

# European and External Affairs Committee

## EUR(2) 03-05 (p5)

Date: 14 April 2005

Time: 09.00am

Venue: Committee Rooms 3 and 4, National Assembly for Wales, Cardiff Bay

Title: Review of Regional Aid Guidelines

### Purpose

The purpose of the report is to provide an update upon recent developments with the European Commission's review of the Regional Aid Guidelines.

### Summary

This report follows a report to the European and External Affairs Committee on 11 November 2004 which provided an analysis of the potential impact upon Wales of European Commission proposals for the review of the Regional Aid Guidelines. At that time, a date was awaited for an anticipated multi-lateral meeting between the Commission and Member States. This report updates the Committee upon recent developments and upon the outcome of that multi-lateral meeting. Member States were given until 1 March to respond to the Commission's proposals. The Commission intends to publish the draft Regional Aid Guidelines in May 2005, to hold another multi-lateral in June / July and to finalise the process by the Autumn.

### Recent Developments

Having taken into account Member State responses to its April 2004 consultation document, the European Commission issued revised proposals in late December. These revised proposals were subsequently considered at a multi-lateral meeting, staged by the Commission on 1 February 2005.

Significantly, the Commission's revised proposals underline its continuing commitment to NUTS 2 areas as the basis for the Assisted Areas map. This effectively signals the end of the UK argument for basing core Assisted Area coverage upon NUTS 3 areas.

Other key revisions proposed by the Commission in its December paper include:

Amendment of the eligibility criteria for the highest tier of Article 87(3)a areas ( now areas with less than 45% EU25 GVA).

A reduction in the proposed maximum aid intensities in order to flatten the differentials between Assisted Areas. The table below shows the proposed adjustments ( previous maximum intensities proposed by Commission shown in brackets):

	<b>Large Enterprises</b>	<b>Medium Enterprises</b>	<b>Small Enterprises</b>
87(3)a region <45% GDP	40% (was 50%)	50% (was 60%)	60% (was 70%)
87(3)a region < 60% GDP	35% (was 40%)	45% (was 50%)	55% (was 60%)
87(3)a region <75% GDP	30% (no change)	40% (no change)	50% (no change)
87(3)c statistical effect region	30% falling to 15% (was 30% to 20%)	40% falling to 25% (was 40% to 30%)	50% falling to 35% (was 50% to 40%)
87(3)c low population region	20% (no change)	30% (no change)	40% (no change)
87(3)c economic growth region	15% (was 20%)	25% (was 30%)	35% (was 40%)
Non assisted area	0 (no change)	10% (no change)	20% (no change)

First indications of how maximum aid levels are to be stepped down in 'Statistical Effect' areas: the table below shows the Commission's proposals:

<b>Area</b>	<b>Large Enterprises</b>	<b>Medium Sized Enterprises</b>	<b>Small Enterprises</b>

Statistical Effect	From	From	From	From	From	From	From	From	From
	1/1/07	1/1/10	1/1/12	1/1/07	1/1/10	1/1/12	1/1/07	1/1/10	1/1/12
	30%	22.5%	15%	40%	32.5%	25%	50%	42.5%	35%

An indication of how the Commission intends to determine investment eligible for regional support. The Commission has chosen to leave the definition of initial investment largely unchanged but has sought to clarify the distinction between initial and replacement investment. This is significant because of fear that the Commission might move to prevent aid being given towards the costs of replacement assets which could then potentially prevent aid being given towards, for example, 'second phase' investments by inward investors.

## Multi-Lateral Meeting

Immediately before the multi-lateral meeting on 1 February 2005 the UK, together with France, Germany and Austria, sent a common letter to the Commission which welcomed its proposed amendments to maximum aid intensities, but argued that further reductions could also usefully be made. The letter also called for greater Member State flexibility in targeting state aid at the most disadvantaged locations within their regions. The UK line at the multi-lateral meeting mirrored the text of this common letter.

The Commission was very much in listening mode at the meeting but, under clear pressure for greater flexibility on Assisted Area coverage from key Member States, signalled that it might be prepared to offer a concession in the form of limited additional Assisted Area coverage. This could be in the form of transitional arrangements for existing Article 87(3)c areas. Member States were asked to consider this suggestion and to put forward proposals for mechanisms through which additional areas of greatest need could best be determined.

## UK Response

The UK written response reinforced the points made at the multi-lateral meeting and suggested two options for identifying deprived areas suitable for designation as additional Assisted Areas. One option outlined was the application of an economic formula based upon GDP and a supplementary criterion, for example, employment, unemployment or inactivity levels. The other method outlined involves the possible application of a 'safety net' approach, whereby Member States would see reductions in population coverage limited to an agreed percentage of the current coverage of Article 87(3)c areas.

## Implications for Wales

The Commission's latest proposals slightly improve the relative position of Wales and the UK within

Europe. The revisions do not alter the competitive position of Wales within the UK.

The revisions do not alter the spatial targeting implications for Wales from those contained in the Commission's original consultation document: West Wales and the Valleys, as a NUTS 2 area, would continue to be eligible for Assisted Area status and would be the only Assisted Area in Wales, unless the Commission agrees to extend coverage.

Commission proposals to introduce greater flexibility into the guidelines therefore remain highly significant for Wales. In addition to signalling that it may be prepared to agree limited additional Assisted Area coverage, the Commission, in its latest paper, highlights that the review of the Regional Aid Guidelines must be seen as part of a wider package of reform of state aid policies: a number of related reviews will take place before the end of 2006.

However, it should be noted that the Commission makes no further reference in its latest paper to the Significant Impact Test proposal, which offered the prospect of aiding even large companies outside the Assisted Areas, where the level of aid involved was not deemed to be distortive. This proposal has met with resistance within the Commission and absence of any reference to it in this latest paper is disappointing.

It will be important that aid towards the cost of modernising plant and machinery continues to be available if we are to be able to continue to support the future investment plans of companies in Wales. The Commission's stance on the definition of 'replacement' investment is helpful in this context.

Commission indications that transitional status for current 87(3)c areas may be considered as a means of extending Assisted Area coverage is an encouraging development for Wales. This approach might produce a better outcome for Wales than if the Commission were to apply an economic formula approach, but much will clearly depend upon the criteria deployed in such a formula.

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