market and the economies of scale it gives rise to.

The European Constitution accords the same level of importance to competition and cohesion, which is reason enough to ensure that both objectives are consistent and do not conflict with one another. This is why we hope the new financial perspectives for the 2007-2013 period will be approved during the current Luxembourg presidency, in other words, before 30 June this year.

We consider that the European Commission’s proposal, which coincides with the enlargement process and the ongoing cycle of slight economic recession, has not been made at the most appropriate time.

Bearing this in mind, the Competition Directorate-General should review its policies to ensure that they are consistent with the cohesion objective.

As far as the Commission’s proposal on maximum aid thresholds is concerned, **we have doubts about the idea of having across-the-board reductions**. Even if the ceilings are reduced, we think it is important to be more specific about the objectives and beneficiaries. We believe this is a task we can all contribute to, in order to find solutions which entail less public expenditure, but still secure support for the most promising future business sectors and projects if they are of strategic interest for a region. Special attention should be given to those with high job creation potential.

The Commission’s proposal calls for the abolition of the net grant concept and its replacement with a **gross grant**. This would undermine the fairness of the system, due to the major differences that exist in the different Member States’ taxation systems.

As far as **transitional periods** are concerned, it seems reasonable that there should be a grading of aid for regions enjoying natural growth. However, those penalised by the statistical effect as a result of enlargement must to all extents and purposes be considered as regions coming under Article 87(3)(a).
On the other hand, just as the regulations on regional state aid are being drawn up, it is necessary to be specific about the different problems regions face, and distinctions should be made between the particular difficulties of each territory and type of activity. As the European Constitution itself emphasises, this would concern rural areas, areas undergoing industrial restructuring, northernmost regions with a low population density, and island, cross-border, mountain and ultraperipheral regions.

It is suggested that regional and local authorities can play a useful role in improving the efficiency and fairness of aid granted in their area. This should be organised within strategic regional development plans.

We acknowledge that the reform of the Regulation on regional state aid is an arduous task, and are therefore at the disposal of all those involved in this process. This is why we put so much store in inviting all of the seminar’s participants to Asturias. We will also continue working on the draft opinion, to ensure that it becomes a document which is representative of the concerns and needs of a great majority of European regions. I would like to thank all of the participants for attending this seminar and remain at their disposal in order to gather contributions which might enrich the draft opinion.