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## Conference Paper

# The control of state regional aids by the European competition policy and its effects on economic and social cohesion

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# **38<sup>TH</sup> CONGRESS OF THE EUROPEAN REGIONAL SCIENCE ASSOCIATION**

**28 AUGUST - 1 SEPTEMBER 1998 IN VIENNA**

**Europe quo vadis? - Regional Questions at the Turn of the Century.**

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## **The Control of State Regional Aids by the European Competition Policy and its Effects on Economic and Social Cohesion.**

### **Abstract**

The economic activity of the countries which make up the European Union (EU) is being profoundly affected by the advance in the process of integration. The effect of this process on the development of the regions, in itself already unequal, has caused growing concern about the reinforcement of economic and social cohesion within the EU, as was reflected in the Treaty of the European Union. In this way, the steps taken towards a growing integration are complemented by a greater development of structural policies. The reinforcement of these policies, and in particular of regional policy, confers special importance to the analysis of its instruments, above all, to that of the programmes for regional economic incentives.

Economic incentive programmes constitute one of the most widely used tools of regional policy among the member nations of the EU. Given the fact that this assistance is aimed at companies, it is subject to meet Community regulations on competition and, at the same time, as a measure for regional development, play a role in the attainment of economic and social cohesion. In this paper the most important aspects of this last component will be analyzed in terms of regional assistance in order to then proceed to the study of its effects on the correction of interregional inequality.

### **1. Introduction**

European countries have developed their own regional policies even before the beginning of the integration process. Nowadays, these policies remain and, therefore, coexist with the community regional policy developed by the Structural Funds.

Each country designs its own regional incentives programmes and establishes, among others, the zones which are going to be subsidized and the maximum limits of the aids that can be conceded.

But, do the Member States have freedom to define what zones or regions can be susceptible to receive regional aids, as well as their intensity? The answer is negative due to the fact that regional aids, as any other State aid, can distort competition and the free trade in the European Union (EU) Single Market. This is the reason why every regional aid programme applied in the EU countries are controlled by the European Competition Policy. This policy will allow the use of this instrument in case of regional problems that justify its application, always respecting specific principles and rules of performance.

Now then, what the regional incentives programmes applied in a State are looking for is finishing with the spatial differences in that country. Although they are controlled by a Community policy, their perspective is national. In addition, a certain difference between regions which can receive this type of aids and regions which can get benefits from the Structural Funds has been traditionally in existence. This has started a discussion on the need of getting bigger coherence between the regional aids and the Structural Funds maps, as a way to reach an increased economic and social cohesion in the EU. Precisely, the European Commission has published now the new Guidelines on regional aids (OJ C 74, 10.3.1998), whose application will coincide with the new period of the Structural Funds Programme since year 2000.

As we will see, there is a clear aim to reach a higher co-ordination between the Community regional policy and the State Members' ones. This is an aspect also seen in the Commission's "Agenda 2000" (Comisión Europea, 1997b) and in its

Communication to the Member States about the links between regional and competition policy (OJ C90, 26.3.1998).

In this paper, we will first analyse the main characteristics of the regional incentives programmes in the EU. Secondly, we will study their control by the European Competition Policy, paying attention to the changes expected for year 2000. Finally, we will summarize the main consequences of these changes on the economic and social cohesion of the EU.

## **2. Main Characteristics of the Regional Incentive Programmes in Europe.**

Since the fifties, European Governments have thought about the need of reducing their respective territorial unbalances. For two decades, the instruments used to reach that aim were infrastructures investments, economic incentives and, although to a smaller extent, the application of disincentives, in regions with congestion problems, or the setting-up of public companies to act as drive of the regional economic development. In this stage, incentives were the key instrument of the regional policy in each Member State.

The regional economic incentives are financial and fiscal aids guided to stimulate firms activity in areas with problems. They do that through the establishment of new enterprises as well as by spreading and improving the already existing ones. Therefore, it is a question of inducing the capital investment in the assisted areas, compensating their lacks with economic aids. Among these lacks, we could point up the need for qualified labour force, the scarcity of external economies, the absence of industrial tradition or a distanced location from the growth centres.

The evolution of the European economies since the seventies will bring along important changes in the conception and scoring of the regional policy. Specifically, the economic crisis during the seventies and early eighties and the structural changes caused are going to affect, to a great or small extent, all the European regions which, among others, will observe increases in their unemployment rates.

In this context, the regional policy becomes less important in the national economic policy. The budget restrictions will determine the need for a fewer expenditure and this, with the change in the attitude to subsidies, will carry out a more selective plan of the regional development. Also, due to the generalization of economic growth problems, the main objective of the regional policy is now to establish the conditions to reach a sustained economic growth in all regions.

The changes relative to the objectives of the regional policy have a reflection in the instruments used. We could also speak about a reorientation of them. In fact, some of the measures used before have been abandoned, such as the application of disincentives or the setting-up of public companies, and we could emphasize some new lines of action, like services to firms, technological development and formation policies. But the main instruments of the traditional regional policy, infrastructure investments and economic incentives programmes to firms, have not been abandoned, although their use has been adapted to the new situation.

Particularly, the incentives, key instrument of the regional policy in the previous stage, can still be emphasized at present. Now, its conception has been adapted, as pointed before, to the new objectives of the regional policy at a national level. The aim of this adjustment is to face the structural changes required in a moment in which the Member States have more limited resources, due to the strong budget restrictions which determine the development of this and other policies.

Although each country in the EU has its own regional aid programmes, all of them have evolved in a quite similar way. Then, we are able to detect some common characteristics among them:

1. The prevalence of financial incentives as contrasted with fiscal incentives, since the eighties, constitutes the first trend. The last ones are only conceded, in a residual way, in France, Germany, Greece and Luxembourg.

There are three elements that have motivated this evolution: (i) The fact that fiscal incentives, because of their nature, tend to be managed by national

authorities. This often interferes with its inclusion as a specifically regional component. (ii) Secondly, financial incentives are more transparent when measuring the effect of both types of aids on the internal rate of return. It has been found that this estimate is more difficult in the case of fiscal incentives. (iii) Finally, financial incentives are more suitable when firms have financial problems and have to have recourse to the capital markets. We cannot forget that many companies have problems due to an inadequate relationship between their own resources and the external ones and, therefore, to a great dependence on the capital markets.

2. The most common financial incentives are capital subsidies. While they are the main type of incentive in every European country, labour subsidies are only conceded in France, Germany, Ireland, Portugal, Sweden and Northern Ireland. In addition, the trend is to concede the last ones exclusively to small firms or to the service sector. This is reasonable, somehow, because if we seek to improve firms and sectors competitiveness in the long term, capital subsidies are the most appropriate ones. And the reason for this is that, by encouraging its acquisition, they also facilitate the incorporation of technological progress and, therefore, the modernization of the productive system.
3. Another trend, since the eighties, has been the gradual knockout of the automatic schemes and the incorporation of more discretionary regional incentives, with a limited budget. In fact, there are only automatic programmes, exclusively related to fiscal incentives, in Germany, France and Greece, while in this last country, Netherlands and Portugal, the automatic incentives coexist with the discretionary ones in the concession of financial incentives. For the rest Member States, the system is discretionary.

To understand this change, it is necessary to take into account an essential element, which determines the concession of State aids: the budget restrictions of the Member States. In this context, discretionary schemes facilitate a greater and also better expenditure control, as they allow the

selection of those really interesting projects, as well as the adaptation of the incentives amount in each particular case, thanks to the realization of a previous study. Furthermore, this individualized analysis, in each case, establishes the possibility of choosing additional projects, or those which would not be carried out in the same way without grant. The main disadvantage of this system is that they are more expensive and complex to manage than the automatic ones.

4. Also related to the administration of regional incentives programmes, there is a growing degree of decentralization. This presents clear advantages, such as a better adequacy with the specific characteristics of the region and a quicker and more flexible incentives management. But it also presents some risks that we cannot forget, which are basically centred in the possibility of competition between regions. This feasible “war” between regions bring us to think that managerial decentralization of incentives programmes should not be complete, keeping certain responsibilities at the central level. This one should take charge of setting maximum aid limits, as well as a set of general conditions to obey, taking also charge on the greater dimension projects.
5. Finally, in relation to their sectorial coverage, the European regional incentives approach mainly to manufactures, and also to services. For this last case, aids are focussed in those tertiary activities whose location does not depend on local markets, in firm services and in Research and Development (R&D) activities. Generally, the types of projects granted are those related to new establishments, enlargements, relocations and modernizations, although these last ones use to be subject to very strict conditions. Lastly, the minimum dimension of the eligible projects has increased.

Therefore, we find ourselves faced to a more selective plan, not only in the programmes creation and management, but also in its sectorial coverage and in the conditions required.

The *per capita* incentive expenditure in assisted regions in each Member State constitutes a representative indicator of the financial effort achieved by the Member States through their regional aid programmes.

The First Report of the Commission about the economic and social cohesion refers to the annual average *per capita* expenditure in the beneficiary areas for the period 1989-1993 (Comisión Europea, 1997a, pages 54-55). From its analysis we can emphasize the fact that the higher expenditure took place in Germany, Luxembourg and Italy, following this order (with amounts between 140 and 70 ECU's per person at 1993 prices). On the opposite, the four cohesion countries were placed around the 8 ECU's of Greece and the 48 of Ireland. In the same way, we can enhance the great similarity existing between the *per capita* expenditure in assisted regions in Portugal or Spain (close to 30 ECU's) and the one in Netherlands. And it is also to show up the fact that, in Greece, this expenditure was only slightly higher than the one in Denmark and France, the countries with the least expenditure.

Definitively, these data show us that the application of this regional policy instrument not always gives an advantage to the assisted regions in the least developed countries, compared to the regions in the most developed ones. This fact, closely related to the different budget capacities of the Member States, will be seen again later on.

Even when the effort realized differs among countries and a generalized trend to a decrease on the regional incentive expenditure is perceived, it is clear that this type of aids programmes is commonly used by the European countries (Comisión Europea, 1997a).

But the concession of aids to firms in regions whose countries take part in a highly developed common market, like the present single market in the EU, can seriously damage competition. Nevertheless, as it constitutes a necessary instrument to correct the spatial unbalances, as we will see in the next headline, the Community competition policy allows the use of these aids, always subjected to certain conditions.



### **3. The European Competition Policy and the Regional Aids. Perspectives for Year 2000.**

The EU Treaty Articles 92 to 94 constitute the regulating basic normative about State aids. In general terms, “ ... *any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the common market*” (Article 92 (1)). Even though, sometimes, State aids are, or may be, justified by social, regional or sectorial reasons. These aids can be compatible with the common market (Articles 92(2) and 92(3)) because, in these cases, their concession is not considered as a threat for the free competition conditions.

Specifically, the aids with a regional aim constitute a privileged instrument of the Member States, in the context of their own economic policies, guided to promote development in the problem regions. The specific character of this type of aids and the possibility for certain regions of being granted are collected in Articles 92(3)(a) and 92(3)(c), which constitute one of the possible exceptions of the general rule. In particular, **letter (a)** alludes to “*aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment*” and **letter (c)** to “*aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest*”. There are, therefore, two types of regional aids from the compatibility with the common market point of view: aids to least developed regions, which are not conditioned, and other aids which are conditioned, due to the exigency of not distorting trading conditions against the common interest.

Obviously, the letter (a) derogation allows the concession of aids to the more backward regions in the EU. Nevertheless, there is another set of regions, most of them located in the more prosperous European countries, which can have economic problems in spite of their less importance in the Community context. This regions may be included in letter (c) exception.

It can be seen from the percentages presented in Table 1 that more than 50% of industrial aid in the Union is spent on regional objectives. Among these aids more than eight out of every ten ECUs are going to areas where the living conditions are particularly low, the so-called Article 92(3)(a) regions. In the so called 'cohesion countries', but Spain, aids are concentrated in letter (a). This concentration is also perceived as majority in Italy, United Kingdom and Germany. In the last one, most of the aids are guided to the new *länders*. The distribution between both letters is similar in France, and in the rest of the Member States they are mostly or totally canalized through letter (c).

**TABLE 1. STATE AID TO INDUSTRY: (1990-92) (1992-1994). In per cent.**

	Horizontal Objectives		Particular Sectors		Regional Objectives			
	1990-92	1992-94	1990-92	1992-94	1990-92	1992-94		
					Total	92.3.a)	92.3.c)	Total
Belgium	62	82	29	3	9	0	15	15
Denmark	67	72	31	25	2	0	3	3
Germany	16	15	3	5	81	68	3	80 <sup>(*)</sup>
Greece	61	60	10	19	29	21	0	21
Spain	39	40	49	43	12	4	13	16
France	66	44	17	38	17	9	9	18
Ireland	31	15	0	11	69	73	0	73
Italy	25	27	18	22	57	48	2	50
Luxembourg	30	30	0	0	70	0	70	70
Netherlands	73	74	10	11	17	0	15	15
Portugal	57	29	33	45	10	26	0	26
United Kingdom	50	35	18	17	31	32	17	48
<b>EUR-12</b>	<b>35</b>	<b>29</b>	<b>15</b>	<b>17</b>	<b>50</b>	<b>45</b>	<b>5</b>	<b>53<sup>(**)</sup></b>

<sup>(\*)</sup> A 9% of total aids were conceded to Berlin/Zonenrand.

<sup>(\*\*)</sup> A 4% corresponds to Berlin/Zonenrand in Germany.

SOURCE: European Commission, 1997.

How is it decided what regions can have recourse to both exceptions?. The European Commission, besides establishing some co-ordination general principles for

all national regional aids, defined some criteria to determine which specific regions could be aid assisted. The documents in which this information is collected<sup>1</sup> have been recently substituted for new *Guidelines on National Regional Aid* (OJ C 74, 10.3.1998).

These Guidelines, by establishing the exceptional character of regional aids, follow the spirit of Article 92. In fact, these aids must be moderately used and be concentrated in the less favoured regions. That is why the Commission has introduced an overall ceiling on the coverage of regional aid in the Community, in terms of population. According to this limit, the total coverage of these aids must be less than 50% of the Community population. Concretely, it is aimed to concentrate the aids in a 42.7% of the total EU population, compared to the present 46.7% (where a 22.7% belongs to letter (a) and a 24% to letter (c)). In this limit, regions included in letter (a) will have priority due to their abnormally low standard of living or their serious underemployment. In fact, their coverage is determined in an exogenous and automatic way.

In this case, no substantial changes are produced in the criteria now used for the delimitation of the regions. The Commission bases its decisions in the evaluation of the relative level of the regions' development. The socio-economic situation of these regions is evaluated with reference to the *per capita* Gross Domestic Product (GDP) valued in Purchasing Power Standards (PPS). Those regions belonging to NUTS level II<sup>2</sup> with a less than 75% of the Community average *per capita* GDP are included in letter (a). This estimation is made with the average value of the last three years from which we have data. These regions will not be affected by the population coverage limit pointed before, as they are determined in an automatic and exogenous way using this delimitation criterion.

It is in the exception of Article 92(3)(c) where important changes are produced in terms of regional delimitation.

Firstly, it is emphasized the exceptional character of the aids, as a consequence of the more favourable relative situation of these regions. It is also limited their population coverage. The overall ceiling for letter (c) will be calculated as the difference

between the global limit established by the Commission for the whole EU and the letter (a) regions' population. Then, the resultant percentage will be distributed among the Member States, taking in account the regional disparities in a national and Community context. This letter has, therefore, a greater scope than the one before. This is because it allows the Commission to authorize those aids guided to promote the economic development of the regions with a less favoured position with reference to the national average.

Another change closely related to the one before is produced in these disparities measure. This change consists on the setting-up of a *distribution key* for each Member State, which finally allows the selection of the assisted regions.

The geographical unit used will still be NUTS level III. For each region, an average value over three years is calculated for *per capita* GDP/PPS and unemployment indicators, defined in relation to the national average. These indicators allow the estimation of the thresholds used to select the regions.

These thresholds are calculated for each of the two criteria and for each of the Member States concerned. This calculation is carried out in two stages:

1. The first stage establishes an identical basic threshold for every Member State, fixed in 85 for *per capita* GDP and 115 for the unemployment rate (being the national average of 100).
2. In the second stage, these thresholds are adjusted to take account of the relative situation of each Member State compared with the average for the Community. The formula applied is the following:

$$\text{Threshold} = \frac{1}{2} \times \left( \text{Basic threshold} + \frac{\text{Basic threshold} \times 100}{\text{European index}} \right)$$

Where the European index refers to the position of the different Member States, in terms of the concerned indicators, as a percentage of the

Community average. This European index is an average value over the same three year period as for the regional indicators.

The better the situation of the Member State, the more selective the thresholds to choose the regions and vice versa. However, for the unemployment threshold, the new Guidelines establish a ceiling of 150, with the aim of not being so strict for those regions which have important unemployment problems at a national level, even when they are not so serious in the Community context.

Applying the above-mentioned thresholds we will be able to select those regions that can, at first, belong to letter (c) exception. That is to say, those regions that, at least, fulfil one of the requirements. But the coverage of this letter has a population limit, as said before. That is why this fulfilment does not necessarily mean that all of them are included in this exception.

For each country, the beneficiary regions according to letter (c) will be determined through the *distribution key*. This key is defined as each Member State's share of the corresponding total Community population. Therefore, the population ceiling for each Member State under letter (c) derogation is calculated by multiplying the distribution key for each Member State by the population ceiling established by the Commission<sup>3</sup>.

It only rests, then, to define which regions will be granted. The Member States play an important role in this definition. They first decide and then notify to the Commission, according to Article 93(3), the methodology, the quantitative indicators they want to use, the proposal for granted regions and the relative aids intensities.

Table 2 shows the ceilings for aids guided to initial investments established by the Commission. The State Member must fulfil this ceilings, adjusting the regional aid intensity to reflect the seriousness of the regional problems.

**TABLE 2. AID CEILINGS BY GRANTED REGIONS.**  
**(% of investment in terms of Net Grant Equivalent)**

<b>REGIONS Article 92(3)(a)</b>	<b><i>Per capita GDP (in PPS) ≤ 60% of EU average value</i></b>	<b><i>Per capita GDP (in PPS) &gt; 60% of EU average value</i></b>
General Criterion	50 %	40 %
Derogation: outermost regions	65 %	50 %
<b>REGIONS Article 92(3)(c)</b>	<b><i>Per capita GDP (in PPS) ≤ EU average value and unemployment ≥ EU average</i></b>	<b><i>Per capita GDP (in PPS) &gt; EU average value and unemployment &lt; EU average</i></b>
General Criterion	20 %	10 % <sup>(*)</sup>
Derogation: outermost regions or with low population density.	30 %	20 %

<sup>(\*)</sup> Exceptionally, higher intensities not exceeding the normal ceiling of 20% may be approved for regions adjoining a region with Article 92(3)(a) status.

SOURCE: OJ C 74, 10.03.1998.

In the same way, the adjustment of the aids according to the nature of the regional problems is also necessary in case of aids for job creation. Here, the ceiling established will be a percentage of wage cost of the person hired, calculated over a period of two years. The percentage will be equal to the intensity allowed for investment aid in the area.

From the Member States' proposal, the Commission will elaborate the regional aid map for a certain period. This period will be, in principle, aligned on the timetable for Structural Funds assistance. Each State's map will be periodically reviewed by the Commission. When regions lose their Article 92(3)(a) status and acquire Article 92(3)(c) status, the Commission could accept, during a four years transitional period, a progressive reduction of the aids intensities.

#### **4. The Regional Aids' Role in the EU Social and Economic Cohesion.**

The essential characteristic of regional aids, is the positive discrimination on behalf of the backward regions. This implies that regional incentives programmes must be concentrated in the more needy areas, as their incentive character would be lost with their generalized application. At the same time, the socio-economic situation also differs among the assisted regions. Then, it is necessary to differentiate the aid ceilings allowed.

On the other hand, due to the coexistence between the regional aid policies of the Member States and the EU structural aids, it is required a coherence between them. This means that the respective maps should coincide as much as possible.

Geographic concentration, differentiated ceilings and a greater coherence with the EU structural policy will allow a more effective performance of the State aids with regional aim. And so, they will contribute to reach a greater economic and social cohesion. At the same time, a higher concentration and lower ceilings for aid concession, but keeping the relative differences in the intensities, will allow a lower distortion of free competition, without lessening the previous objective.

This is the course of action presented by the European Commission in its First Report about the economic and social cohesion (Comisión Europea, 1997a) and, afterwards, in the “Agenda 2000” (Comisión Europea, 1997b), in the new Guidelines about the State aids with regional aim (OJ C74, 10.3.98) and in the Commission’s Communication to the Member States relative to the regional and the competition policies (OJ C90, 26.3.98).

The reduction of the geographic coverage will not only allow to limit the impact of the aids on competition, but also improve its economic performance and use more effectively the limited budget resources of the Member States. In this way, we observe in the new Guidelines a greater strictness in the selection of the regions that can be included in Article 92(3)(c) derogation. In fact, the coverage ceiling established in terms of population falls finally on these regions, so it is possible that not all of the regions that fulfil the established criteria in terms of thresholds can be included in this derogation. On the contrary, the normative substituted by the new Guidelines did not

establish a limit with these characteristics. Even, after a first stage of analysis in which the regional level of *per capita* GDP and unemployment in the Community and national context were studied, a second stage was applied, in which other regional indicators, such as net migration, productivity, or the structure of the economic activity, among others, were taken in account. In these circumstances, those regions situated in the eligibility limit in the first stage could find, in the second one, a justification for their regional aids concession.

On the other hand, it is well-known that an effective regional incentives programme has to adequately discriminate the territories. This means that there has to be a clear differentiation in the maximum intensities allowed for the aids offered in different regions, all of it determined by their socio-economic problems' seriousness. Until now, the EU competition policy has kept an important discrimination in this sense, in such a way that the aids volume allowed is significantly higher in regions with an abnormally low standard of living or serious unemployment problems than in other assisted areas. But, as the First Report of the economic and social cohesion indicates (Comisión Europea, 1997a, page 69), the effective volume of the aid allowed is usually a lot higher than the aid really conceded by the Member States, especially in Spain and Ireland where, due in part to the resources' scarcity, only a 40% of the level allowed is conceded, while in Belgium and Germany it amounts to 60-70%. In consequence, the advantage that is pretended poorest countries have, is not materialized.

This fact has been one of the reasons for the reduction of the maximum intensities allowed for the aids, as, in this way, a better adaptation to the real budget capacity of the countries is produced. Moreover, the effectiveness does not decrease in case of a reduction of the ceilings but supporting the differences existing among them and, therefore, the mentioned discrimination. Thus, the reduction benefits to the competition without lessening the economic and social cohesion. This is what is looked for with the foreseen reduction on the aid ceilings, detailed in Table 2, as contrasted with the present limits which are, in theory, a 75% for letter a) regions and a 30% for letter c) ones, below which, it exists a gradation.



The new criteria established to select those regions that can be included in letter c) derogation, also favourably influence the EU economic and social cohesion, by modifying the calculus mechanism and the application of thresholds. Starting, as we have seen, from basic thresholds, other modified ones are calculated in every Member State depending on the relative situation of each country in a Community context in terms of GDP per inhabitant and unemployment. So, the better the relative situation of the country, the more strict the thresholds, and vice versa. This implies a transformation/change into the present way of calculating thresholds, where these are only modified in the case of countries with a more advantageous situation than the European average and where, in the rest of the cases, the basic thresholds are applied.

Another aspect which is considered, not only in the new Guidelines, but also in the other documents enumerated at the beginning of this headline, is the coherence of regional aids with the Structural Funds' interventions. This aspect favours, without any doubt, the economic and social cohesion, specially if the aids are concentrated in the least developed Community regions.

Tables 3 and 4 show the population covered by the national aids to regions and by the Structural Funds, respectively. In the first case, the data correspond to year 1996, while in the second one, they are referred to period 1994-1999. So, we are only able to make an approximate comparison of both maps. It is clear from the observation of Table 3 that the differences in population coverage among the different EU countries are very wide. Thus, in the case of Portugal, Greece and Ireland, this reaches 100% and in Spain, 75.9%. In most of the rest Member States, the coverage ranges between 35 and 48,9%, with the exception of Denmark, Sweden and Netherlands, where it is situated below 20%.

**TABLE 3. POPULATION COVERED BY THE NATIONAL AID TO REGIONS, 1996**

(in per cent)

Country	Global coverage	Art. 92 (3)(a) Regions	Art. 92 (3)(c) Regions
Greece	100.0	100.0	0.0
Ireland	100.0	100.0	0.0
Portugal	100.0	100.0	0.0
Spain	75.9	59.6	16.3
Italy	48.9	34.2	14.7
Luxembourg	42.7	0.0	42.7
France	42.4	2.5	39.9
Finland	41.6	0.0	41.6
United Kingdom	38.1	2.9	35.2
Germany	37.6	20.8	16.8
Ostrich	35.2	3.5	31.7
Belgium	35.0	0.0	35.0
Denmark	19.9	0.0	19.9
Sweden	18.5	0.0	18.5
Netherlands	17.3	0.0	17.3

SOURCE: Comisión Europea, 1997a.

Nowadays, as it can be seen in Table 4, four regionalized objectives exist: objective 1, destined to the development of the backward EU regions; objective 2, to the reconversion of declining industrial zones; objective 5b, destined to the development of rural zones and objective 6 to zones with very low population density. In global terms, again Portugal, Greece and Ireland have their population completely covered, while in Spain the coverage is higher than the one corresponding to the regional aids map, a 84.5%. This also happens in the rest of the EU countries, with the exception of Belgium and Denmark, where it is lower, and Luxembourg, where the coverage percentage is almost the same. Also in this case, Denmark, Sweden and Netherlands are the countries with the lowest coverage, being in each case below 26%.

**TABLE 4. POPULATION ASSISTED BY STRUCTURAL FUNDS OBJECTIVES (1994-1999)**  
(in per cent)

Country	Total	Objective 1	Objective 2	Objective 5b	Objective 6
Greece	100.0	100.0	-	-	-
Ireland	100.0	100.0	-	-	-
Portugal	100.0	100.0	-	-	-
Spain	84.5	59.7	20.4	4.4	-
Italy	56.0	36.7	11.0	8.3	-
Luxembourg	42.5	0.0	34.6	7.9	-
France	46.2	4.4	25.1	16.7	-
Finland	54.0	0.0	15.7	21.6	16.7
U. Kingdom	41.7	5.9	30.9	4.9	-
Germany	39.1	20.6	8.8	9.7	-
Ostrich	39.9	3.7	7.5	28.7	-
Belgium	31.5	12.8	14.2	4.5	-
Denmark	15.3	0.0	8.5	6.8	-
Sweden	26.0	0.0	11.5	9.2	5.3
Netherlands	24.3	1.5	17.4	5.4	-

SOURCE: Comisión Europea, 1997a.

Not only there is no coincidence between the percentage of population covered by both aids maps, but also exists some inconsistencies between them. This is because some regions, granted by the Structural Funds, cannot be at the same time beneficiary of the State aids, and vice versa.

As it can be seen in Table 5, again in an approximate way, the population assisted by the Structural Funds is nowadays slightly higher (50.6% of the total) than the one included in the regional aids' map (46.7% of the total). A 6.6% of the Community population live in regions subsidized by the Structural Funds but where the competition policy does not authorize the aids with regional aim. On the contrary, a 2.7% belongs to regions where such aids are allowed, but structural aids are not received.

**TABLE 5. CONSISTENCY BETWEEN REGIONS RECEIVING AID FROM STRUCTURAL FUNDS AND ZONES WHERE REGIONAL AIDS ARE AUTHORIZED.**  
(in percentage of EU population)

	Regions receiving aid from Structural Funds.	Regions <u>not</u> receiving aid from Structural Funds.	TOTAL
Zones where regional aids are authorized (Art. 92.3)	44.0	2.7	46.7
Zones where regional aids are <u>not</u> authorized (Art. 92.3)	6.6	46.7	53.3
<b>TOTAL</b>	50.6	49.4	100.0

SOURCE: OJ C90, 26.3.1998.

The Commission's Communication "*The links between regional and competition policy. Reinforcing concentration and mutual consistency*" (OJ C90, 26.3.1998) summarizes this situation in the following way: in the context of the new guidelines on regional aid schemes and the forthcoming reform of the Structural Funds, the Commission reviews the inconsistencies between the areas receiving national aid and those receiving aid from the Structural Funds, and indicates the action it intends to take during the next programming period (2000-2006) to ensure the required consistency at these two levels. This communication follows on from Agenda 2000, in which the Commission stressed the need to increase the geographical concentration of structural assistance and make it more consistent with the Union's competition policy.

From year 2000, every regional aids map and regional incentives programme must be compatible with the new Guidelines. Also from year 2000, the new programming period (2000-2006) of the Structural Funds will be initiated. This temporary coincidence shows the mentioned Community interest in looking for a consistency between the decisions adopted in terms of the competition policy and the ones relative to the regions that can receive aids from the Structural Funds.

The coherence means, in words of the proper European Commission, that, in principle, any region receiving aid from the Structural Funds from year 1999 could also be beneficiary of State aids with regional aim.

The “Agenda 2000”, as well as the proposal for the Reform of the Structural Funds, propose to reduce the percentage of population in the EU regions that can receive aids according to the new Objectives 1 and 2. These are the only ones that will be regional objectives in the new programming period. In particular, this population should be reduced from the present 51% to a quantity between 35% and 40% of the total. It is clear that this percentage will be lower than the coverage that can be granted according to Article 92(3)(a) and 92(3)(c). This percentage, as we have seen before, will have to be reduced, also from year 2000, to a 42.7% of the total population. In the same way, there must be a total coincidence between Objective 1 regions and regions aided by the Member States under Article 92(3)(a). Thus, the criterion of Objective 1 delimitation, *per capita* GDP/PPS lower than a 75% of the Community average value, should be strictly applied. As for Objective 2 regions, the Member States will have to propose, so as to belong to this objective, only those areas also proposed for Article 92(3)(c) derogation. So, the Objective 2 map will be included in the one for letter (c). This strategy still leaves, therefore, some limited areas to the Member States in order to finance some regions not covered by the EU Structural Funds.

## **5. In conclusion.**

Throughout this paper, we have realized a detailed exposition of the foreseen changes in terms of regional aids from year 2000. To sum up, these changes imply a modification of the normative corresponding to the competition policy: (i) by concentrating the aids in the least developed regions and (ii) by reducing their absolute intensities, but maintaining the relative differences among regions. Thereby, their effectiveness to achieve the economic and social cohesion increases and, at the same time, the competition distortion decreases. On the other hand, these changes also pursue to promote a higher coherence with the application of the EU Structural aids.

However, the coherence of the maps will not be strict. In fact, it will be conceded a certain control margin for the Member States to include in Article 92(3)(c) derogation regions not assisted by the Structural Funds. Probably, the aids will be guided, in this case, to regions without a very unfavourable socio-economic situation in the Community context.

On the other side of the group of European regions that can receive regional aids, we find the least developed ones in the Community. The differences between these and the previous ones are obvious. As a consequence of their less socio-economic development, they present a set of lacks that penalize the enterprises' location. Among all of them we could emphasize a weaker firm infrastructure, less developed suppliers networks, a lower endowment of firm services and the distance from the most important European markets. All this, therefore, has to be compensated with higher aid levels.

This aspect is treated in the Community normative as, as we have seen, the intensity allowed is markedly higher. But, as we have also pointed, the volume that, in theory, aids can reach, differs a lot from their real volume, mainly because of the limited budget capacity of the poorest Member States. However, thanks to the EU Structural Funds' aid, these countries have improved their possibilities to finance regional incentive programmes, due to the co-financing lines with this aim. This is, definitively, an important aspect of the Community regional policy which, without any doubt, also contributes to improve the economic and social cohesion. The co-ordination among regional policies goes further than the only map coincidence. It has to be also represented in an integrated performance of both of them that will redound to a reinforcement of the European solidarity.

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<sup>1</sup> Commission Communication to the Member States (OJ C 31, 3.2.1979, p.9).

Commission Communication to the Member States on the method for the application of Article 92(3)(a) and (c) to regional aid (OJ C 212, 12 .8.1988, p.2).

Commission Communication to the Member States on the method for the application of Article 92(3)(a) to regional aid (OJ C 163, 4.7.1990, p.6).

Commission Notice, addressed to Member States and other interested parties, concerning an amendment to Part II on the Communication on the method for the application of Article 92(3)(a) and (c) to regional aid (OJ C 364, 20.12.1994, p.8).

<sup>2</sup> Classification NUTS (Nomenclature for Territorial Units for Statistics) constitutes a normalized context to analyze the economic and social trends of the European Union regions. It is based, to a great extent, in institutional spatial divisions.

<sup>3</sup> Under each Member State's ceiling, the regions with less than 12,5 inhabitants per km<sup>2</sup> can be included in Article 92(3)(c) derogation.