HELLENIC REPUBLIC 30/09/20

HT.4131 – Revision of the Regional aid guidelines – Remarks of the Greek authorities

The Greek Authorities would like to thank the Commission for the draft proposal for the review of the Regional Aid Guidelines (RAG), in order that they better reflect the different development needs of the regions in Europe. However, we consider that there is much space for improvement in the draft text towards this direction. In particular, the designation of the regions as provided in the RAG draft does not seem to address in an effective way the objective of balanced development and territorial cohesion. Thus, we would like to pose the following remarks as regards the draft RAG, in view of the forthcoming multilateral meeting of the 8th of October, with the possibility to come back with further comments after the meeting.

1. The derogation in Article 107.3.a – classification of a areas

In the draft RAG (par. 157 -160), the Commission follows the traditional approach for the classification of the regions that are eligible for regional aid under article 107.3.a TFEU and takes into account only the GDP per capita in purchasing power standards.

As it has been emphasized by our authorities in the past, this approach should be reconsidered, since according to the article 107.3.a of the Treaty, 'aid to promote the economic development of areas where the standard of living is abnormally low or where there is **serious underemployment**, and of the regions referred to in Article 349, in view of their structural, economic and social situation' may be considered to be compatible with the internal market. Given that the living standard and underemployment are considered equivalent criteria for the definition of 107.3.a areas, the total absence of the unemployment criterion is an erroneous interpretation and application of Art. 107.3.a of the Treaty.

It should be pointed out that the Commission, in its proposal with regard to the establishment of the Recovery and Resilience Facility (RRF), suggested the deviation of each member state's unemployment from the EU average as a criterion of equal weight as the inverse of GDP per capita for the determination of the maximum amount of financial contribution each member state may receive[1], and the European council retained the Commission's proposal for 2021-2022.

The argument that the criterion of GDP alone is an inadequate instrument for policy making, and therefore does not constitute a sufficient metric for identifying the less developed

[1] See European Commission (2020) 408/final 3/2.6.2020, Annexes to the Proposal of the Regulation of the European Parliamne tand the Council establishing a Recovery and Resilience Facility.

regions, is well documented and widely recognized as a valid one in the relevant discourse[2]. The unemployment rate should also be taken into consideration, as it has been *de facto* acknowledged by both the Commission and Council when setting up the allocation key for the RRF.

Besides, the unemployment rate is already provided as a criterion for the designation of non predefined c areas (par. 175 criterion 2 of the draft RAG). Thus we believe it is by far reasonable and necessary, to use this factor for the designation of 'a' areas.

Given the above, we strongly reiterate that a criterion reflecting the unemployment, such as the unemployment rate of the region compared to the EU27 average should be taken into account, for the designation of 'a' areas. To that end, and in order to target the more disadvantaged areas with serious unemployment, which undoubtedly fulfill the conditions of art. 107.3.a TFEU, we propose that NUTS2 areas with an unemployment rate of more than 250% of the EU27 average, and with GDP per capita above 75% and below 100% of the EU27 average, should be also classified as 'a' areas.

In this context, we suggest that a subpar is inserted in par. 159 of the RAG draft as below:

- "NUTS 2 regions whose GDP per capita is higher than 75% and below 100% of the EU27 average and whose unemployment rate is higher than 250% of the EU27 average (based on the average of the last three years for which Eurostat data are available)".

As far as aid intensities are concerned we suggest that a subpar d) is inserted in par.179 as below:

"d) 30 % in NUTS 2 regions whose GDP per capita is higher than 75% and below 100% of the EU 27 average and whose unemployment rate is higher than 250% of the EU27 average".

2. The derogation in Article 107.3.c – classification of c areas

For the reasons explained above, the unemployment rate of a region compared to the EU27 average should be also taken into account, for the designation of 'c' areas. To that end, we propose that NUTS2 areas with an unemployment rate more than 200% of the EU27 average, and whose GDP per capita is higher 75% and below 100% of the EU 27 average, is also classified as predefined 'c' areas under article 107.3.c.

Thus, we propose amending accordingly par.166 of the RAG draft by inserting another subparagraph as below:

"c) NUTS 2 regions whose GDP per capita is higher than 75% and below 100% of the EU27 average and whose unemployment rate is higher than 200% of the EU27 average (based on the average of the last three years for which Eurostat data are available)".

[2] EESC, Opinion of the European Economic and Social Committee on Beyond GDP — measurements for sustainable development, 2009/C 100/09.

Accordingly, as far as aid intensities in c areas are concerned a new subpar. d) should be added in par. 181 as follows:

d) 20% in NUTS 2 regions whose GDP per capita is higher than 75% and below 100% of the EU 27 average and whose unemployment rate is higher than 200% of the EU27 average.

The need to take into account the unemployment criterion in the designation of the areas eligible for regional aid is clearly depicted in the case of the region of Attica, which is a region with GDP per capita above 75% and below 100% of the EU27 average. On the basis of the current draft RAG, only part of the region may be designated as a non-predefined "c" area, which results in more than half of the population of Attica not being eligible for regional aid (i.e. approximately 2 million inhabitants), although the unemployment rate for the period 2017-2019 was 19,5%, i.e. much more than double of the EU27average, whereas the EU27 average for the same period was 7,3% .

3. Safety net and minimum population coverage

Provision for the Countries under enhanced surveillance and post–programme surveillance:
It should be noted that countries that have received financial assistance under the facility providing medium-term financial assistance for non-euro-area Member States, the EFSF, the EFSM or the ESM, even if they have exited the relevant adjustment program, continue to be in need of further support so as to address the deep socioeconomic impacts of the previous economic crisis, which led them entering the relevant programme and is expected to further deepen due to the Covid- 19 pandemic. Let us point out that, according to art.2 of Regulation 472/2013, especially the status of enhanced surveillance means that the member-State is experiencing or threatened with serious difficulties with respect to its financial stability which are likely to have adverse spill-over effects on other Member States in the euro area.

As regards Greece, according to the Commission's implementing decision EE 242/1142 on the prolongation of enhanced surveillance in Greece (L 248/20, 31.7.20), the persistent structural difficulties, macroeconomic imbalances and legacy effects of several factors result to significant vulnerabilities of the Greek economy. Low growth potential, disinvestment and the high underemployment and unemployment rate indicate not only an underperforming economy, but also low economic resilience and an economic system vulnerable to external crises.

Within this framework, it should be noted that in 2014-2020, Attica was designated as predefined "c" area with its whole population eligible for regional aid, on the basis of the par.163-165 of the RAG in force. We consider that a similar provision is still of vital importance. As a result of the crisis of the past decade, Attica's development level, in GDP per capita terms, has sharply declined by 31 percentage points between 2008-2010 and 2016-2018, while unemployment rate has increased by 12 percentage points for the same period. Therefore, productive investments are crucial for putting Attica in a sustainable growth track.

Furthermore, according to OECD[3], Attica's development will have spillover effects to all Greek regions, and the recovery in Attica could therefore have a very strong impact on the aggregate growth figures.

Given the above, we consider that similarly to the RAG 2014-2020 (par. 163 and 165), it should be provided that the "a and c" coverage of member states that are subject to enhanced or post-programme surveillance, should not be reduced compared to their coverage during the former period 2014-2020. Such a provision is necessary in order for the member states which have exited financial assistance progammes to continue their way forward and compete in equal terms.

In particular, we suggest that a par. 171 bis is inserted after par. 171 as below;

"171 bis: To enhance the development process of Member States, which have exited programmes of financial assistance and are under enhanced surveillance or post – programme surveillance pursuant to Regulation 472/2013 (L 140/1/27.5.13) of the European Parliament and the Council, the Commission considers that the total coverage of these member states should not be reduced compared to the period 2014-2020."

Respectively, a case c should be added under par. 172;

"c) the total 'a' and 'c' coverage of each Member State, which, on the date of adoption of these guidelines, is under enhanced surveillance or post-programme surveillance pursuant to Regulation 472/2013 of the European Parliament and the Council, is not reduced compared to the period 2014-2020."

4. Maximum Aid intensities

i) Small islands

There is no doubt that small islands are seriously disadvantaged compared to the inland areas, as far as their access to financing is concerned, as well as the enhanced costs that economic activity in islands entails. This is by far true for small islands with low population. Thus, we are of the opinion that small islands with 5.000 inhabitants or less should benefit from higher aid intensities. In this context we propose that that par. 180 of the draft RAG should be supplemented as below:

"180. The maximum aid intensities laid down in paragraph 179 may be increased by up to 20 percentage points in outermost regions that have a GDP per capita below or equal to 75% of the EU27 average, as well as in small islands with 5.000 inhabitants or less, or by up to 10 percentage points in other outermost regions."

Within this framework it should be mentioned that, particularly as far as Greece is concerned, the European Parliament and the Council, in their Regulation 229/2013 of 13 March 2013, recognize that the particular geographical situation of some of the smaller Aegean islands, as well as other objective factors arising as a result of insularity and distance from

[3] OECD, Territorial Reviews: Regional Policy for Greece post-2020

markets, impose additional transport costs and further constraints on economic operators in those Aegean islands, that severely handicap their activities and vastly limit their economic potential.

Taking the above into account a special reference to small Aegean Islands, as defined in Regulation 229/2013, could be at least be inserted, similarly to relevant provisions in Regulation 702/2014 (see indicatively art. 14 par. 12, art. 17 par. 12,art. 32 par. 5,art. 40 par. 9, art. 41 par. 5 and 11). In particular, par. 180 of the draft RAG could alternatively be supplemented as below;

"180. The maximum aid intensities laid down in paragraph 179 may be increased by up to 20 percentage points in outermost regions that have a GDP per capita below or equal to 75 % of the EU27 average, as well as in small Aegean islands as defined in Regulation 229/2013, or by up to 10 percentage points in other outermost regions."

ii) Just Transition Areas

Defining the objectives of regional aid in the draft RAG (Section 5.1, point 46), the Commission points out the contribution of regional aid to achieving the objectives of the Europe Green Deal, providing support for sustainable investments. In this context, it recognizes the magnitude of the structural changes caused in the Just Transition areas.

Therefore, we consider that the only reference to these areas in note 74 of the RAG draft is surely not sufficient to serve the above purpose. Especially for Just Transition areas located in 107.3.a regions, higher aid intensities are deemed of vital importance so as to stimulate an adequate level of private investments and prevent the collapse of the local economies.

As regards Greece, the Regional Units of Kozani, Florina and the Municipality of Megalopolis of the Regional Unit of Arcadia, administrative units of the Regions of Western Macedonia and Peloponnese (NUTS 3), have been defined as the areas of Just Transition areas.

These areas are strongly dependent on lignite in the sense that the energy-mining sector is the dominant economic activity in the regional units. Moreover, most of them face high unemployment rates, with a significant percentage of unskilled or low-skilled workers. Thus, these areas will face even higher unemployment risk with the completion of the delignification process. Furthermore, in Greece the lignite mining industry occupies 15% of all industrial employments, who are based in these lignite regions. This is the highest percentage in the EU-27[4].

Therefore, the delignification, which as regards Greece, is planned to be completed in the next few years, is expected to deteriorate the socioeconomic situation of these regions. In particular, according to data provided by the SDAM Technical Secretariat[5], the National Energy and Climate Plan provides that the vast majority of lignite plants, representing over 80% of current installed capacity, will cease to operate until 2023. To this end, Greece has already

[4] JRC report on the absolute number of workers in the lignite and coal mines, Eurostat report for workers in all industry (excluding construction) aged between 15 and 64.

[5] SDAM stands for Plan for Just Development Transition.

completed its Master Plan for the delignification of these areas, whereas a distinct Operational Plan for Fair Transition 2021- 2027 is being prepared. Furthermore, by the completion of the de-lignification process in these three Just Transition areas, in 2029, and without taking any compensatory actions the following losses are expected: 23% reduction of the local annual GDP, 13% reduction of the local jobs and 24% reduction of the local incomes of the households from wages, compared to the corresponding levels of 2019.

Undoubtedly, promoting the goal of delignification is an opportunity to restart local economies based on individual ecosystems of strong productive sectors of the economy, such as clean energy, industry, small industry and trade, smart agricultural production, sustainable tourism, technology and education. However, the transformation of the economy of these regions will not be possible without the proper investment incentives.

In light of the above, it is evident that there is a strong need to provide higher aid intensities for these regions.

Following the above, we suggest that 180bis is inserted after par. 180 as below;

"180bis. Similarly, the maximum aid intensities laid down in paragraph 179 may be increased by up to 20 percentage points in just transition regions".

5. With regards to other provisions of the draft RAG, we also submit in the attached file further comments of our authorities.