

# European and External Affairs Committee

## EUR(2) 07-05 (p.4)

**Date: 22 September 2005**

**Time: 09:00 - 12.30**

**Venue: National Assembly for Wales, Cardiff Bay**

**Title: Update on Draft Regional Aid Guidelines**

### **Purpose**

To update the Committee on latest developments with the European Commission's review of the Regional Aid Guidelines.

### **Summary / Recommendations**

This report follows earlier reports on progress with the new Regional Aid Guidelines: the Committee has requested that it be kept informed of significant developments. The European Commission has now issued the draft Regional Aid Guidelines (RAG), scheduled to come into force in January 2007. Member States have been asked to consider the draft in advance of a multi-lateral meeting scheduled for 15 September 2005. This report outlines key features of the draft RAG, which incorporates significant revisions to the Commission's earlier proposals, and highlights the implications for the Assisted Areas Map of Wales.

### **Features of the Draft Guidelines**

The key features of the Commission's draft guidelines of significance to the Assisted Areas Map of Wales are:

1. Article 87(3)(a) areas continue to be defined as NUTS 2 areas with less than 75% EU 25 average GDP.
2. Statistical Effect (SE) areas are now to qualify as Article 87(3)(a) areas until 2009 and then to be the subject of a status review. Should the economic performance of a SE area have declined to below 75% of EU 25 GDP, it would retain Article 87(3)(a) status from 2010. If GDP has not so declined, the area would be re-classified as an Article 87(3)(c) area and maximum aid intensities will reduce.
3. The Commission has indicated that it is prepared to allow Member States additional population coverage under Article 87(3)(c). Under the latest proposals, population coverage within the UK would

increase to 23.5%. This compares favourably to the 9.1% population coverage that would have resulted under the Commission's original proposals.

4. The Commission has set out eligibility criteria to be followed by Member States in the selection of additional Article 87(3)(c) regions. Regions that could qualify as additional Article 87(3)(c) areas include:

- Regions within both NUTS2 and NUTS3 areas where GDP is less than the EU 25 average or where there is an unemployment rate which is higher than 115% of the national (Member State) average;
- NUTS3 areas, or parts of NUTS3 areas, which lie adjacent to an area eligible for Article 87(3)(a) status.

5. Member States will be required to provide the Commission with copies of maps showing distribution of their additional coverage, together with supporting information, within 3 months of publication of the new RAG.

6. As before, maximum aid ceilings are to be calculated as Gross Grant Equivalent,

7. The Commission proposes to re-instate the maximum aid intensities, for the two top tiers of Article 87(3)(a) areas, to the higher levels it had originally proposed in December 2004.

**Impact on Wales**

8. West Wales and the Valleys will retain Article 87(3)(a) status. Whether this will be as a 'full' 87(3)(a) area or as a SE 87(3)(a) area will depend on the data set used to determine eligibility. If qualification is as a SE area, the area's status and its maximum aid intensities will be reviewed in 2009.

9. The Commission had already proposed tapering maximum aid intensities for SE areas, with two stepped reductions: in 2010 and in 2012. Under its latest proposals, maximum aid intensities in SE areas where the economic position has not further deteriorated will also be stepped down, but on a different basis. The table below illustrates the difference by reference to aid intensities for large enterprises.

<b>Maximum Aid Intensities</b>	<b>Large Enterprises</b>

<b>Statistical Effect Areas</b>	<b>From 1/1/07</b>	<b>From 1/1/10</b>	<b>From 1/1/12</b>
<b>Dec 2004 Proposal</b>	30%	22.5%	15%
<b>July 2005 Proposals</b>	30%	20%	20%

10. Under the Commission's latest proposals, Wales can argue for additional Assisted Area coverage: the whole of East Wales lies adjacent to an Article 87(3)(a) area in WWV.

11. The Commission's proposed increase in Article 87(3)(c) coverage, both within the UK and within other Member States means that there will be greater competition for investment.

12. Given that the Commission now proposes to re-instate maximum aid intensities, for the poorest 87 (3) a areas, to the higher levels that it had originally proposed, the differential between areas like Wales and poorer areas, particularly in the accession countries, will re-open.

## **Next Steps**

13. The UK Government is consulting with stakeholders in preparing the UK response to the Commission's proposals in readiness for the September multi-lateral meeting. The Commission appears intent upon finalising the guidelines by the end of the year. If this objective is met, there will be an intensive period of consultation within the UK, in the first three months of 2006, to agree the extent of additional Article 87(3)(c) map coverage.

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