# State Aids and Cohesion Policy - “Sub Rosa” discussion on: “regional policy after 2006: co-operation, co-existence or conflict” - conference organised by several Scottish business associations and sponsored by the Scotland House

**For**

**‘SUB ROSA’ A STRATEGIC DISCUSSION**

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**A. Introduction**

Ladies and Gentlemen,

I congratulate those who have organised this meeting: it comes at the right moment, and addresses very relevant questions.

The plenary paper gives an excellent overview on the overall context. Let me recall the main issues:

⁕ The objective of economic and social cohesion: A high productivity, high employment Europe must rely on sustainable and harmonious development. This harmonious development t cannot be secured without reducing economic and social disparities between Member States and regions.

⁕ The Lisbon Agenda calls on Europe to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater economic cohesion.

⁕ The Stockholm European Council called on Member States to reduce the overall amount of aid, and reorient it towards horizontal areas of common Community interest, including cohesion.

⁕ As the conclusions of the Barcelona European Council succinctly stated" less, but better targeted aid is a key part of effective competition".

⁕ In 2004, the EU needs to integrate 10 new Member States.

**Interaction between State Aid and Regional Policy:**

Before going into details, I should like to make a preliminary clarification in relation to tensions between national regional policy, EU regional policy and EU competition policy raised by the plenary paper.

⁕ I do not consider that there is a conflict between State aid control and effective, locally delivered regional policy. On the contrary, state aid rules are neutral as to the question of national devolution.

⁎ State aid control is an instrument of competition policy that allows for positive discrimination in favour of regions with poor economic performance. It can effectively contribute to solidarity and be supportive of cohesion policy.

⁎ We are not be overly concerned about inconsistencies of Objective 2 maps and Article 87 (3) (c) maps. There has been no conflict between DG REGIO and DG COMP on the coherence of national and Structural Funds maps over the last six years. What we need is operational consistency, and not optical identity. As it is stated in Article 12 of the Structural Fund Regulation, Structural Fund interventions are clearly subject to competition rules. The present system therefore ensures that structural fund interventions are fully in line with our State aid rules.

⁎ The recent successful collaboration between the services of DG COMP and the services of DG REGIO on the development of guidelines for the access of remote areas to broadband internet services also shows that the current State aid system is flexible and capable of meeting new challenges and that there is no incoherence between state aid control and EU regional policy.

**Future challenges for regional state aid control:**

⁎ For the period of 2007-2013, the notion of regional aid for an enlarged European Union has to be redefined. A new state aid control system for regional aid has to be conceived and established. .

⁎ In order to ensure a smooth and effective preparation of the revision of the regional aid guidelines, the Commission has already decided to invite all Member States to present their views on the future of regional State aid policy by the end of May 2003.

– Regional aid policy for the period after 2006 has to reflect the broad diversity and greater territorial imbalances of the enlarged Union.

**How to find an equilibrium?**

⁎ Regional aid makes only sense if it is concentrated on the regions most in need. If we want to ensure the efficiency of regional policy instruments, if we want to avoid subsidy races and the waste of taxpayer's money, the eligibility to regional aid has to be the exception and should cover less than 50% of the future EU population. Regional investment aid everywhere goes counter the Community objective of economic and social cohesion, and leads to unacceptable distortions of competition.

⁎ This implies that, as a means to enhance cohesion, investment aid (for large companies) has to be reserved for certain regions. As a matter of fact, if aid were to be allowed everywhere, some governments would be able to induce firms to enter their market even if it is not economically efficient for them to invest. In such a situation, the benefits for firms investing in richer regions would be limited mainly to reducing sunk costs, with potential negative effects on subsequent relocation.

⁎ Also, if several Member States in an integrated market each subsidise their own companies, the result can be a prisoner's dilemma for public authorities, where those subsidies neutralise each other, so that funds are transferred from the rest of society to firms (or regions) leaving them better-off in absolute terms but without altering the relative position of any one firm (or region) vis-à-vis others.

⁕ Furthermore, the revision of regional state aid has to endeavour to ensure the appropriate level of consistency between the national and regional aid approach on the one hand and the future approach pursued in providing assistance from the Structural Funds in the period after 1 January 2007 on the other.

⁕ During the last few months the services of DG COMP have carried out a first reflection on the main issues concerning the revision of the regional aid guidelines. Although the main results of the first reflections can only be of a preliminary, and tentative nature, a number of constraints and considerations emerge:

– less and better State aid;
– the need to reconcile the reduction of State aid volumes with the Community objective of economic and social cohesion, not least in the framework of enlargement;
– the concomitant, undergoing internal reflections on a more general reform of State aid policy, including modernisation and simplification of rules, along with an increased focus on the most distortive aids;
– and past experience with the present regional aid guidelines.

⁕ On the basis of these reflections and of related discussions with the services of DG REGIO, and without prejudging the results of subsequent consultation with the Member States, two possible, provisional scenarios can be drawn up for State aid policy on national and regional aid to investment after 2006:

– <u>a first option</u> could be to limit the future regional aid maps to Article 87(3)(a) regions (those which would have a GDP/capita below 75% of the EU25 average), and a small number of earmarked Article 87(3)(c) regions (those losing Article 87(3)(a) status because of the statistical effect of enlargement or of a favourable economic development, together with low population density regions and outermost regions).

Under such an option, the regional aid coverage would be limited to around 34% of the EU25 population, and general investment aid to large enterprises would not be allowed outside the scope of regional aid maps;

– <u>an alternative option</u> could build on a simplification of the current approach to the setting-up of regional aid maps. In addition to the two types of regions already mentioned, the regional aid maps would in this case also comprise further Article 87(3)(c) regions, under the condition that the regional aid coverage remains below 50% of the EU25 population.

These additional Article 87(3)(c) regions would be identified on the basis of a method that is similar to, but simpler than the method used in 1998. The only restriction imposed on Member States in this regard would be that of a minimum size of the geographical units used to design the maps, and general investment aid to large enterprises might (or might not) be accepted in all regions included in the map. Of course, this simplified method would have to take into account the conclusions of the Advocate General on the German map case.

⁕ The first option is simpler and would appear to satisfy best the considerations and constraints that I have outlined before:

– not only would a total prohibition of general investment aid to large enterprises outside Article 87(3)(a) and earmarked Article 87(3)(c) regions make a significant contribution towards reducing the total volume of State aid.
– In addition, it can also be argued that such an option would be relatively more "cohesion-friendly", as a reduction of regional aid in the more developed parts of the Union would improve the effectiveness of regional aid in the weakest regions. Insofar as Article 87(3)(a) regions do not, at present, make full use of their higher aid intensity ceilings, such a result could eventually be secured even at lower levels of aid intensity.

⁕ At the same time, it must nevertheless be recognised that there could be significant political resistance to the reduction of regional aid areas in the Union. In fact, a restriction of regional aid maps to Article 87(3)(a) regions and earmarked Article 87(3)(c) regions implies that a number of Member States would no longer have any regions eligible for national regional aid.

⁕ This might also raise a legal problem, since the existence of Article 87(3)(c) could be interpreted as giving a right to all Member States to conduct some regional aid policy.

⁕ At any event, I consider that such an approach would need to be accompanied by an increased flexibility that would enable Member States to deal better with (localised) problems outside assisted regions. These accompanying measures could include:

– higher investment aid intensities for SMEs,
– a more generous treatment of aid for starters and for small firms,
– and more flexibility for aid measures that have only a limited effect on competition and trade between Member States.

⁕ The main advantage of the second option would be to continue to allow every Member State to retain a sufficient degree of liberty to conduct its own regional policy also in areas that are not necessarily problematic from the Community's point of view.

– Under such an option, «traditional» Article 87(3)(c) regions would in fact be identified with regard to the degree of interregional disparities within each Member State, albeit also by taking into consideration their relative position in the EU context.
– Member States would still be required to use an agreed methodology for the definition of such Article 87(3)(c) regions, but the practical rules to be followed in this respect could certainly be made much more clear and user-friendly.

⁕ Naturally, any decision to be taken with regard to the future mapping exercise will need to take in due consideration all the observations that will be submitted to the Commission.

⁕ We also have to keep in mind that the review of the Regional Aid Guidelines raises a series of other questions that will be very high on the agenda of political discussions for the coming years: Let me simply outline these issues without going into details, and without trying to give any answers:

– What should be the appropriate level of regional aid ceilings and the modulation of aid intensities between regions?
– How to approach the problem of delocalisation in an enlarged Union?
– Do we need a specific approach for areas bordering a-regions?
– Should we review our traditional negative approach to operating aid outside a-areas, at least with regard to newly created firms?

⁕ I am convinced that a necessary requirement for this review exercise to succeed is a proper identification of the crucial elements for assessment of the distortive effects of State aid, enabling adequate distinction between aid that has harmful effects on competition and aid that produces positive effects on growth. We have to focus on cases, which create real distortions of competition, and to simplify the assessment of less problematic cases. Insofar as this can be achieved, the spatial element of State aid control will become less relevant and less important.

**B. Background**

⁎ In its conclusions of 24 March 2001, the Stockholm European Council indicated that "the level of state aids in the EU must be reduced and the system made more transparent"… "To that effect, Member States should demonstrate a downward trend in State aid in relation to GDP by 2003, taking into account the need to redirect aid toward horizontal objectives of common interest, including cohesion objectives.

⁎ At Barcelona, on 16 March 2002, the European Council renewed "its call to Member States to reduce the overall level of State aid towards horizontal objectives of common interest, including economic and social cohesion, and target it to identified market failures.

⁎ In the years 1999 and 2000, the Commission approved the regional aid maps for the present 15 Member States for the period 2000-2006.

⁎ A regional aid map defines the areas for which the Commission is prepared to authorise, under state aid rules, the award of investment aid to large firms.

⁎ The areas that are today eligible for such regional investment aid correspond to 42.7% of the population of the 15 Member States for the period 2000-2006.

⁎ When in 2004 the acceding countries that are all eligible for regional aid under present state aid rules will join the European Union, this coverage will exceed 50% of the population of the then 25 Member States until the end of 2006.

⁎ For the period of 2007-2013, new regional aid maps for the EU 25/EU 27 will have to be drawn up.

⁎ Our regional aid maps under state aid rules distinguish between eligible areas pursuant to Article 87 (3) (a) of the EC Treaty and eligible areas pursuant to Article 87 (3) (c) of the EC Treaty. Article 87 (3) (a) areas are those areas most in need from a Community point of view, and largely identical to objective 1 areas with a GDP/capita below 75% of the EU 15 average. Article 87(3)(c) areas are areas underdeveloped from a national perspective, but not a top priority from a Community point of view.

⁎ The Commission has decided to carry out a review of the 1998 Regional Aid in time to draw up, notify and approve the regional maps on the basis of the new rules before the end of 2006.

⁎ This revision will take place after an intensive process of consultations that is starting already now. As to assist the Commission in preparing for this review, it asked current and future Member States to submit any comments, observations or information they deem useful.

**C. Consultations with present and future Member States should answer the following questions:**

⁎ Question 1: In consideration of developments in public interventions of the Member States in regions that are not covered by Article 87 (3) (a) of the Treaty, must the State aid regime be re-examined?

– Should a zoning approach be maintained (map for Article 87 (3) (c) regions), or would it be preferable to limit aid to horizontal frameworks, in particular for actions pertaining to Community priorities?

– Is investment aid to large companies still justified? Can a proportional reduction of aid in Article 87 (3) (a) regions be envisaged?

⁕ Question 2: what criteria should Member States have to respect when defining their assisted areas?

⁕ Question 3: is it necessary to change state aid rules in order to help the realisation of the objectives of the Lisbon strategy?