



**COUNCIL OF EUROPEAN MUNICIPALITIES AND REGIONS
CONSEIL DES COMMUNES ET REGIONS D'EUROPE**

Response to the Consultation on the European Commission's State Aid Action Plan 2007-2013

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Conseil des Communes et Régions d'Europe • Council of European Municipalities and Regions

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RESPONSE TO THE CONSULTATION ON THE EUROPEAN COMMISSION'S STATE AID ACTION PLAN 2007-2013

Introduction

1. Representing local and regional governments at European level, CEMR follows the European Commission's proposal for a state aid action plan with a specific interest on two topics: The provisions for the services of general economic interest and those for the regional aid.
2. CEMR actively engaged in a dialogue with the European institutions on the important question of compensation of services of general economic interest and submitted its opinion on the European Commission's proposal for the decision and the Community framework for state aid in the form of public compensation. Our position on the Commission's proposals (the so-called "Monti package") can be found under: http://www.ccre.org/img/Monti_package.doc

Our reaction to the European Commission's package on compensation for public service obligation that has already been adopted can be found

under: http://www.ccre.org/champs_activites_detail_news_en.htm?ID=558&idca=3118

3. CEMR also follows closely the European Commission's proposals for the future cohesion policy and has contributed to the formulation of the EU future regional policy regime, focussing on the draft regulations of the structural funds.
4. We note an increasing awareness amongst local and regional government of the importance of the EU regional state aid regime for regional development. Therefore this response concentrates on the regional aid policy. It is based on contributions by our members and focuses on the draft provisions governing regional state aid for the period 2007-2013.

New approach to regional policy

5. CEMR agrees to the Commission's new approach to regional aid, the proposal to concentrate regional aid to investment in the least favoured regions whilst enhancing long-term competitiveness and growth potential of all European regions through the horizontal thematic approach.
6. We welcome the significant improvements in the European Commission's July proposals over those outlined informally in the February 2005 non-paper.

7. However, there continues to be some concern about the lack of coherence between the proposals concerning regional state aid and those related to cohesion policy.

Population coverage

8. We welcome the inclusion of the 50% population 'safety net' as a minimum and the subsequent increase in population coverage than was previously envisaged.
9. The safety net arrangement means that the Commission's aim of ensuring a smooth transition to the post 2007 regimes will be realised far more effectively than under the arrangements outlined in the earlier informal proposals.
10. However some CEMR members are concerned about the method for the allocation of population allocation shares in assisted 87.3 (c) areas across the Member States. We therefore would ask the Commission to reconsider its calculation method and to provide a transparent and clear method in order to ensure balanced population allocation shares across the EU.
11. Furthermore CEMR would like to invite the European Commission and the Member States to consider the need for a transitional arrangement for those regions that lose their status of 87.3 (c) region as of 2007 to avoid unwanted negative economic effects.

Areas eligible

12. We welcome the transitional arrangement for the statistical effect regions and their automatic inclusion as 87.3 (a) regions until at least 2009
13. We welcome the inclusion of outermost regions as 87.3 (a) regions but regret that sparsely populated areas are not treated en par with outermost regions
14. We also welcome the transitional mechanism, which will allow 'economic growth' regions to benefit from a phased reduction in aid intensities throughout the period 2007 - 2013.
15. We welcome the more flexible approach to defining 87.3 (c) regions in general and are particularly supportive of the ability to target localised regional disparities and designate smaller areas under the article 87.3 (c) derogation.
16. Member States, however, should be urged to outline in a transparent manner both the economic principles and statistical criteria they intend to use to define the final 87.3 (c) regions.
17. In the process of defining the 87.3 (c) regions at national level, local and regional government should be consulted.

Aid for enterprise in assisted areas / SME bonus

18. We welcome the introduction of an SME bonus of 20% for small enterprises and 10% for medium-sized enterprises in all assisted areas.
19. We welcome the Commission's readiness to allow new forms of aid to the assisted areas, such as the enterprise aid, envisaged to encourage business start-ups in the assisted areas. Such support to business start-ups can help overcome a lack of financial support for small businesses.
20. We welcome the European Commission's special provision for 87.3 (c) regions bordering 87.3 (a) regions, with the intention of limiting the aid differential between the two regions to 20%. This arrangement would significantly contribute to fair competition conditions and avoid a situation of economic imbalance.

Change in grant calculation methodology

21. In terms of simplification and consistency with other grant aid regimes, the Commission's proposal to use a GGE (gross grant equivalent) rather than an NGE (net grant equivalent) calculation is positive.
22. However, the use of GGE will increase the difference between the amounts of aid that can be received by beneficiaries as it fails to take into account the different taxation systems in place across the EU.
23. There is further concern amongst some of our members that the shift from NGE to GGE will reduce the actual use of state aid possibilities, as the proportion of co-financing will actually increase, often preventing potential beneficiaries from pursuing valuable initiatives.

Horizontal aid

24. We recognise the increased importance of the horizontal or 'thematic aid schemes' as an important complement to the regional state aid proposals. The fact that horizontal aid can apply across all parts of the EU, as well as target larger companies, means that it should be viewed as an important tool to tackle economic underperformance and help boost competitiveness.
25. We believe that an element of differentiation is necessary to help target horizontal aid, both across assisted areas (e.g. via bonuses) and unassisted areas (for instance via 'top-ups' in disadvantaged unassisted areas).

State Aid, Innovation, Research and Development

26. We welcome the Commission's decision to publish a Communication on state aid and innovation.

27. Local and regional government contribute to sustainable job and growth creation and the achievement of the Lisbon agenda's goals.
28. Business incubation facilities and innovation centres can provide a significant boost to competitiveness of a local economy while having a near-negligible effect on EU competition. A more flexible approach is needed for the generation of innovative ideas in public sector research bodies and universities and clear, simple and generous rules governing attempts to transfer such ideas and expertise to business and to generate further innovation through public/private collaboration.

De minimis aid

29. We welcome the proposal to increase the de minimis aid threshold and suggest that a threshold of EUR 200,000 to EUR 300,000 be considered, given the pressing need for streamlining and the acknowledged need for the Commission to focus on the largest, most distortive aids.

Administrative reform

30. We welcome the commitment to create more effective procedures, better enforcement, higher predictability and enhanced transparency.
31. We welcome creation of a general bloc exemption. It will be important to ensure that the proposed general block exemption is sufficiently wide-ranging and flexible to allow the full range of aids, which is compatible with the Treaty.

Recommendations:

CEMR would like to:

- invite the European Commission and the Member States to consider the need for a transitional arrangement for those regions that lose their status of 87.3 (c) region as of 2007 to avoid unwanted negative economic effects;
- urge Member States to outline in a transparent manner both the economic principles and statistical criteria they intend to use to define the final 87.3 (c) regions;
- ask the Member States for a broad consultation of local and regional government in the process of defining the 87.3 (c) regions at national level;
- draw the attention to the fact that the use of GGE instead of NGE may have unintended negative effects and should therefore be reconsidered in order to find a way to avoid them;
- propose to raise the de minimis threshold to EUR 200,000 or 300,000.

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