

Dear Mr Guersent

Communication from the Commission – Guidelines on Regional State Aid

Reference is made to the circulated draft Regional Aid Guidelines (RAG) for the period 2022-2027 and the Multilateral Meeting on the Regional Aid Guidelines held on 8 October 2020. Further to the position already made by Malta during the Multilateral Meeting, the Maltese Authorities would like to submit the following points of concern for the Commission's consideration.

Population coverage

The Maltese Authorities have already in the past expressed their views regarding the main weakness of the approach adopted by the European Commission in the Regional Guidelines, as also in the proposed new draft, in that the sole parameter used for the determination of the category of the regions is that of GDP at PPS level. Malta is of the opinion that this approach excludes other important specific realities, including the size of the territory of the Member States.

The methodology used brought for the first time a reduction in population coverage which is a statistical effect reality brought about by the departure of the United Kingdom. This reduction in population coverage (from 100% to 50%) is essentially brought about by the application of a formula that does not take into account the realities on the ground in Malta. In a country of approximately 316 square kilometers and with a population of 514,565 inhabitants (2019), this would result in a situation that will be difficult to determine and implement in a practical way.

The RAG should take due account of this situation and given Malta's size and highly densely populated reality, an exception to this rule should be made in the case of Malta. Otherwise

Malta would be placed in a position where it could hardly use regional aid in a meaningful way in its territory.

Top-up in aid intensities for Island Member States

The Maltese Authorities note that the proposed draft RAG does not adequately acknowledge the challenges faced by single NUTS level 2 region island Member States like Malta. These challenges are the result of permanent and very particular geographical handicaps and insularity problems that these Member States face irrespective of their GDP level.

The Maltese authorities continue to emphasize its position that in the spirit of Article 174 of the Treaty on the Functioning of the European Union (TFEU), single NUTS level 2 region island Member States should be given an equal recognition of the particular permanent handicaps they face and should thus be treated in a similar way as the outermost regions for regional aid purposes. This equal treatment is very important for Malta within the State aid rules in particular those on regional aid. It has often been maintained in various fora, including in European Council Conclusions that the special situation of the island regions also needs to be taken into account. It is believed that the Commission should not miss the opportunity to address, in a concrete and tangible way, these realities and should formally recognize the challenges posed by the situation of island Member States.

Operators located in small islands like Malta face permanent disadvantages that should be mitigated through permanent solutions. The Maltese authorities strongly believe that, similar to the recognition of the realities faced by other specific regions in the Union, a top-up on the permissible aid intensities should be allowed for islands. Thus, similar to other instances where increased aid intensities are allowed in the draft RAG, such as in paragraphs 180, the Maltese Authorities propose a permissible additional 10 percentage points in the case of Single Regional Island Member States at NUTS 2 level. This approach would help to bring operators based on island Member States, on a level playing field with operators on the mainland.

Operating aid for islands

The situation faced by island Member States described above is further accentuated in the case of island regions within island States, such as, Gozo and Comino in the case of Malta.

Gozo's economic development has, over the years, continued to lag behind that of Malta. This situation is largely due to the permanent geographic handicaps that characterise the island, in particular its double insularity. This reality makes it difficult to attract and maintain economic activity on these islands. Gozo suffers from most of the permanent handicaps set out in Article 349 of the TFEU in particular, its peripherality, double insularity, small size and economic dependence on a few economic sectors namely, tourism, agriculture and to a certain extent

crafts and retail. Yet it is neither considered as an outermost region nor as an 'a' area, given its NUTS 3 status. It would seem that such a classification is furthermore creating the anomaly that Gozo would be allowed a lower aid intensity level despite having a lower GDP at PPS in percent of EU average compared to other regions in the EU which have a higher GDP at PPS level simply because of the latter's classification as NUTS 2 "a" areas.

It is therefore important to stress that the eligibility of regions like Gozo to the type and level of aid intensity should be based on the specific characteristics of the region concerned including the composition of its economic fabric. In this regard, it is suggested that operating aid should also be applicable to specific geographic areas, such as islands pertaining to island Member States.

The Maltese Authorities believe that the RAG should include a mechanism which allows compensation for the additional cost of transport of goods between islands and the mainland, and between the islands themselves thus mitigating the impact of the additional transport costs involved that are not faced by other undertakings based on mainland Europe. Due and sufficient sensitivity must be shown towards such realities faced by individual Member States. It is deemed that the rules on *de minimis* aid, while being limited in amount, should not be used as a good and sufficient solution for such permanent geographical realities.

The Maltese Authorities trust that Malta's submission will be taken into account in the ongoing discussions on the new Regional Aid Guidelines. We remain available for further discussions regarding the points raised, in particular that of population coverage which remains of serious concern for Malta.

Yours sincerely