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## **REPORT**

on the role of direct State aid as a tool of regional development  
(2004/2255(INI))

Committee on Regional Development

Rapporteur: Miloš Koterec

PR\_INI

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## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### on the role of direct State aid as a tool of regional development (2004/2255(INI))

*The European Parliament,*

- having regard to the draft communication from the Commission - Guidelines on National Regional Aid for 2007-2013,
- having regard to the European Commission's 'non-paper' from the services of DG Competition for discussion at a first multilateral meeting with experts from the Member States,
- having regard to Article 87 (3) of the EC Treaty,
- having regard to Article 158 of the EC Treaty,
- having regard to Article 299(2) of the EC Treaty,
- having regard to the Commission Communication - Third report on economic and social cohesion (COM(2004)0107),
- having regard to its resolution of 22 April 2004 on the third report on economic and social cohesion<sup>1</sup>,
- having regard to its resolution of 12 April 2005 on the proposal for a regulation of the European Parliament and the Council amending Regulation (EC) No 1059/2003 of the European Parliament and of the Council on the establishment of a common classification of territorial units for statistics (NUTS) by reason of the accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia to the European Union<sup>2</sup>,
- having regard to its resolution of 6 July 2005 on the proposal for a Council regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund<sup>3</sup>,
- having regard to the objectives of the Lisbon and Gothenburg Strategies,
- having regard to the conclusions of the Barcelona and Gothenburg European Councils, and in particular the provisions under which the Member States agreed to reduce the level of State aids in the European Union, limiting them to subjects of common interest, including economic and social cohesion,

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<sup>1</sup> OJ C 104 E, 30.4.2004, p. 747

<sup>2</sup> Texts adopted, P5\_TA(2005)0083.

<sup>3</sup> Texts adopted, P5\_TA(2005)0277.

- having regard to Rule 45 of its Rules of Procedure,
  - having regard to the report of the Committee on Regional Development (A6-0364/2005),
- A. whereas cohesion policies and State aid policies are complementary and structural fund regulations and regional aid guidelines should be as consistent as possible, especially in the definition of geographic areas to benefit from support,
  - B. whereas direct State aid in its key function as an instrument of regional development is a major tool for achieving the priority cohesion objective and whereas a variable approach must therefore be taken to such aid in the general treatment applicable to State aid in the context of a market economy,
  - C. whereas State aids have an impact on economic, social and territorial cohesion within the European Union,
  - D. whereas most Member States have reduced State aid and reoriented it towards horizontal objectives in line with the EU strategy, reorientation towards cohesion objectives is less evident since regional aid has declined,
  - E. whereas the cohesion objective should be strengthened by reinforcing the territorial dimension,
  - F. whereas regional State aid oriented to promoting the economic development of certain disadvantaged regions and economic growth areas takes into account the need for an appropriate increase in the strategic economic competitiveness of the region concerned (Article 87 (3)(c) of the Treaty),
  - G. whereas the Commission should also take into account the total value of State aid (per capita) in each particular region when evaluating the effects of regional State aids,
  - H. whereas only about 10% of overall State aid is regulated by the Regional Aid Guidelines, whereas State aid can give a positive stimulus to economic development in a region lagging behind,
  - I. whereas the allocation of State aid should be fully transparent so as to constitute an equitable instrument for balanced sustainable regional development and the strengthening of economic and social cohesion and also offer a means of conducting State aid impact analyses and thereby allowing the application of the "better value for money" principle ,
  - J. whereas a variety of sophisticated and precise indicators of regional development and competitiveness should be used when setting criteria and evaluating the effects of State aid, including the total amount of aid granted to particular region,
  - K. whereas promoting growth and jobs creation should be the paramount aim of granting Regional Aid.
1. Welcomes the Commission's draft communication on the guidelines on national regional State aid for 2007-2013;

2. Calls on the Commission not to adopt a communication on regional State aid until the Financial Perspective for the European Union has been set by the Member States and the regional and cohesion policy budget has been decided;
3. Believes that, based on the principle of fairness, the ceilings of aid intensities applicable to all three categories set out in Article 87 (3)(a) of the Treaty and to outermost regions should remain the same in the new programming period as in the previous 2000-2006 period;
4. Asks that the differential should not exceed 10 percentage points with a view to preventing relocations and consequent destructive competition between disadvantaged areas in the Member States within the meaning of Article 87(3) (a) of the Treaty;
5. Submits that the outermost regions should automatically receive Article 87(3)(a) of the Treaty status, and by the same token suggests the same for regions suffering from severe and permanent natural, geographic or demographic handicaps, without any increase in the aid intensity proposed by the Commission;
6. Stresses the importance of all dimensions of cohesion and requests that appropriate attention be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps, such as regions with very low population density, cross-border regions, islands and mountain regions; calls on the Commission, however, to consider drawing up specific criteria that will make it possible to identify the abovementioned regions and provide them with a level of aid commensurate with the scale of the problems they face;
7. Believes that the statistical effect regions must maintain their status as Art. 87(3)(a) of the Treaty areas as already requested in its above-mentioned resolution on the Third Report on Economic and Social Cohesion granting them the same treatment as applied to convergence objective regions by the general provisions for Structural Funds and Cohesion Funds; calls, however, for the maintenance of the relevant provisions in respect of the statistical effect regions until the end of the programming period, i.e. until 2013, without a review of their situation in 2009;
8. Appreciates that the Commission intends to use the unemployment rate as a supportive indicator for eligible areas to be defined by Member States under Article 87(3)(c) of the Treaty, but stresses the need for indicators to be introduced which will highlight the various differences in regional development, thereby enabling the Member States to measure more accurately the areas' relative degree of prosperity and consequently their eligibility for support; for this purpose, calls upon the Commission to use additional indicators such as the per-capita GDP growth rate (which is better suited to the demands of transition during a period of territorial rebalancing following external competitiveness shocks) and a different weighting of the unemployment parameter, which also constitutes an indicator of territories' relative critical state in economic terms; stresses, furthermore, that all the indicators used must be compared with the EU average;
9. Notes the additional allocation of eligible areas for designation of Article 87 (3) (c) of the Treaty status according to the country ceilings determined by the Commission, which takes into account also variations in unemployment between the regions; as regards the

total population ceiling, calls nonetheless on the Commission to adopt distribution criteria which take into consideration the relative disadvantage of certain Member States so as not to impose stiff penalties on the ones which still display significant and objective internal differences due in part to the existence of underdeveloped regions with Article 87(3)(a) of the Treaty status; calls, therefore, for adoption of the same distribution criteria and the same correctives laid down in the current guidelines and for authorisation of the requisite modest increase in the total EU-25 population ceiling which is eligible for regional aid;

10. Considers that economic-development regions should be entitled to the maximum levels of aid intensity laid down in Article 87(3)(c) of the Treaty, in order to prevent a sudden change in aid level from hindering their consolidation of the progress they have made;
11. Reaffirms that any regional aid covered by the derogation under Article 87(3)(c) of the Treaty must be part of a coherent and integrated regional policy of the Member States;
12. Asks the Commission to urge Member States to outline in a transparent manner both the economic principles and the statistical criteria they intend to use to finally identify the Article 87(3)(c) of the Treaty regions; reminds Member States that, in the process of defining Article 87(3)(c) regions at national level, local and regional governments should be consulted;
13. Asks the Commission to ensure that the competent authorities of the regions are enabled by applying the partnership principle to prioritise investment projects of particular interest to their regions, as stated in the draft guidelines;
14. Welcomes the intention of the European Commission to apply an additional safety net in order to ensure that no Member State loses more than 50% of the population covered during the period 2000-2006, but recommends that the Commission consider strengthening the safety net by lowering the 50% threshold;
15. Calls, in order to avoid too severe a reduction in the population covered, for a transitional system for areas within the meaning of Article 87(3)(c) of the Treaty similar to the transitional mechanism set up for regions eligible under Article 87(3)(a);
16. Express its satisfaction with the Commission's proposal to allow Member States to use regional State aid to address particular economic problems, including localized regional disparities below the NUTS III level, expressed by lower GDP, higher unemployment or other recognized economic indicators, by giving them the possibility of granting State aid also to large companies; welcomes in this context the application of relevant bonuses for SMEs;
17. Emphasises, however, the usefulness of other indicators allowing for better evaluation of the difficulties of development experienced by certain regions, particularly regions undergoing desertification, such as the evolution of employment structure, ageing populations and net migration;
18. Emphasises in this connection the importance of ensuring a strong synergy between any future Globalisation Fund, designed to address particular economic problems caused by

restructuring, and Guidelines on Regional Aid;

19. Understands that adequate operating aid for regions suffering from structural handicaps is an appropriate way to supplement investment aid in those regions and welcomes the Commission's desire to allow Member States flexibility in this area;
20. Expects the Commission to consider authorising operating aid for areas which from 2007 onwards will lose Article 87(3)(a) of the Treaty status and to allow appropriate additional amounts of operating aid to regions suffering from natural, geographic or demographic disadvantages;
21. Welcomes the Commission's setting of an effective maximum aid differential for less assisted regions sharing a land border and recommends that that provision should also apply to regions sharing a sea border with a better assisted region without a lowering of aid ceilings in better assisted areas; calls for a corresponding provision for regions sharing a sea border;
22. Appreciates that the Commission permits Member States to grant substantial additional amounts of regional State aid to SMEs; proposes that the increase be adjusted upwards through the setting of a single 20% figure for both small and medium-sized business, so as not to discourage growth amongst small business;
23. Believes that the Horizontal Aid Guidelines too must take due account of territorial differences, in order not to jeopardise cohesion objectives - for which reason such aid should be kept in its current proportion;
24. Urges, therefore, the Commission to raise the ceiling of State aid intensity further to include a regional component for the benefit of poorer regions, in cases of State aid granted on the basis of the new horizontal aid guidelines. This aid bonus for horizontal aid should be differentiated according to the categorisation of intensity of regional aid outlined in paragraphs 41 to 46 of the draft guidelines on regional aid;
25. Supports the definition of initial investment suggested by the Commission and, in particular the differentiation of eligible expenses between SME and large companies as outlined in paragraphs 31 *et seq.* of the draft guidelines on regional aid, but hopes for greater flexibility allowing for specific situations, where this is justified; calls on the Commission, however, to clarify whether, on the basis of the proposed guidelines, the provision of services will be eligible for aid, as well as the supply of products; furthermore considers that, when defining initial investment, the current requirement that the investment should lead to fundamental changes in terms of the rationalisation, diversification or modernisation of the product or production process should continue to be used, since it seems less restrictive than the requirement to bring a completely new product onto the market;
26. Proposes that, in the light of current practice, the Commission allow Member States that have not adopted the single currency to be able to apply the exchange rate 'on the date when the application for aid is received' for projects forming part of adopted programmes, because the specific level of aid already needs to be known when assessing the project, not only on the day when the decision is made;

27. Calls on the Commission to specify more precisely what constitutes eligible expenditure in order to allow categories thereof to be set more accurately and in order that decision-making on the eligibility of expenditure can be left to the Member States;
28. Welcomes the Commission's acknowledgement that the form of regional aid can be variable and asks the Commission to carry out a study assessing which type of State aid seems to be most beneficial for regional development and to bear a lesser risk of distorting competition;
29. Welcomes the Commission's intention to require that eligible intangible assets must remain within the eligible region, which will be ensured by a number of conditions laid out in paragraph 53 of the draft guidelines 2007- 2013; requests clarification, however, as to whether the transfer of an undertaking from one eligible region to another also represents a breach of the condition allowing aid intended to finance a particular investment or whether it is only the transfer of an investment to a non-eligible area that would give rise to the sanctions laid down;
30. Welcomes the fact that temporary and decreasing operating aid will continue to be allowed for Article 87(3)(a) of the Treaty regions, provided that it addresses clearly defined problems in regional development and is proportionate; urges the Commission, however, to provide a more precise definition of the eligibility criteria for operational aid;
31. Welcomes the fact that operating aid that is neither degressive nor subject to a time limit will continue to be authorised in regions suffering from permanent handicaps;
32. Believes that operating aid covering the additional costs of transport should be allowed in the outermost regions and low population density regions, if it complies with certain objective criteria as defined in paragraph 79 of the draft guidelines and provided that the public procurement rules guarantee fair price-setting by the companies receiving State aid; also believes that the grant of aid should be permitted for boosting regional development in EU regions with permanent geographic handicaps, such as islands and mountainous areas, since it would help to bring about better integration of the Community;
33. Suggests that operating aid also be selectively allowed under certain conditions, in view of identified additional costs and an opportunity of having an equal access to the market, to regions which suffer from severe and permanent natural or demographic handicaps, such as the regions with very low population density, regions undergoing depopulation and island, cross-border and mountain regions; nevertheless urges the Commission to precisely define the eligibility criteria for operational aid in the above-mentioned regions;
34. Calls for recognition of the fact that direct aid for transport can contribute to greater economic integration of island regions within the Community and allow them to take advantage of their geographical position in the maritime areas surrounding Europe;
35. Welcomes the Commission's introduction of a maximum percentage of the overall amount of State aid granted for certain intangible investment projects for large companies, in order to limit the maximum amount of their funding in relation to total investment;



36. Emphasises that the general requirement to maintain investment supported by State aid in a particular region should correspond to the requirements regarding Structural Funds;
37. Recognizes that the obligation to maintain investment within the regions has been fixed at a general level for a maximum of five years; calls for this rule to be applied with some flexibility so as not to stifle innovation through the replacement of plant or equipment which has become out-dated within this five year-period due to rapid technological change;
38. Takes note of the opportunity Member States have in the case of SMEs to reduce these five year periods for the maintenance of an investment or jobs created for a minimum of three years;
39. Urges the Commission to define Community guidelines based on the principle of proportionality for the recovery of aid, in the event of such obligations not being respected;
40. Considers that EU aid for company relocations does not provide any European added value and must, therefore, be avoided;
41. Emphasises that all economic sectors should be treated equally and that coherence between all relevant legal instruments must be duly maintained;
42. Welcomes in principle the Commission's intention to integrate the multi-sectoral framework into the new RAGs without reducing the intensities indicated therein;
43. Warns that the Commission's proposal to base the maximum aid percentage on gross grant levels (unlike in the previous period in which the different taxation systems were taken into account via the net grant equivalent (NGE) formula) could increase the differences between aid that can be received by companies in regions of different Member States, not taking account of cohesion criteria;
44. Notes with concern that the reduction in ceilings for the purpose of establishing the maximum aid intensity (GDP per inhabitant) combined with the change in the calculation method (gross instead of net subsidy) results in practice in a very severe cutback in aid with no regard for the effectiveness thereof as an instrument of convergence and cohesion; calls, therefore, upon the Commission to provide - in the interests of aid-management transparency - an objective justification of the need for such a change;
45. Urges the Commission to consider a way of using the NGE formula to calculate the actual impact of State aid on regional development;
46. Welcomes the new form of aid for small businesses in assisted regions, as well as the specific measures concerning low density population regions and small islands in the context of the compatibility criteria for this aid;
47. Welcomes the Commission's intention to extend block exemptions from prior notification for transparent forms of regional investment aid and recommends that the ceilings for block exemptions take account of inflation;

48. Emphasises that rules on exemption should explicitly include the possibility for Member States to notify aid projects and for the Commission to evaluate their compatibility using more flexible criteria, so that account may be taken of any specific regional or sectoral characteristics, as well as innovative approaches;
49. Expects the Commission to make the rules for block exemptions simple and transparent, but also to introduce an appropriate control mechanism to prevent abuse of block exemptions;
50. Calls on the Commission to examine whether the de minimis threshold, currently set at EUR 100 000, can be raised, which would provide relief, and cut down on bureaucracy, for SMEs and new businesses;
51. Points out that national State aid is an important financial instrument for economic, social and territorial cohesion, and must therefore be incorporated into the national reference framework and be approved as part of the multiannual national programme;
52. Urges the Commission to increase the amount of de minimis aid from the current level of EUR 100 000;
53. Appreciates the Commission's intention to improve the transparency of regional State aid in an enlarged Union and supports easy access for all interested parties to the full text of all applicable regional aid schemes in the EU;
54. Calls for the fundamental rules on State aid associated with the Structural Funds to be incorporated into the regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund;
55. Thanks the Commission for having taken account of the considerations of the European Parliament during the consultation period leading to the drafting of the draft guidelines referred to in this resolution;
56. Instructs its President to forward this resolution to the Council, the Commission, and the Committee of the Regions.

## PROCEDURE

<b>Title</b>	The role of direct State aid as a tool of regional development				
<b>Procedure number</b>	2004/2255(INI)				
<b>Basis in Rules of Procedure</b>	Rule 45				
<b>Committee responsible</b> Date authorisation announced in plenary	REGI 13.1.2005				
<b>Committee(s) asked for opinion(s)</b> Date announced in plenary	ECON 13.1.2005				
<b>Not delivering opinion(s)</b> Date of decision	ECON 7.3.2005				
<b>Enhanced cooperation</b> Date announced in plenary					
<b>Motion(s) for resolution(s) included in report</b>					
<b>Rapporteur(s)</b> Date appointed	Miloš Koterec 19.1.2005				
<b>Previous rapporteur(s)</b>					
<b>Discussed in committee</b>	29.3.2005	20.4.2005	15.6.2005	5.10.2005	21.11.2005
<b>Date adopted</b>	22.11.2005				
<b>Result of final vote</b>	for: 26		against: 3		abstentions: 11
<b>Members present for the final vote</b>	Alfonso Andria, Stavros Arnautakis, Elspeth Attwooll, Adam Jerzy Bielan, Jana Bobošíková, Graham Booth, Bernadette Bourzai, Gerardo Galeote Quecedo, Iratxe García Pérez, Eugenijus Gentvilas, Lidia Joanna Geringer de Oedenberg, Ambroise Guellec, Pedro Guerreiro, Gábor Harangozó, Konstantinos Hatzidakis, Jim Higgins, Alain Hutchinson, Mieczysław Edmund Janowski, Tunne Kelam, Miloš Koterec, Constanze Angela Krehl, Francesco Musotto, James Nicholson, Lambert van Nistelrooij, Jan Olbrycht, Markus Pieper, Elisabeth Schroedter, Alyn Smith, Grażyna Staniszevska, Catherine Stihler, Oldřich Vlasák, Vladimír Železný				
<b>Substitutes present for the final vote</b>	Inés Ayala Sender, Jan Březina, Ole Christensen, Den Dover, Toomas Savi, László Surján, Nikolaos Vakalis				
<b>Substitutes under Rule 178(2) present for the final vote</b>	Rosa Miguélez Ramos				
<b>Date tabled – A6</b>	28.11.2005		A6-0364/2005		