



"Towards a reform of State aid compatible with economic, social and territorial cohesion objectives"

Position of the Assembly of European Regions

Annex to the AER initial Reaction on the State Aid Action Plan

Adopted by the AER Presidium on 12 September 2005 in Trieste, Friuli Venezia Giulia (I)

The Assembly of European Regions,

Considering the Proposed Communication by the Commission "Guidelines on national regional aid for 2007-2013 (2005)"

Considering the State aid Action Plan "Less and better targeted state aid: A roadmap for state aid reform 2005-2009 (7 June 2005) "

Considering the draft report by the European Parliament (Regional development Committee) on the role of direct State aid as an instrument in regional development, rapporteur Milos Koterec (2 June 2005)

Considering the Opinion of the Committee of the Regions on the revision of guidelines for regional State aids (7 July 2005)

Considering the mixed conclusions of the Lisbon strategy in terms of the competitiveness of the European Union and growth in the EU,

Considering the stakes which the Union is facing following enlargement, and particularly the persistent inequality between the Regions,

1- Agrees with Member States and the European Commission that the Lisbon process must be relaunched,

2- In this context, approves the approach of the European Commission, following the political agreement of the European Council of March 2005, aiming to reduce and better target State aid,

3- Indeed considers that, while State aid may be useful to correct market situations, it may not be systematically used as a means of economic development,

4- However, highlights that this reform must not occur at the expense of cohesion objectives, particularly the territorial cohesion objective included in the third report on economic and social cohesion (February 2004)

5- Particularly warns against any reform which would lead to a sudden stop in assistance to regions which were previously eligible

6- Is therefore concerned by the proposals put forward by the European Commission in terms of National regional aid for the period 2007-2013 (Draft communication by the Commission on national regional aid for 2007-2013), and particularly by:

- the lack of clarity concerning control of the application of guidelines. While the AER welcomes the principle of conditionality described in article 38 of this document - aid to investment cannot be granted other than in exchange for guaranteed continued investment in the region for a minimum of 5 years (3 for SMEs) - it highlights that only strict control can ensure effectiveness.
- the ambiguity of the proposal concerning the definition of eligible regions according to the article 87§3 (c), as the expression "islands and other regions categorised by similar geographic isolation" is particularly vague
- the fact that mountain regions and islands are not clearly included in this definition, while the need for specific treatment of these territories, which have permanent national handicaps, is recognised, in the same way as for ultra-peripheral regions, or those with low population densities, in the proposals of the Commission in terms of regional policy post-2007
- the lack of specific treatment of isolated rural areas, which have additional difficulties such as aging populations, accessibility problems or access to basic public services
- the temporary treatment granted to Regions affected by the statistics effect, which will not be eligible according to article 87§3 (a) other than, initially, until end 2009
- the situation of regions bordering regions eligible according to article 87§3 (a) which, while the proposals of the Commission certainly provide for their eligibility according to article 87§3 (c), may not benefit from more than a possible increase, if considered necessary, of 5% of the maximum cap for assistance, rising to 20%, as compared with 30% to 50% for the neighbouring region, according to the level of GDP per inhabitant of the latter
- the situation of regions which will no longer be eligible according to articles 87§3 (a) and (c), and for which support according to the competitiveness objective of future EU regional policy is not guaranteed. While the Commission has provided for a safety net to ensure that no State member loses more than 50% of coverage for its population (as compared with the current situation) and authorises additional assistance for 6.7% of the EU population according to article 87§3 (c), certain less competitive regions will nevertheless be deprived of current community and state aid. The idea of more targeted aid

could therefore have a more negative effect on these regions, which are left out with this reform

- the consequences of the change in the calculation basis proposed by the Commission, which involves establishing maximum percentages for assistance in terms of gross subsidies, and not in terms of net subsidies, and therefore to ignoring the differences in tax systems between the various Member States. As is the case for non-eligibility for VAT in the context of the structural funds, this modification will lead to a lack of balance between regions with identical eligibility status, but a different level of taxation. Therefore, this reform will lead to "distorted competition" and will have the opposite effect to that desired, as emphasised by the Regional development committee of the European Parliament in the aforementioned report

7- Emphasises the risk that this incoherence could cause in terms of economic, social and territorial cohesion within the Union

8- Therefore specifically requests the European Commission to amend its proposals in order to:

- explicitly include a clear and strict procedure for the control of the application of guidelines – as suggested in the Action plan for State aid - allowing to guarantee effectiveness, and continued investment in projects benefiting from assistance for a minimal duration
- include mountain regions and islands in regions eligible for State aid according to article 87§3 (c)
- grant eligibility to isolated rural zones, in accordance with the objectives of the new community policy on rural development
- extend eligibility, for all Regions suffering from the statistical effect, according to article 87§3 (a) until the end of the programming period, i.e. until 2013, in order to ensure coherence with EU regional policy
- guarantee that regions eligible according to article 87§3 (c) sharing a border with a region eligible according to article 87§3 (a) are systematically entitled to a maximum aid cap increased by 5%, i.e. a cap of 20%, in order to ensure a maximum aid differential between these two types of regions (and thus avoid any distorted competition between border regions)
- ensure that non-eligible regions according to the exemptions described in articles 87§3 (a) and 87§3 (c), facing difficulties, and with restricted competitiveness, may benefit from a particular bonus

9- In this respect, shares the opinion of the Committee of the Regions and certain interregional organisations stating that the proposals for the reform of horizontal aid, expected for end 2006, should fully consider the varied territorial situations faced by regions.

10- Therefore proposes a scaled system differentiating between:

- economically competitive regions
- "standard" regions
- regions with more difficulties (such as regions with a GDP per inhabitant just below 75% of the EU average, but not considered as phasing in regions),

competitive regions should receive respectively less than standard regions, and regions in difficulty should receive more (increased rate)

11- Suggests that scaling should be based on careful economic analysis considering both traditional criteria such as GDP and unemployment levels, but also additional criteria such as accessibility, access to public services, and natural, demographic and climatic restrictions.

12- Considers that the new form of assistance for companies as suggested by the European Commission (article 6 of the draft guidelines) must be covered by the new horizontal rules, and not by the guidelines on regional assistance, in order to not penalise regions which are unassisted, but also suffer from a low level of entrepreneurship

13- Wishes to emphasise that this system of territorial differentiation would not endanger the motivation to reduce State aid, as it would only affect a limited section of the population and would lead to a possible reduction in global volume of aid in the case of horizontal aid

14- Calls on the permanent representatives of the Member States in the European Union, to ensure their mobilisation for the revision of proposals made by the European Commission in line with the aforementioned demands.

The General Secretariat of the Assembly of European Regions remains at the disposal of the services of the DG competition for the revision of the proposals for the reform of State aid in view of coherence with the objectives of economic, social and territorial cohesion.