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Dear Commission

**State Aid Reform – State Aid Action Plan, less and better targeted state aid: a roadmap for state aid reform 2005 - 2009
(Consultation Document)**

Based on the recent consultation document 'State Aid Action Plan, Less and better targeted state aid: a road map for state aid reform 2005 – 2009,' Liverpool City Council would like to submit the following response to this paper.

Through unfair Eurostat inclusion of financial services and ex regio GDP, which hits UK regions worst due to major offshore GDP involved, the natural economic base of Merseyside is distorted. It is therefore requested revision is made to the treatment of such data and that Merseyside qualify under the derogation of 87 (3) (a) status.

Liverpool City Council also holds the view that State Aid should be available to support regions outside of 87 (3) (a), to assist in their development and regeneration. Whilst aid should be focussed on the poorer Member States, there is also need to ensure State Aid provides a degree of stability for areas such as Merseyside which currently qualify as a Natural Effect region. Although many of the changes proposed within the State Aid Action Plan are welcomed, the Commission must ensure appropriate transitional arrangements are put in place (including block exemptions) to continue the redevelopment of these areas and devise a special regime that is consistent with the needs of Natural Effect regions.

Liverpool City Council welcome the practical approach adopted through the State Aid Action Plan and the recognition of different market failures. The existence of market failure provides one important justification for state aid.

Through making more use of an economic approach and an understanding why certain markets do not achieve desired objectives of common interest, the Commission will be in a stronger position to address the most distortive aids. There is also support for stronger legal certainty from the Commission surrounding eligible regeneration activity. This certainty will hopefully be provided under the review of existing Frameworks and

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Communications, introduction of new framework and issuing of a new general block exemption.

The general block exemption will bring together and simplify existing exemptions such as training, SME and training, in addition to integrating a broader range of exemptions such as R&D and most notably regional development. The integration of regional development into the exemption will be particularly beneficial, especially for gap-funding brownfield land remediation and regeneration. This should apply to both private and public sector led development. Liverpool City Council fully supports this proposal but also recognises the need for a general block exemption to be granted with enough flexibility but yet legal certainty, in order to simplify the range of aid that is compatible with the Treaty.

The Action Plan also highlights the threshold under which Member States may grant de minimis aid will be increased. Whilst this proposal is widely accepted, the amount of aid allowed should be of a significant level, with regards to the three year period, to ensure de-minimis aid is appropriate.

The Commission recognises the importance of public private partnerships both in the fields of R&D and infrastructure. This infrastructure refers to transport, energy, information and communication technology. Liverpool City Council welcomes this recognition and in particular the importance of broadband infrastructure for business and enterprise development, leading to long term sustainable development. Liverpool supports the Commission's assessment of public resources involved in Public Private Partnerships (PPP's) and requests guidance on such matters. PPP's or Joint Ventures will become increasingly important Post 2006 and therefore the applicability of state aid issues will need to be clear and defined.

There is an acknowledgement of the importance of R&D and Innovation. The Commission has indicated in their review of the Community Framework for Research and Development, that consideration may be given to extending cover for types of aid in favour of certain innovative activities, which are not already covered by existing guidelines or regulations. This extension may possibly result in the creation of a Framework for R&D and Innovation. Liverpool City Council fully supports this proposal and that a more flexible approach is adopted to universities, to include activities such as business incubation, innovation centres and spin out companies. Liverpool also fully supports the need for the Commission to establish clear and general compatibility criteria, that will exempt certain aid measures from notification procedures.

Liverpool City Council also supports the Commission's review of the Communication on risk capital, particularly in relation to contributing to a culture of entrepreneurship and business start ups. Liverpool emphasise the need for the Commission to acknowledge identified market failures and that localised activity is spared from the bureaucracy of the current system.

Draft Communication – Guidelines on National Regional Aid for 2007 - 2013

In light of the Commission's Draft Communication – Guidelines on National Regional Aid 2007 – 2013 in conjunction with the State Aid Action Plan, the Commission offers the UK considerable greater population coverage than previously envisaged. Liverpool City Council welcomes the additional coverage and the inclusion of the 50% 'safety net'.

Whilst a more flexible approach to determining 87 (3) (c) areas by the UK Government is helpful, there is a significant concern that 'Natural effect or Economic Development' areas such as Merseyside and South Yorkshire may not automatically be granted assisted area status, or for only parts of the region to be granted this status. Liverpool City Council seek assurance that regions such as Merseyside will have automatic full coverage within the 87 (3) (c) status map.

The Draft Communication Guidelines on National Regional Aid, also highlights transitional arrangements for Economic Development regions. Whilst the draft guidelines are clear in regards to the phasing period for aid intensities covering Large Enterprises, with a reduction of at least 10% net to gross applied on 1 January 2007, further 10% reduction on 1 January 2009 and the balance (if any) on 1 January 2011, the guidelines are not specific in regards to the aid intensity levels for Medium and Small sized Enterprises over the period 2007 - 2013. Therefore Liverpool City Council request the Commission to produce further detail on this arrangement with a publication of aid intensity level table, that clearly shows the transitional period for the full term of 2007 – 2013.

Outlined within the draft guidelines is 'Aid for enterprise in the assisted areas,' which will be focussed on Small Enterprises with their place of business in regions eligible for the derogation in Article 87 (3) (c). This aid will encourage and provide incentives for business start-ups in these areas. Liverpool City Council fully supports this scheme but highlights whether the 25% maximum aid level provides a significant enough incentive for new business start ups.

Liverpool City Council would like to request this response to be taken into consideration by the EU Commission.

Yours sincerely

A handwritten signature in purple ink, appearing to read 'Martin Eyres', is positioned above the printed name.

Martin Eyres
Head of EU Programmes