

**Communication from the Commission to the Member States on the links between regional and competition policy**

**REINFORCING CONCENTRATION AND MUTUAL CONSISTENCY**

(98/C 90/03)

In 1996 the Commission produced its first report on economic and social cohesion in the Union. The report notes that targeting resources on problem areas, known as 'concentration', is the key principle underpinning the effectiveness of cohesion policies (Chapter 6, section 2) and it concludes in particular that 'within the context of the concentration of resources on the most disadvantaged regions, the Member States and the Commission need to address, in partnership, inconsistencies between the regions which are supported under national regional policies and those which are supported under Union regional policies. Eligibility for Union regional aid should in the future become one of the criteria for allowing assistance under Member States' own regional policies' (Chapter 7).

The Commission again stressed in Agenda 2000, which it adopted in July 1997, that there was a need to increase the geographical concentration of structural assistance with a view to making it more visible, more effective, and also more consistent with the Union's competition policy<sup>(1)</sup>. The Commission announced in the same document that the geographical extent of areas covered by regional assistance would be reduced.

Finally, in its action plan for the single market the Commission has indicated that it will produce new guidelines for regional State aid which will aim to reduce disparities by concentrating aid.

## **1. Statement of the problem**

### *Concentration*

Despite progress since the Community started to operate a regional policy, there are still important structural disparities within the Union and one of its fundamental goals remains to increase economic and social cohesion, as required by Article 130a of the EC Treaty. The Union needs to be in a position to continue its support for the

creation and development of productive activities in regions lagging behind in their development and those undergoing economic and social transformation. Past experience shows that, to be effective in regional development terms, such assistance should not be spread thinly over areas which are too large or fragmented. We need to increase the concentration of Community part-financing if we are to reach critical mass and have a significant impact, and among other things this involves identifying the regions in the Union which are most affected.

Concentration is an equally important aim in the context of the Community's competition policy as set out in Articles 92, 93 and 94 of the Treaty, since concentration would help to limit the distortions brought about by national regional-aid schemes, in terms of the extent of the geographical area involved, while at the same time focusing on the regions lagging behind in their development.

### *Mutual consistency*

Decision-making in the Union is a system involving several actors which have different institutional responsibilities. This applies in particular to regional policy. For example, the Commission has sole responsibility for checking that national aid schemes (as well as any related lists of designated areas) which are notified by Member States under Article 93(3) of the Treaty are compatible with the aims of the Treaty, whereas the task of ensuring that the less prosperous regional economies are helped is primarily in the hands of the regional and national authorities, with the Union contributing in a subsidiary fashion through its structural assistance. The Structural Funds provide this support *inter alia*, by part-financing schemes for assisting investment in production activities which are designed and implemented at national and/or regional level. Structural Fund assistance forms only a rather small part of the total regional-aid spending of the Member States. This logically means that the ERDF ought to be providing this assistance only in areas where Member States themselves are granting regional aid, although this does not prevent them from assisting other regions as well if they want. But national regional-aid schemes have to be given prior authorisation under the Union's policy on State aids, so the areas eligible for assistance from the Structural Funds ought also to be covered by national aid schemes. However, because there are several different actors with differing powers, objectives and timetables, it has proved difficult to coordinate these two policies. This situation has been

<sup>(1)</sup> 'This will lead to a zoning which is less scattered and as consistent as possible with the areas assisted by the Member States under Article 92(3)(c) of the Treaty.'

criticised by the actors involved, such as the regional and local authorities, and by the European Parliament.

For instance, in areas currently eligible under the Structural Funds but not eligible for regional State-aid schemes under the exemptions in Article 92(3)(a) and (c), it is still possible to part-finance schemes to assist small businesses and schemes dealing with the environment or research, at lower rates than allowed in areas eligible under Article 92(3)(a) and (c). In such areas, the Structural Funds are not able to attract investment by major companies, even though this would be highly desirable in regional development terms because of the knock-on effects and access to world markets it would bring. This inconsistency should not be allowed to continue, for both political and economic reasons.

The Commission made an attempt to introduce more consistency when the Structural Fund Regulations were being reviewed in 1993. Later, when the Commission and the Member States were agreeing on lists of designated areas, especially under Objective 2 but also under Objective 5b, the Commission repeatedly encouraged them to propose eligible areas that were compatible with their State-aid designations. What is needed now is to lay down a set of principles and find ways of making decisive progress in this area in time for the next programming period under the Structural Funds (2000 to 2006).

In essence, the consistency being sought would ensure that the regions in each Member State which are eligible under the Structural Funds could also be covered by a regional State-aid scheme.

## 2. Review of the current situation

### 2.1. *Mutual consistency as a responsibility shared by the Commission, the Council and the Member States*

Chronologically in the development of Community policy, it was the eligible areas under competition policy which were the first to be designated using a method published by the Commission in 1988 (OJ C 212, 12.8.1988), although the Commission had already clarified and amplified the basic principles for coordinating regional aid dating from 1997. Under its sole responsibility for reviewing State-aid schemes, the Commission gives approval to the designations within

each Member State on the basis of a proposal from the Member State concerned.

With regard to assistance from the Structural Funds, there are currently four region-based Objectives, i.e. Objectives 1, 2, 5b and 6.

The Objective 1 regions have been designated until now by the Council acting unanimously on a proposal from the Commission. In theory these are the NUTS II regions where per capita GDP (in PPPs) is less than 75 % of the Community average. But, as pointed out in Chapter 6, section 2, of the cohesion report, 'political compromise in 1993 led to the inclusion under Objective 1 of [regions containing] 7,4 million people, 8 % of the total eligible population, living in regions with GDP per head of more than 75 % of the Union average'.

The Objective 6 areas, i.e. where population density is less than eight people per km<sup>2</sup>, were designated in the Act of Accession of Austria, Finland and Sweden in 1995.

Under the rules set by the Council, the Objective 2 and 5b areas have been designated by the Commission on the basis of Community socioeconomic criteria as well as national criteria in close cooperation with the Member States. The latter send in their proposals to the Commission and these are then the subject of negotiation between them and the Commission. As already mentioned, the number of different actors, each with their own responsibilities, and different implementation timetables have hampered attempts to reduce the inconsistencies further during the last programming period, although this should have been an ideal opportunity to do so.

### 2.2. *Statistical data*

In 1994 to 1999 a total of 50,6 % of the population of the Union (EU-15) live in regions eligible for Community structural aid, while 46,7 % live in areas qualifying for exemption under Article 92(3) and (c). As these figures show, some regions eligible under the Structural Funds cannot at the same time receive State aid for regional purposes. The following two tables indicate the degree of overlap between the two sets of designations. However, it has to be stressed that the figures below are only an approximate guide because they are aggregated for the whole Community and there is some drift in actual areas covered during the programming period.

MUTUAL CONSISTENCY BETWEEN DESIGNATED AREAS UNDER THE STRUCTURAL FUNDS AND UNDER STATE-AID SCHEMES

**Table 1**

*(percentages of the Community population)*

|  | Regions eligible under the Structural Funds | Regions not eligible under the Structural Funds | Total |
|--|---|---|-------|
| Areas where national regional aid is permitted (Article 92(3)) | 44,0  | 2,7   | 46,7  |
| Areas where national regional aid is not permitted             | 6,6   | 46,7  | 53,3  |
| Total  | 50,6  | 49,4  | 100   |

These figures show that 6,6 % of the Community population live in regions eligible under the Structural Funds where competition policy precludes the granting of regional aid.

By contrast, 2,7 % of the Community population live in regions which are covered by a national regional-aid scheme but are not eligible under the Structural Funds. This is not a particular problem. On the contrary, it helps promote consistency between policy on regional-aid schemes and the Community's own assistance under the Structural Funds because it means that Member States have a margin of room for manoeuvre to pursue regional policy goals specific to their situations in addition to the areas designated jointly for the purposes of Community regional policy.

**Table 2**

*Percentage of the national population in regions eligible under the Structural Funds but not covered by national regional-aid schemes*

| B | D   | DK | E   | EL | F   | IRL | I   | L   | NL   | A   | P | S   | FIN  | UK  | EU  |
|---|-----|----|-----|----|-----|-----|-----|-----|------|-----|---|-----|------|-----|-----|
| 0 | 5,3 | 0  | 8,9 | 0  | 9,6 | 0   | 7,5 | 6,4 | 10,4 | 5,9 | 0 | 8,7 | 12,6 | 9,0 | 6,6 |

Complete congruence already exists in five countries: Belgium, Denmark and the three Member States whose entire territory is classed in Objective 1. By contrast, all the other Member States display wide divergences.

### 3. Proposal for a coordinated approach

#### 3.1. Better identification of responsibilities

Achieving consistency between the two sets of designations is predicated on having an overall picture of the various instruments involved so that they can converge on this common goal, on the basis of a timetable that will ensure it is attained.

The Commission, the Council, Parliament and the Member States all have their share of responsibility in pursuit of greater consistency:

- the Commission, which has sole responsibility for State aids and shares responsibility with the Member States and the Council for structural policy, has stressed the need for consistency and greater

geographical concentration. In its decision of 16 December 1997 on State-aid guidelines, the Commission has accordingly modified the rules on regional-aid schemes and will be proposing that the Council adjust the regulatory and operational provisions regarding the Structural Funds. The Commission is naturally well-placed to ensure an overall coordinated approach,

- the Council and Parliament must take account of the need for consistency and concentration when adopting the new regulations on the Structural Funds,
- the national authorities in charge of regional policy need to face up to their responsibilities regarding the consistency and concentration effort and take part where their field of competence is involved.

It is important that designations under both national regional-aid schemes and the Structural Funds should be adopted in time for them to enter into force on 1 January 2000. In the case of national schemes the onus is on the Commission because of its particular powers, while in the other case the Commission, Council, Parliament and Member States are all concerned.

### 3.2. *Proposed method and timetable*

The Commission made it clear in Agenda 2000 that the percentage of the population of the European Union eligible for structural assistance under the future Objectives 1 and 2 should be cut from the figure of 51 % today to one situated between 35 % and 40 %, and that the overall figure will have to be smaller than the population coverage of regions qualifying under Article 92(3) and (c) (added together). The Commission also stated that the coverage of national regional-aid schemes had to be reduced.

Following up on these indications, the Commission in its Decision of 16 December 1997 on State-aid ceilings has set an overall figure for population coverage under Article 92(3) and (c) of 42,7 % for the 2000 to 2006 programming period, i.e. a cut of four percentage points compared with the current coverage of 46,7 %. The Commission has recently put to the Member States the measures that will be needed under Article 93(1) of the Treaty to implement the new regional-aid regime by the required date under the new regional State-aid rules which it has just adopted. The figure of 42,7 % is higher than the range from 35 % to 40 % set out in Agenda 2000 for the share of eligible population under the future

Objectives 1 and 2, making overall consistency possible across the Union. The two designation systems will thus be like two concentric circles for the Union as a whole. This relationship will have to be reflected as well in each of the 15 Member States, in particular to make Objective 2 designations fall within the areas designated under Article 92(3)(c).

As Agenda 2000 points out, the particular situation of the most remote regions means that they can be included as a special case in Objective 1. Equally, the most northerly regions with very low population density which are currently eligible under Objective 6 but which would not qualify under Objective 1 should also be treated as a special case. The regions lagging behind in their development (i.e. eligible under Objective 1) should be designated by strictly applying the criterion of 75 % of per capita GDP so that they coincide with those qualifying for exemption under Article 92(3), otherwise the overall consistency effort will be put in doubt as well as the concentration being sought under the Structural Funds. The list of Objective 1 regions is to be finalised early in 1999 on the basis of the latest data available at the start of the last quarter of 1998.

As regards the new Objective 2, consistency needs to be established with Article 92(3)(c), which must cover regions treated in the same way as Objective 1 or qualifying for special arrangements but not eligible for exemption under Article 92(3). In its Decision setting aid ceilings, the Commission gives a rate of coverage for each country which, when totalled (i.e. Article 92(3) and (c) together), produce the figure of 42,7 %. These figures should ensure that the Objective 2 list for each country lies within the boundaries of the Article 92(3)(c) list.

If the Commission's recommendation of keeping strictly to the criterion of 75 % for selection regions lagging behind in their development (i.e. Objective 1) is not followed, the result will inevitably be a lack of consistency not only between Article 92(3) and Objective 1 but also between Article 92(3)(c) and Objective 2, given the overall ceiling of 42,7 % and the different national ceilings.

The Commission will not accept a region under the new Objective 2 unless the Member State concerned undertakes to include it on the list of assisted areas notified to the Commission under Article 92(3)(c).

However, in duly justified cases the Commission could include other regions in the new Objective 2 as

exceptions. This would be confined to a maximum per Member State of 2 % of the national population not falling under Objective 1, and consistently with the general aim of geographical concentration (i.e. Objectives 1 and 2 together should cover between 35 % and 40 % of the Union's total population (EUR-15)).

The present situation is that Agenda 2000 proposes that the list of Objective 2 areas should be drawn up on the basis of Community-agreed criteria in partnership with the Member States, taking into account their regional priorities. The actual selection method will be defined in the new Structural Fund Regulations. So that both lists of designations can come into effect on 1 January 2000, the Commission will be asking Member States to make their proposals for regions to be assisted under the Structural Funds immediately after the adoption of the Structural Fund Regulations, at the latest by 31 March 1999. The Commission calls on the Council and the Member States to take all necessary steps to ensure that these decisions can be adopted in time. As regards the regions covered by regional State-aid schemes, the Commission has recently proposed to the Member States that they make their notifications as soon as possible but also by 31 March 1999 at the latest. The Commission will decide on the regional-aid lists in line with the relevant procedures and deadlines, this time by 31 December 1999 at the latest.

The Commission is not able to say at this point what will be the population coverage of the Objective 2 eligible areas in each country because the method for designating them will not become applicable until after the adoption of the new Structural Fund Regulations. The idea will be to use the latest socioeconomic data available at that juncture.

### 3.3. *Transitional measures*

As a result of the concentration effort made during each of the two designation exercises, a number of regions across the Union will lose their current status after 2000. How this 'phasing out' is to be conducted will vary depending on which of the two policies is involved. Consistency between them will none the less be ensured, as Agenda 2000 points out, by the fact that 'measures for the regions which will benefit from transitional (phasing out) support from the Structural Funds will have to comply with the competition rules on State aid.'

## 4. **Conclusions**

There are various stages remaining to be gone through and many different actors involved, but the Commission

has laid its groundwork for ensuring consistency between the two designation lists as from the year 2000. With this communication, the Commission would like to call on the national governments to do their part, both for their own account and collectively within the competent bodies of the Council.

The Commission is proposing the following action.

- (a) In the new Structural Fund Regulations, the Council should designate the regions lagging behind in their development by strictly applying the ceiling of 75 % of per capita GDP so that these regions are the same as those qualifying for exemption under Article 92(3)(a), and also avoid consequent inconsistencies between the Objective 2 list and the designations under Article 92(3)(c).
- (b) In the light of the guidelines on regional State-aid schemes which the Commission adopted on 16 December 1997, it calls on the Member States to notify it under Article 92(3) of all the regions treated as Objective 1 regions or qualifying for a separate regime of their own.
- (c) The Commission is announcing now that, in the context of the future Structural Fund Regulations, it will not accept a region as eligible under the new Objective 2 unless the Member State concerned undertakes to include it in the list of assisted regions notified to it under Article 92(3)(c).

However, in duly justified cases the Commission could include other regions in the new Objective 2 as exceptions. These would be confined to a maximum limit per Member State of 2 % of the national population not falling under Objective 1, and consistently with the general aim of geographical concentration (i.e. Objectives 1 and 2 together should cover between 35 % and 40 % of the Union's total population (EUR-15)).

- (d) The Commission stresses that the guidelines on regional-aid schemes identify eligibility under the Structural Funds as a major selection criterion, on condition that the ceiling which is set is complied with and that the regions eligible under the Funds are not designated after the list of regions to receive regional State aid.
- (e) The Commission will ensure that the two designation exercises will start and end, following their respective procedures, in time to guarantee that both designation lists can come into effect on 1 January 2000.

As far as the Structural Funds are concerned, this exercise will start immediately after adoption of the new regulations, which must in turn therefore take place in time for Member States to be able to forward their proposals for designated regions to the Commission by 31 March 1999 at the latest. With regard to regional State-aid schemes, Member States' proposals will have to be notified to the Commission as soon as possible but at the latest by 31 March 1999.

- (f) The Commission notes that the ceiling for coverage of total Community population in the regions of the

Union (EU-15) selected under Articles 92(3)(a) and 92(3)(c) is to be 42,7 % in the period 2000 to 2006.

- (g) The Commission will be sending this communication to the Member States and publishing it in the *Official Journal of the European Communities*.

Done at Brussels, 17 March 1998.

*For the Commission*

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*Member of the Commission*

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#### CORRIGENDA

**Corrigendum to the joint call for proposals: PHARE and TACIS LIEN programme, PHARE partnership programme**

*(Official Journal of the European Communities C 49 of 14 February 1998)*

(98/C 90/04)

On page 16 in the righthand column, fourth paragraph, second line:

*for:* 'http://europa.eu.int/en/comm/dg1a/phare.html',

*read:* 'http://europa.eu.int/comm/dg1a/phare/programme\_types/horizontal/ph\_horiz\_program.htm'.

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