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REPORT

drawn up on behalf of the Committee on Regional
Policy and Regional Planning

on the effects of Articles 92 and 93 of the Treaty
on regional policy

Rapporteur: Mr A. HUTTON

PE 109.177/fin.
Or: DE

By letter of 26 July 1985, the Committee on Regional Policy and Regional Planning requested authorization to draw up a report on the effects of Articles 92 and 93 of the Treaty on regional policy.

At its meeting of 8 October 1985 the enlarged Bureau authorized the committee to report on this subject.

On 31 October, the Committee on Regional Policy and Regional Planning appointed Mr Alasdair HUTTON rapporteur.

At its meetings of 26-27 February 1987, 21-22 May 1987 and 25-26 June 1987, the Committee on Regional Policy and Regional Planning considered the draft report. It adopted the motion for a resolution as a whole unanimously at the last meeting.

The following were present at the vote: Mr MAHER, acting chairman; Mr HUTTON, rapporteur; Mr ALAVANOS, Mr AMBERG, Mr BARRETT, Mr C. BEAZLEY, Mr COLUMBU (deputizing for Mr Vandemeulebroucke), Mr COMPASSO (deputizing for Mr M. Pereira), Mr DE EULATE, Mr FILINIS, Mr GIUMMARRA, Mr LAMBRIAS, Mr LEMMER (deputizing for Mrs Boot), Mr MUSSO (deputizing for Mr Tourrain), Mr O'DONNELL, Mr OLIVA GARCIA, Mr RAGGIO (deputizing for Mr Valenzi), Mr SCHREIBER (deputizing for Mr Sakellariou), Mr SPÄTH (deputizing for Mr Poetschki) and Mrs VIEHOFF (deputizing for Mr Newman).

The report was tabled on 3 July 1987.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

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A.

The Committee on Regional Policy and Regional Planning submits the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on the effects of Articles 92 and 93 of the Treaty on Regional Policy

The European Parliament,

- having regard to Article 130 a of the Single Act;
 - having regard to the fact that over 50% of the surface area of the EEC is defined as assisted area,
 - conscious that some Member States are seeking to enlarge the scope of their assisted areas while others are reducing it,
 - aware of the increasing number of investigations pursuant to Articles 92 and 93 of the EEC Treaty initiated by the Commission in order to examine the competitive effects of regional aids,
 - considering that the number of investigations initiated by the Commission is likely to increase,
 - acknowledging that the reduction of regional imbalances within a Member State and, above all, between the regions of the Member States is in the interest of the Community,
 - welcoming the Commission's move to take greater control over a wider range of aids (O.J. C 3, 5.1.1985),
 - having regard to the report of the Committee on Regional Policy and Regional Planning (Doc. A 2-114/87),
1. Recalls previous European Parliament resolutions which called for the concentration of aid from the Member States and the Community's structural funds in the weakest regions;
 2. Considers that the development regions in a number of Member States, which are not among the less developed in the Community, are too big in terms of area and population;
 3. Calls on those Member States to concentrate their regional aid in their weakest regions in order to avoid distortion of competition in accordance with Article 92 of the EEC Treaty and promote the more efficient use of funds;

4. Notes that the economically developed Member States whose national economies tend to reflect less regional disparity, allocate relatively more state aid for the promotion of economic development zones than the economically less developed Member States;
5. Notes that the Member States with weak economies and, consequently, with acuter regional problems tend to be unable to provide the aid needed to reduce their regional disparities and that therefore, the ceilings on investment aid in those countries (up to 75%) are frequently only nominal;
6. Is aware that the developed Member States must also have a certain degree of latitude in future to pursue their own independent national regional policies but believes that the overriding need to promote investment in the Community's least favoured regions must take precedence where it is in conflict with such latitude;
7. Calls, therefore, on the Commission to pay more attention to effects on competition of combined forms of aid, particularly those applying outside assisted areas;
8. Is aware that the developed Member States must also have sufficient latitude in the future to pursue their own independent national regional policies;
9. Notes that national aid still appears to be a necessary instrument of structural policy;
10. Notes that the Commission has altered the methods and basic principles that it applies in assessing the admissibility of aid without first adequately informing the recipients and institutions concerned, and that this has created a degree of uncertainty;
11. Calls on the Commission to publish its new methods of assessment and new policy guidelines in the Official Journal as soon as possible so that the institutions concerned and the recipients of aid are fully aware in advance of the possible implications of receiving aid, and is convinced that the number of assessment procedures would be reduced if the Member States were better informed;
12. Stresses that greater transparency in the methods of assessment must not restrict the Commission's necessary freedom of action;
13. Calls on the Commission to ensure not only that national aid does not prejudice competition but also that it does not represent a waste of resources by supporting out-of-date spheres of activity at the expense of sectors with sound prospects; stresses, however, that certain forms of aid are justified on social grounds, which have to be taken into account;

14. Notes the current methods used by the Commission to assess the admissibility of national aid; is concerned, however, by
 - the great diversity of methods and criteria employed to assess the application of the rules on competition to the various kinds of aid provided for in Article 92(3) of the Treaty;
 - the fact that each of the Community's structural funds and loans instruments uses different indicators to evaluate the socio-economic situation of the regions and hence to determine the allocation of Community resources;
15. Welcomes, moreover, the Commission's recent clarifications regarding the authorization of aid to the less developed regions, based on Article 92(3a);
16. Expresses serious concern over the regional impact of the Commission's proposal to establish a framework system for national aids to agricultural income (COM(87) 166 final) which would suspend application of Articles 92 to 94 of the Treaty; fears that such a system may subsequently weaken the competitive position of farming in less-favoured regions and would thus not contribute to the pursuance of greater economic and social cohesion within the Community;
17. Considers that Articles 92, 93 and 94 of the Treaty ought to apply to such aid inasmuch as Article 92(3) makes it possible, inter alia, to grant aid when it helps to reduce economic disparities between regions and to promote the convergence of the economies of the Member States;
18. Requests the Commission, therefore, to use common and up-to-date indicators as far as possible in assessing the socio-economic situation in the regions in connection with structural fund aid;
19. Believes in general that state aid to disadvantaged regions tends to have less of a distorting effect on competition if the recipients are small or medium-sized enterprises with local or regional market impact and asks the Commission to work out appropriate criteria;
20. Calls, therefore, on the Commission when assessing aid under Article 92 to consider in future not only the amount of aid and the socio-economic situation of the region but also the size of the enterprise concerned and its importance in terms of intra-Community trade;
21. Calls on the Commission to give maximum publicity to the results of these checks;

22. Calls on the Commission in the interests of greater transparency to compile, regularly update and publish the following data:
- a list of all the national aids provided by the Member States,
 - the annual totals for aid provided by the Member States and, where applicable, by local and regional authorities,
 - regional aid expenditure as a percentage of all industrial investment,
 - a list of the regions designated by the Member States and, where applicable, local and regional authorities as development areas, specifying the surface area and population,
 - a list of the Community regions which in the Commission's view qualify for structural fund aid on the grounds of their socio-economic situation,
 - the extent to which the 'additionality' of ERDF aid is respected by the Member States;
23. Calls on the Member States and the Commission to improve and update their statistical data on the regions;
24. Instructs its President to forward this resolution to the Council and the Commission.

B.

EXPLANATORY STATEMENT

THE CO-ORDINATION OF REGIONAL AID SCHEMES

Background

1. Community action in the field of the co-ordination of regional policy measures dates back to June 1971. The objective has been to bring together Community regional and related policies and the individual policies of the Member States.

The initial concern was to distinguish between central and peripheral areas of the Community and to limit the discretion of Member States with regard to regional incentives in the central areas. The aims of this action were to limit competitive bidding by Member States for mobile industry in the most prosperous regions of the Community and also to prevent regional financial incentives being used to distort competition.

2. The next stage of the co-ordination policy was set out in the communication on general regional aid systems in February 1975, which described the principles which were to operate for a three year period. This extended the principles of co-ordination to all regions of the Community in a way which endeavoured to take account of the specific problems of regions which had not been subject to the earlier principles.
3. Five different categories of regions were distinguished in terms of the overall severity of their regional need. Various elements of the co-ordination policy identified in 1971 were also expanded. These included the establishment of aid ceilings for different regions depending on the type and severity of their regional problems.
4. The need for aid schemes which could readily be measured across countries was also stressed as part of the Community's discouragement of 'opaque' regional incentives whose true value was difficult to estimate. A number of principles were outlined regarding the regional specificity of incentive schemes including the requirement that they should not cover an entire country nor apply in areas which were not clearly delimited. To monitor the application of these principles a system of supervision was also to be established.

The permissible ceilings were expressed in terms of 'net grant equivalent', a term which refers to the discounted post-tax grant value of total assistance from public sources expressed as a proportion of discounted fixed project costs. The total assistance to be reckoned for this purpose includes such elements as rent free periods, loans for small businesses at below commercial rates and local authority grants and loans at below commercial rates as well as regional development and similar grants. Derogations were allowed in special circumstances.

5. The co-ordination principles developed in 1975 were partly redefined in December 1978, and the methods for their implementation amended and supplemented from 1 January 1979.

New alternative ceilings, based on cost-per-job limits, were introduced to permit more assistance to be given to labour intensive projects. The ceilings set then have remained unaltered.

The 1979 principles of co-ordination have five principal aspects:

- ceilings of aid intensity differentiated according to the nature and gravity of the regional problems,
- transparency,
- regional specificity,
- the sectoral repercussions of regional aids,
- the system of supervision.

The level of all ceilings was to be revised at the end of an initial three year period 'having regard in particular to experience gained, the evolution of the regional situation in the Community (especially with regard to the evolution of unemployment), the number of jobs created or maintained and changes in aid systems.'

Such a review has never taken place.

Current Practice

6. The Commission now takes the view that the aid ceilings play a much less important role in the control of aid than a few years ago. It regards the ceilings as part of a system introduced in order to arrest as quickly as possible the bidding up of aid levels by Member States which had intensified with the removal of customs and trade barriers. 'Their advantage was that they could be introduced immediately and simultaneously throughout the Community. Their disadvantage was (and is) that the regions in which they apply are much too large for the ceilings to reflect exactly economic conditions in different parts of them.'

The Commission has for some time been conducting a detailed investigation of individual regions and has laid down maximum aid intensities for the regions by Article 92/93 decisions. These decisions have effectively replaced the aid ceilings in the co-ordination principles but have not been published.

That investigation is not yet complete. The Republic of Ireland, the South of Italy, Spain and Portugal are still outstanding. These will mostly come within the scope of Article 92(3)(a) and not Article 93(c) which largely governs the other Member States.

7. Nevertheless the co-ordination principles are still in force and form 'a reference framework' within which Article 92/93 decisions are made in that they set out general limits which are made more specific in the individual decisions. A detailed investigation of individual regions in accordance with Article 92 of the EEC Treaty takes place whenever a Member State informs the Commission of any plans to grant or alter aid.

Under Article 93(3) of the Treaty, the Member States are required to notify the Commission of such plans. Under 93(1) the Commission can review existing aid schemes at any time and, if necessary, propose changes in them.

At the end of the notification or review process, the Commission takes a decision on the proposed aid system and approves maximum ceilings of aid intensity for the system. Subsequently, both the government of the Member States concerned as well as the governments of the other Member States are informed of the Commission's decision.

Member States

8. A range of factors is taken into account by the Member States when they define their assisted areas. These include:
- Unemployment
 - Gross domestic product or income:
Belgium, Denmark, Germany, Greece, Italy, Ireland, Netherlands
 - Demographic or migratory problems:
Belgium, France, Greece, Italy, Netherlands, United Kingdom
 - An index of economic or industrial activity:
Denmark, Greece, Italy, United Kingdom
 - Infrastructural endowment:
Germany, Greece
 - Industrial structure:
Belgium (Flanders), United Kingdom
 - Structure of Employment:
Denmark, Netherlands, United Kingdom
 - Peripherality:
France, United Kingdom
 - Age structure of the population:
Denmark

Commission

The general method used by the Commission to apply Article 92(3)(c) which covers the majority of cases is to set a threshold for each Member State which takes account in the same way of the relevant position of the Member State in the Community and the region in the Member State in terms of structural unemployment, taken over a five year average, and per capita gross domestic product or gross value added. (These thresholds express the national disparity from which regional aids in a given area can be deemed acceptable).

In addition to the principle thresholds the Commission may also use other indicators such as:

- The existence of declining industries (e.g. steel or shipbuilding);
- Demographic trends, migration balance;
- Age structure;
- Unemployment;
- Gross domestic product or income;
- Economic or industrial activity;
- Existing infrastructure;
- Industrial structure;
- Geographical position.

This 'fine tuning' mechanism can, of course, work both ways to include and exclude areas.