



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 19.5.2000
COM(2000) 147 final/2

CORRIGENDUM

Annule et remplace les pages 38 et 47
du document COM(2000) 147 final
du 14.3.2000. Concerne uniquement EN.

COMMISSION REPORT

ON THE MEASURES TO IMPLEMENT ARTICLE 299(2)

THE OUTERMOST REGIONS OF THE EUROPEAN UNION

TABLE OF CONTENTS

Introduction.....	7
I. Achievements.....	9
A. WORK UNDERTAKEN UNDER THE FINANCIAL INSTRUMENTS.....	9
1. The activities of the Structural Funds.....	9
Implementation of the programmes.....	11
Evaluation.....	11
2. European Investment Bank loans.....	13
B. IMPACT OF THE POLICIES.....	15
1. Agriculture.....	15
Market organisations.....	15
The agricultural strand of the Posei programmes.....	15
– Specific supply arrangements.....	16
– Specific measures in favour of local agricultural products.....	16
2. Fisheries.....	17
3. Taxation.....	18
4. Customs.....	19
5. State aids.....	19
State aids other than aids to agriculture.....	19
State aid to agriculture.....	21
6. Aid to small businesses, craft firms and tourism.....	21
7. Energy.....	23
General measures.....	23
A specific measure.....	24
8. Transport.....	24
Air transport.....	24
Sea transport.....	25
9. Research and development.....	25
10. The information society.....	26
11. Environment.....	27

12. Regional cooperation.....	27
C. GENERAL ASSESSMENT.....	29
II. The future.....	33
Article 299(2).....	33
A sustainable development strategy for the outermost regions	33
A. THE BASIS PROVIDED BY TRADITIONAL PRODUCTION.....	35
1. Agriculture.....	35
2. Fisheries	37
B. GIVING A FRESH BOOST TO THE ECONOMIES OF THESE REGIONS	39
1. The Instruments	39
a. Structural funds.....	39
b. The loans of the European Investment Bank.....	40
c. State aids.....	41
State aids in sectors other than agriculture, fisheries and transport	41
State aids to agriculture	42
State aids to the fisheries sector	42
State aids to transport	42
d. Taxation.....	43
Indirect taxation.....	43
Direct taxation.....	46
e. Customs.....	46
2. The strategic areas.....	47
a. Support for SMEs, craft firms and tourism	47
b. Transport	50
c. Energy	52
d. Environment	53
e. The information society	54
f. Research and development.....	56
C. THE INTERNATIONAL ENVIRONMENT AND REGIONAL COOPERATION.....	57
CONCLUSION	59
ANNEXES	61

INTRODUCTION

The Cologne European Council called on the Commission to present a report to the Council on the measures to implement the new Article 299(2) of the EC Treaty concerning the outermost regions.

The Commission has itself received memoranda on this subject from the seven outermost regions acting together, in March 1999, and from each of the three Member States concerned, in November/December 1999. In addition, the Commission organised a partnership meeting on this subject on 23 November 1999, which was attended by representatives of the Member States and regions concerned.

The Commission has examined these memoranda carefully and has taken due note of what was said at the partnership meeting. All these elements have been very useful in enabling the Commission to assess the situation in the regions, the measures taken so far by the European Union, and the future prospects.

This report constitutes the Commission's reply to the European Council's request.

The outermost regions

The European Union includes seven regions classified as "outermost":

- the autonomous Spanish community of the **Canary Islands**;
- the four French overseas departments: **Guadeloupe, Martinique, French Guiana** and **Réunion**;
- the Portuguese autonomous regions of the **Azores** and **Madeira**.

These regions occupy a unique and complex position within the European Union. The main features of their natural environment are their island nature (six of the seven are actually islands and French Guiana is an enclave in the Amazon Forest), their tropical and sub-tropical climate and a terrain which is often extremely rugged and volcanic, their situation far from continental Europe and, in most cases, their proximity to less developed non-member countries. With just one exception, their population density is fairly high – more than 210 people to the km² in the Canary Islands and 320 in Madeira, and between 240 and 360 in the French overseas departments with the exception of French Guiana, which has fewer than two people per km².

Their demographic, economic and territorial clout is relatively weak compared with that of the Union as a whole: their population totals 3.7 million, i.e. exactly 1% of that of the European Union, and less than 0.5% of the EU's surface area, excluding French Guiana, or more than 3% if French Guiana is included. In socio-economic terms, their GDP averages 59% of that of the Community (almost 75% in the Canary Islands, but no more than 40 to 55% in the others), and most of them have a very high rate of unemployment, especially among young people.

The isolation of these regions, along with their scattered location, as in the case of the Azores, acts as a very serious check on development, particularly since their small size makes heavy investments unprofitable and does not permit economies of scale. Their "imports" – including

supplies from their respective mainland territories, which represent their main source, e.g. 80% in the case of the French overseas departments – are several times higher than what they themselves send abroad. To put it in a nutshell, six of them (with the exception of the Canary Islands) rank among the seven poorest regions in the European Union in terms of GDP per capita, and five of them run the highest unemployment rates, on average twice the EU level, and even not far short of three times if we exclude Madeira and the Azores, whose unemployment rates are around half the Community average.

The European Union's policy on its outermost regions

The European Union has recognised “remoteness” as a concept and taken account of the specific features of these regions so that they can play a full part in Europe and benefit from Community policies while cooperating with neighbouring countries and territories. The guidelines for this approach were set out in the "programmes of options specific to the remote and insular nature" of the French overseas departments (Poseidom, in 1989), the Canary Islands (Poseican, in 1991) and the Azores and Madeira (Poseima, in 1991). For the Canary Islands, mention should also be made of the Regulation on the application of the provisions of Community law to the Canary Islands (Regulation No 1911/91). The idea was to use the structural funds and various adapted forms of common policies to support work being done by the regions and Member States themselves, and to promote development and productive employment in the regions. It was intended that this development be both ecologically sustainable, socially balanced and based on a long-term strategy. Implementation was based on the principle of partnership between the Commission, the Member State and the regions concerned.

The three Posei programmes are the backbone of the policy for supporting the outermost regions. The underlying aim is to take full account of the specific features and difficulties due to the “remoteness” factor, in other words the distinctive features which set them apart from other insular regions which are less far away and the other regions targeted by Objective 1; the intended approach is an across-the-board one, to be taken into account in all Community action.

However, over time and as a result of the changes which the European Union has undergone, the need to provide a more solid legal basis for dealing with “remoteness” has emerged. This was introduced by the Treaty of Amsterdam, whose new Article 299(2) updates and strengthens the earlier Article 227(2) (which applied only to the French overseas departments) and covers all the outermost regions. This new legal basis should make it easier to consolidate what has been achieved under the Posei programmes and provide a firmer basis for addressing the future prospects of European integration.

This report reflects this approach. The first part (dealing with “achievements”) describes action taken by the Community to date and its effects on the development of these regions: action has been effective, but needs to be continued because the handicaps of remoteness are lasting ones. The second part (dealing with the future) deals with the measures planned under Article 299(2) to continue and strengthen earlier measures.

I. ACHIEVEMENTS

Policy on the outermost regions under the Posei programmes has developed through measures of two types. The activities of the Structural Funds have been of great importance, and the Community has adjusted its various policies to address the specific problems encountered by these regions. **Annex I** sets out the main measures which have been adopted.

A. WORK UNDERTAKEN UNDER THE FINANCIAL INSTRUMENTS

1. THE ACTIVITIES OF THE STRUCTURAL FUNDS

The seven outermost regions qualify for assistance under the Structural Funds and have benefited, under Objective 1 of the regional policy, from programmes part-financed by the European Union in the periods 1989-93 and 1994-99. As provided for under the Poseidom programme, structural measures take account of the additional handicaps arising from the regions' remote and insular situation.

The resources allocated to the outermost regions under Objective 1 have achieved a particularly high level. **Tables 1 and 2** below show the overall allocations from the Structural Funds to each region for the two periods, and a comparison of levels of intensity of aid from the Union compared with that allocated to the other Objective 1 regions and to all the areas eligible. What they show is that aid has virtually doubled over the latter period, and that, in terms of inhabitants, the aid received by the Canary Islands and the French overseas departments was some 20% over that for other Objective 1 regions, and was more than 100% higher in the case of the Azores and Madeira.

For the outermost regions, the new principles arising from the 1989 reform have encouraged the definition of medium-term development strategies which take account of their specific handicaps. The preparation and implementation of regional development plans have permitted extension of the partnership with the regional authorities. It should be noted that the programming documents adopted for each region and for each of the two programming periods reflected the concerns expressed at regional and local level.

TABLE 1
FUNDING FROM THE STRUCTURAL FUNDS
(ERDF, ESF, FIG, EAGGF-Guidance Section)
(EUR million)

	1989-1993 Objective 1 + IC	1994-1999 Objective 1	1994-1999 Regis II	1994-1999 TOTAL
Canary Islands	860	1 622	231	1 853
Azores	357	616	81	697
Madeira	319	369	64	433
Guadeloupe	200	360	62.5	422.5
French Guiana	92	172	29	201
Martinique	192	344	62.5	406.5
Réunion	432	688	119	807
TOTAL	2 452	4 171	649	4 820

TABLE 2
INTENSITY OF EUROPEAN AID
(period 1994-1999)

	Population (’000)	Funding from the Structural Funds (EUR million)	per capita (EUR)
Canary Islands	1 526	1 836	1 203
Azores - Madeira	494	1 109	2 245
French overseas departments	1 454	1 792	1 232
Objective 1 (total)	92 151	93 972	1 019
Other regionalised Objectives (2, 5(b) and 6) (total)	94 502	22 919	243

Implementation of the programmes

Because of the structural handicaps facing the most remote regions and the shortfall in their development, the programmes part-financed by the European Union for each region in the periods 1989-93 and 1994-99 set as their priorities an increase in the provision of infrastructure, the development of the productive, job-creating sectors and the improvement of human resources. In addition, in 1989 the Commission established a specific Community Initiative for these regions, Regis. This Initiative was extended in 1994 with funding up from ECU 200 million for 1989-93 to ECU 600 million for 1994-99. The priorities in the programmes reflect the development choices made at regional level.

The construction or improvement of infrastructure for improved access from the outside world is the most striking and symbolically the most important of the operations part-financed by the European Union in each of the regions. These operations make a direct contribution to reducing the handicaps deriving from their insular location and isolation by improving air and shipping services for all of them. Measures have also been taken with regard to advanced communications technologies (teleconferencing, distance diagnosis, data transmission and network cabling). Domestically, all the regions have enjoyed substantial road improvements and in some cases measures to improve public transport. In a number of areas, infrastructure to support economic activities has been improved to meet changing needs. The protection of the environment has received particular attention through the reduction of pollution, with special attention being paid to the management and treatment of waste and liquid effluent from both industrial and household sources.

A large share of Community finance has gone to modernising and improving the productive sectors to help create or preserve jobs. This aid has gone to quite a wide range of measures: besides traditional direct aid to investment, there has been, over recent years – albeit at a low level as yet – financial engineering (guarantee systems, support for equity, subsidised interest rates, etc.) which have a multiplier effect in mobilising resources on the capital markets; aid from public funds has also gone to measures to support economic activity by businesses: business premises, the preparation of business parks, the provision of shared services, the development of applied research projects and transfers of technology and the use of new communications technologies.

Specific measures have been taken to support traditional forms of agriculture (bananas, sugar cane, sugar and rum) and encourage diversification and applied research and experimentation. All the most remote regions have benefited from finance for fisheries and aquaculture through projects for ship-building and modernisation, aquaculture, improvements to fishing ports, processing and marketing.

The high rates of unemployment in many of the outermost regions and the needs for skilled staff generated by changes in the productive sectors require the modernisation and rapid adjustment of provision for vocational training. In all the regions, training facilities have been built to enlarge capacity and meet the specific needs of certain sectors, and courses have been set up.

Evaluation

In 1989-93 and 1994-99, the programmes part-financed by the European Union were fully implemented in all regions, although sometimes following more or less substantial amendments. The evaluations carried out in each region showed that appropriate monitoring and management procedures had been established; this had facilitated development of a

partnership with the local authorities. So how have these jointly financed programmes impacted on the economic and employment situation in the outermost regions?

As regards **infrastructure provision**, it should be noted first of all that access to each region has clearly improved to the benefit of both residents and tourism. The improvement and modernisation of port infrastructure has also helped reduce freight handling costs for the economies of the islands. The situations as regards water resources and the production of energy are similar. In addition, work on the construction of large-scale infrastructure has made a significant contribution to progress in the building and public works sector or to keeping it in operation.

In the field of **human resources**, progress in the supply of training will produce results which all too often can only be analysed over the medium and long term. Unemployment still gives cause for concern in the Canary Islands and in the French overseas departments, some of which have the highest rates in the Union. In the French regions, this situation is also linked to movements of population to and from mainland France.

The work carried out in the **productive sectors** has helped boost productivity and has brought supply into line with outlets both locally and on export markets; this is particularly true of agriculture and agri-foodstuffs, where considerable sums of money have been spent on modernising traditional industries (bananas, sugar cane, sugar and rum), both to keep them in existence and to achieve the diversification which helps improve the self-sufficiency of the local market. However, public aid to encourage firms to develop or modernise their productive processes cannot operate independently of the specific limitations from which the economies of these regions suffer. It requires account to be taken of all the factors which underlie investment decisions, such as application of the rules on competition, taxation, welfare costs and technical rules. Financial assistance from the Structural Funds cannot be considered apart from all the other policies of the European Union.

2. EUROPEAN INVESTMENT BANK LOANS

Over the period 1994-98, the EIB made individual loans, in most cases to public institutions in the outermost regions, to the tune of EUR 553 million, EUR 195 million of which were made in 1998.

TABLE 3
INDIVIDUAL LOANS PER REGION IN 1998 AND 1994-98
(IN EUR MILLION)

	1994 -1998	1998
Canary Islands	248	47
Azores	6	6
Madeira	166	74
Guadeloupe	38	-
French Guiana	-	-
Martinique	-	-
Réunion	95	68
TOTAL	553	195

Much of this funding was made available for infrastructure projects, e.g. the construction or improvement of roads, airports, etc.

As to the intensity of use of EIB loans in the outermost regions, **Table 4** below sets out the quantum of individual loans per capita alongside details of loans made by the EIB for regional development in all regions of the European Union.

TABLE 4
INDIVIDUAL LOANS PER CAPITA
(PERIOD 1994 - 1998)

	Population (in thousand inhabitants)	Loans (in EUR million)	Loans per capita (in EUR)
Canary Islands	1 526	248	162.5
Azores and Madeira	494	172	348.2
French overseas departments	1 454	133	91.5
All Objective 1	92 151	24371	264.4

The above figures show that, with the exception of the Portuguese regions, the quantum of loans per capita in the outermost regions has been distinctly below the average for the EU as a whole. Moreover, a comparison of loan intensity between the outermost regions and the respective mainland territories shows, in all cases, that the outermost regions have made much less use of the loans.

EIB loans have to be applied for, and the projects have to comply with banking criteria. The fact that infrastructure work in the outermost regions receives more funding under the (non-reimbursable) Structural Funds might militate against the more widespread use of repayable forms of funding.

B. IMPACT OF THE POLICIES

The Posei programmes are based on the dual principle of the outermost regions' being part of the Community and a recognition of their regional reality, which is characterised by specific features and constraints which set them apart from the rest of the European Union.

Over 700 legislative instruments have been adopted (see the table setting out the most important Community measures in **Annex I**). Each Commission initiative was preceded by partnership contacts with the Member States and regions concerned. Policies are, of course, first and foremost those set out in the Posei programmes (e.g. agriculture, fishing, taxation, State aid discipline, transport etc.). In addition, though, and in line with the principles set out in the programmes, any new Community action in new fields has gone hand in hand with special attention on the part of the Community to ensure that they are applied in the outermost regions too. This is true, for instance, of measures favouring small and medium-sized undertakings and similar measures to facilitate access to the information society. One final point is that, in some cases, these regions have benefited from exceptional measures which, by their very nature, may result in a loss of revenue for the Community budget.

1. AGRICULTURE

Its substantial share in regional GDP means that agriculture is of key importance; it also plays a vital role as regards social balance and stable employment, land-use planning and the environment.

Agricultural production in the outermost regions benefits from the full application of the CAP through the various market organisations and a substantial agricultural strand under the Posei programmes, which aim to tailor the common policies to the specific needs of these regions.

Market organisations

Local agricultural production (beef and veal, milk, cereals, etc.), like all Community production, is covered by the market organisations established under the common agricultural policy. These market organisations also cover more typical products such as bananas, sugar, rice and pineapples. The market organisation for bananas in particular strives to safeguard Community interests by means of a compensatory aid scheme which supports the incomes of Community producers. These measures account for substantial budgetary resources (e.g. the 1999 banana market organisation cost EUR 178 million; the 2000 PDB makes provision for EUR 252 million).

The agricultural strand of the Posei programmes

The agricultural strand of the Posei programmes is a permanent key component. It is tailored to the structural handicaps of the outermost regions (topography and climate, remoteness, small size of holdings, etc.) and to the specific constraints experienced there (lack of economies of scale, economic dependence, very high production costs, etc.). It is financed by the EAGGF-Guarantee Section (around EUR 200 million per year) and is based on two types of measure in the main¹. The extent to which these measures are used and their scale differs from region to region, in line with economic development choices and the local situation (see table in **Annex II**).

¹ **Derogations** from **veterinary and plant health** measures and **structural** matters, and a **graphic symbol** have also been introduced under these regulations.

– *Specific supply arrangements*

Each marketing year, a forecast supply balance is adopted for agricultural products necessary for human consumption and local processing (local agricultural production and/or agri-food industries); this may be amended in the course of the year. Imports originating outside the Community are exempt from customs duties, while supplies of products originating in the Community benefit from aid equivalent to the benefit arising from this exemption.

The aim of this measure is to offset the additional costs arising as a result of remoteness and isolation and to bring down prices for end users by promoting competition between sources of supply. These benefits must be passed on to end users. The specific supply arrangements are designed to prevent disruption of traditional trade flows and ensure that the proportion of products supplied by the Community is preserved.

Products benefiting from the arrangements may not be re-exported to third countries or redispached to the rest of the Community. However, where they are processed in the region concerned, this ban does not apply to traditional exports or shipments to the rest of the Community within given limits.

Examination of the results of the arrangements shows an improvement in their administration, with local needs tending to stabilise. There is now guaranteed supply to these regions and prices have fallen thanks to competition between sources of supply. This measure has had a positive impact on economic development in the regions concerned.

However, the changes generated by the recent reform of the common agricultural policy and the Community's undertakings under the Uruguay Round, and gradual alignment of world prices and Community prices mean that the unit aid rates (essentially based on export prices) for supplies of some Community products, cereals in particular, have fallen.

Within the limits of the current rules, the Commission has endeavoured to manage the impact of these changes in the international context. It has also launched a series of external evaluations as part of the SEM 2000 project to evaluate the difficulties encountered in applying the arrangements and justify any changes which need to be made and to prepare Commission reports to the Council and the European Parliament on the way the arrangements have been implemented.

– *Specific measures in favour of local agricultural products*

The Posei programmes rest on the general principle of applying the common agricultural policy in full while taking account of the specific constraints of the regions.

To this end a series of complementary measures have been introduced on top of the general measures laid down by the market organisations, such as supplements to the premium for male bovine animals and the suckler cow premium, and flat-rate aid for sugarbeet production.

Changes have also been made to the way in which the market organisations and complementary measures are implemented, such as the derogation to the stocking density factor in the livestock sector and the decision not to apply the coresponsibility levy in the milk sector and the grubbing-up premiums in the wine sector.

A number of specific aids have also been introduced, such as aid for potatoes for human consumption, vanilla and vetiver; and for sugar cane cultivation and restructuring and general programmes in the livestock sector.

Only by examining each individual measure is it possible to analyse whether the goals of maintaining and expanding production, diversification and structural improvements, raising product quality and better marketing have been achieved, and understand the impact of these aids on production costs with a view to making these products more competitive.

The agricultural strand of the Posei programmes is very substantial, innovative and adapted to specific local constraints. On the whole, these measures have been found to offset some of the constraints which raise production costs. By complementing the support provided under the CAP, these measures have helped improve the quality and quantity of local production.

2. FISHERIES

The Community has been carrying out long-term measures in the fisheries sector since 1992. The measures adopted on the basis of the Posei programmes have helped resolve a number of problems arising in the fisheries sector which have been brought to the Commission's attention by the competent bodies in the Member States concerned (national and regional authorities) and subjected to appropriate analysis. They meet the wishes of the regions concerned in a satisfactory manner, and a policy of active partnership has been established. The process of implementation has also proved satisfactory, given that the expected results have been obtained. These can be summarised as follows:

- better integration into the mechanisms of the common organisation of the markets in fishery products;
- collection of scientific data vital to the conservation and management of fishery resources in the exclusive economic zones adjacent to these regions;
- collection of data on structural aspects (improvement of conditions under which the sector operates and transport conditions) and market aspects (positioning of products, promoting local species, etc.);
- improved supply conditions for products intended for internal consumption (temporary suspension of customs duties), sale of products and price modifications;
- with respect to structural policy in the fisheries sector, in some cases the specific characteristics of regional fleets have been taken into account in the process of drawing up multiannual guidance programmes;
- technology transfers in the aquaculture sector;
- in all regions, the Community system of support for marketing more common species has brought lasting stability to the sector, affording the economic operators acceptable margins for their activities and providing them with conditions similar to those enjoyed by their partners on the European continent. It has also been instrumental in maintaining employment in regions where alternatives are extremely limited. This system, which dates from 1992, has met the requirements of the operators concerned in full, in terms of both eligible production and the operation of the scheme. The benefits to operators from this scheme have helped maintain satisfactory production and development levels in the various sectors concerned. However, the conditions which are at the root of the higher production costs are not likely to change as they stem from the very location of the outermost regions.

These additional costs will therefore remain, which completely justifies maintaining the system of compensation. The importance of exports of species covered by the scheme, underlined by the Regulation extending the arrangements from 1998 onwards, is clear from the amount allocated to the system (EUR 17.3 million), which accounts for more than half of the total expenditure currently relating to the operation of the common organisation of markets in fishery products.

3. TAXATION

The Posei programmes have taken the specific characteristics of the outermost regions into account in terms of taxation. They have been implemented by means of various indirect taxation measures tailored to each of the regions in question. The overall goal of these measures is to promote economic and social development in these regions by compensating for the handicaps due to their remoteness.

These regions generally have their own indirect taxation system, which has evolved from a traditional inherited fiscal system. The indirect taxation of the French overseas departments was based on the former Article 227(2) of the EC Treaty, while the legal basis for the Canary Islands and Madeira and the Azores is the Act of Accession of Spain and Portugal to the European Communities.

The Canary Islands and the French overseas departments therefore fall outside the scope of application of the Sixth VAT Directive. However, apart from French Guiana, the French overseas departments apply a VAT system similar to the Community system but with a number of modifications (reduced rates). In contrast, the Azores and Madeira archipelagos apply the Community VAT system with a number of alterations (reduced rates above all). These regions also apply specific indirect taxes: the *Impuesto General Indirecto Canario* (IGIC), *Arbitrio insular especial* and *Arbitrio* tax on production and imports (APIM) in the Canary Islands, and dock dues in the French overseas departments. The new dock dues, under Council Decision 89/688/EEC, have been endorsed by the Court of Justice, which has confirmed that this Decision is compatible with the Treaty.

The Commission has, temporarily, authorised France to apply, on its metropolitan territory, special rates of excise duty on traditional rum, and reduced rates on an annual quota.

These fiscal derogations mean that local production is totally or partially exempt from tax, under Commission supervision. When delivering its judgements on dock dues, the Court of Justice stated that such exemptions must be necessary, proportional and specific.

These derogations from Community law help contain some of the additional costs resulting from remoteness and insularity. But excluding the Canary Islands and the French overseas departments from the scope of Community VAT rules also means that they miss out on the process of Community tax harmonisation and have to bear the costs of maintaining fiscal frontiers.

France and Spain have also been authorised not to apply the general arrangements for products subject to excise duty and on the holding, movement and monitoring of such products in the Canary Islands and the French overseas departments respectively. The Member States may therefore modify the legislation on these taxes in these two regions, with modulation where this is considered essential to local needs. The excise directives apply in

Madeira and the Azores, with provision for some modifications to the general arrangements (reduced rates).

4. CUSTOMS

With the exception of the Canary Islands, all of the outermost regions have been an integral part of Community customs territory since the date on which their respective countries joined the Community. The Canary Islands were only incorporated in 1991, and the CCT is being gradually introduced in a process due for completion on 31 December 2000.

On the basis of the Posei programmes, and over and above the exceptional measures taken under the special arrangements for agricultural and fisheries products, some derogations have been introduced from the general customs rules in these regions. These measures essentially involve:

- the decision not to apply the normal economic conditions in cases of inward processing in the free zones in the regions in question, to promote the development of small businesses and the productive sector as a whole; so far this measure has only a limited impact since only one of the most remote regions – Madeira – has working free zones, while a free zone is currently being set up in the Canary Islands;
- specific tariff measures with respect to certain sensitive industrial products imported into the Canary Islands, through the temporary suspension of the autonomous Common Customs Tariff duties; these measures have helped modulate the gradual introduction of the CCT over a transitional period ending on 31 December 2000 and ease the impact of this process by taking account of the specific difficulties in certain sectors of the economy in the region in question;
- the temporary suspension of CCT duties for certain goods intended to equip or for processing in the free zones of the Azores and Madeira; the aim of this preferential tariff treatment, which is subject to certain conditions, was to help launch industrial activities in the only operational free zone in these regions (i.e. the Madeira harbour zone) and promote permanent installation of industries to process non-originating materials (other than agricultural products or products obtained from the processing thereof), imported free of customs duties and destined for the Community market; an initial review of this scheme is scheduled for this year;
- finally, some measures derogating from commercial policy in the Canary Islands, such as the decision not to apply quantitative restrictions on imports of certain textiles and clothing where these products are intended exclusively for the Canary Islands market.

5. STATE AIDS

State aids other than aids to agriculture

In its scrutiny of State aids, the Commission has always been attentive to the special situation of the outermost regions. As long ago as the 1989 Poseidom programme, provision was made for the Commission to examine aid to the regions concerned in the light of their specific situation.

Business support systems

The criteria which the Commission formulated for examining whether or not regional State aid was compatible with the Treaty, especially Article 87(3)(a)², have enabled the Member States and the regions to set up business support systems; these are diversified and on a major scale. According to the latest figures available to the Commission, they represent annual budget expenditure exceeding EUR 1 600 million.

For the Canary Islands, there is a special “economic and tax scheme”, which comprises tax aids to investment and operating aids. These are limited in time and are degressive, e.g. a lower tax base on profits provided they are earmarked for reinvestment in the Canary Islands.

The special Canary Islands zone offers tax aid for a limited period and on a degressive scale in the form of reduced taxation starting from 1% and going up to a ceiling of 5% on profits made by local firms.

The main measure in Madeira is the “free zone”. The Commission has given authorisation for a total exemption on all direct taxes up to 2011, from which date on the exemption will become partial. The arrangements are available to new firms setting up in business in the free zone.

Various forms of tax exemption have been made available in the French overseas departments, more especially the “Pons law”, which makes it possible to deduct overseas investments from taxable income.

Other measures

The rules formulated by the Commission have enabled the Member States and the regions to set in place a range of measures.

In the Azores, for instance, there is a system of aid to encourage regional products (covering in particular the additional transport costs for exported products).

In the French overseas departments, there is the guarantee fund, which was recently approved by the Commission, and which was set up to counterbalance the higher cost of taking up loans in these regions. Other measures include profit-sharing funds, low-interest loans etc.

The criteria used for determining whether State regional aid is compatible with the common market in the context of Article 87 were recently amended by the Commission. Some schemes had to have undergone re-examination by 1 January 2000, but the new regional aid guidelines (1998) make it possible for the outermost regions to continue to enjoy the EU’s most favourable treatment.

Currently, each one of the seven outermost regions qualifies under the derogation provided for in Article 87(3)(a) of the Treaty. This will continue to be the case in 2000-2006, since their GDP per inhabitant is less than 75% of the Community average.

² This makes it possible to authorise aid which is intended to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment; Article 87(3)(c) allows aid to be granted which is intended 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.

The derogation under Article 87(3)(a) of the Treaty allows them to:

- qualify for the highest ceilings on aid intensity in the Union;
- exceptionally, receive operating aid in certain cases, provided such aid is limited in time and is degressive.

In addition, the outermost regions benefit from a specific approach under the new guidelines for State regional aid, viz.:

- special ceilings on aid intensity by virtue of their very status as outermost regions: in the case of Article 87(3)(a) regions, a net grant equivalent of 65% instead of the standard ceiling of 50% under Article 87(3)(a);
- the possibility of receiving, for an unlimited period, non-degressive operating aid to partially offset additional transport costs, whether the region qualifies under Article 87(3)(a) or 87(3)(c) of the EC Treaty.

State aid to agriculture

By virtue of Article 36 of the Treaty, the provisions of Articles 87 to 89 are applicable to agriculture only where this is stipulated in Council Regulations. Nearly all the relevant Council instruments include provisions to that effect.

In the last ten years, a scrutiny of State aids to agriculture in the outermost regions has not brought to light any specific problems. First of all, the regions concerned are treated in exactly the same way as less-favoured farming areas, which means that they can receive higher amounts of aid for most agricultural investment, at the level both of individual holdings (a top rate of 35% to 75%) and of the processing and marketing of agricultural products (a top rate of 55% to 75%). Secondly, where the State aid concerns measures other than investment (R&D, promotion and publicity, technical assistance, natural disasters, etc.), the flexibility of the Commission's policy is such as to allow the granting of high levels of aid (up to 100% in some cases).

While still opposed in principle to operating aid to agriculture, the Commission decided not to raise any objection to three aids for the outermost regions; in the case of the French overseas departments and the Azores, the aid is transport-related and is intended to cover some of the additional costs of transporting local produce by sea; in the case of the Canary Islands, the aid notified concerns special economic and tax arrangements for, *inter alia*, agriculture and includes several types of operating aid. The Commission took the view that the aids - aimed at offsetting the clearly negative effects of the insular and remote nature of the regions concerned, but with no effect on the internal market - were justified.

6. AID TO SMALL BUSINESSES, CRAFT FIRMS AND TOURISM

Most of the action in this field, which is crucial for employment and hence for social development, has been undertaken in the context of the Structural Funds (see above, in particular as regards the productive sectors and human resources). In the outermost regions, relatively little use has, on the whole, been made of the instruments available to small businesses and craft firms under the three multiannual programmes (1990-93, 1993-96, 1997-2000).

The instruments used include the Euro Info Centres, whose work among firms in those regions has tended to focus on training in and raising awareness of new technology, the changeover to the euro and access to the Structural Funds. For its part, the Interprise programme has, in the outermost regions, covered cooperation between small businesses, pilot schemes in the field of tourism and craft trades, and seminars and conferences. Tourism occupies a vital and growing position in virtually all the outermost regions. It benefits from better transport facilities, but it does have its problems, more especially in terms of the environment.

There are also major variations in the extent to which each multiannual programme is used. In addition, small businesses still find it difficult to obtain bank loans.

As regards EIB loans to businesses (in these regions, this normally means SMEs), the system takes the form of global loans working through financial intermediaries in the regions. Here again, take-up has been very poor: EUR 105.4 million over the period 1994-98, including EUR 57.8 million in 1998. It has to be pointed out that these loans require the assistance of banks on the ground, who have to be willing to bear the risk of the operation.

TABLE 5
BREAKDOWN OF GLOBAL LOANS BY REGION
(in EUR million)

	1994 –1998	1998
Canary Islands	93	57.1
Azores	0.2	0.2
Madeira	0.9	0.1
Guadeloupe	-	-
French Guiana	-	-
Martinique	11.3	0.4
Réunion	-	-
TOTAL	105.4	57.8

7. ENERGY

The outermost regions are heavily dependent on oil supplies for energy, are far from the major energy grids and pay a higher cost for electricity generation by virtue of the average (often very small) size of the grids being supplied.

In addition to these problems, the cost of supplying the Azores and Madeira with oil is also higher because of their remoteness from the refineries.

These difficulties aside, however, there is significant potential in the outermost regions for using renewable sources of energy such as biomass, solar, geothermal, water and wind power. The regions also have significant scope for making energy savings. Renewable energy and energy saving both offer real benefits to these regions, where the costs of producing energy from conventional sources are among the highest around.

General measures

Under its energy policy, the European Community has mostly assisted the establishment of regional energy programming in the regions and/or the establishment of regional energy agencies (in the Azores and Madeira, the Canary Islands, Guadeloupe and French Guiana) through the SAVE programme.

Under its research and technological development (RTD) policy, support has been provided through the Thermie programme for technical and economic demonstration projects for innovative energy technology.

Under regional policy for over a decade now and through successive programmes, the ERDF has consistently assisted the regions' studies and specific projects to improve energy supply and electricity production and to harness the local potential for renewable energy and energy efficiency.

A specific measure

Specific Community assistance linked to the remoteness element was decided on when the Poseima programme for the Azores and Madeira was adopted. This is known as the “energy measure”; it compensates the two regions for the additional costs they incur for oil supplies.

The specific aid provided for under this measures was calculated on the basis of the cost of transporting oil products from mainland Portugal to the main storage depots on the Azores and Madeira in 1991, 1992 and 1993. It was granted on condition that at least 50% of the aid would be used for promotional measures and for energy-saving or renewable energy projects in the region.

The funding for this specific aid for the entire period amounted to EUR 25 million, divided between the Azores (EUR 15 million) and Madeira (EUR 10 million) and paid in annual instalments under the budget headings for Thermie in 1992, Poseima-Energy in 1993 and ERDF – transitional provisions in 1994.

The evaluation of the Poseima energy measure indicates that the funding was used for its intended purpose, i.e. it helped to check the increase in energy consumption and enabled a series of renewable energy projects and measures to be funded. However, it has not yet proved possible to continue the measure after 1994 for lack of dedicated funding (following the deletion of the Poseima budget heading) and because of the eligibility rules for the Structural Funds (under which it was considered operating aid, and therefore ineligible).

Community part-funding of the investment projects on energy saving and renewal energy in the Azores and Madeira has continued from 1994 to 1999 under the Structural Fund programmes (CSF II and Regis II Initiative).

8. TRANSPORT

Transport is of strategic importance to the outermost regions, given their geographical situation. Maintaining political, economic and social links with the rest of Europe very much depends on air and sea transport services. In addition, the fact that some of the regions concerned are archipelagos makes them even more dependent on those services. The additional costs resulting from remoteness and the need to provide a regular service are also a major handicap in terms of economic development, added to which air transport is a key factor in the growth of tourism.

Air transport

The most remote regions have greatly benefited from the impact of the measures to liberalise air transport in the Community. The fact that Community carriers operating on intra-Community routes can freely set fares, as laid down by Council Regulation (EEC) No 2409/92 has resulted in an appreciable reduction in fares between those regions and the rest of Europe. Those between France and the French West Indies are currently among the cheapest intercontinental fares in the world. For its part, the principle, enshrined in Council Regulation No 2408/92, of freedom to provide services on intra-Community routes has fostered competition between airlines and the emergence of new transport services, in particular between the Canary Islands and Spain. Airports in the Azores were temporarily exempted from the application of the principle of the freedom to provide transport services. That exemption, under Article 1(3) of Regulation (EEC) No 2408/92, expired on 30 June 1998.

The rules on fares and market access allow Member States to impose a public service obligation “in respect of scheduled air services to an airport serving a peripheral region”. Such an obligation applies to services between France and its overseas departments, to services between Portugal and Madeira and the Azores, and to internal services in French Guiana, the Azores and Madeira.

Sea transport

The rules on transport by sea also take account of the specific characteristics of the outermost regions. Under Article 4 of Regulation (EEC) No 3577/92, Member States may conclude public service contracts with shipping companies participating in regular services to, from and between the regions concerned, or impose on them public service obligations as a precondition for providing *cabotage* services. Existing public service contracts can remain in force until they expire. By virtue of the Community guidelines on State aid to maritime transport, financial compensation paid to companies which are the subject of a public service obligation does not, in principle, constitute aid within the meaning of Article 87(1) of the Treaty and need not be notified.

Moreover, in order to avoid the disruption which might otherwise have resulted from the application, from 1 January 1993, of the freedom to provide maritime transport services within Member States, Article 6 of Regulation (EEC) No 3577/92 granted a derogation to *cabotage* services in the Canary Islands, the Azores and Madeira and the French overseas departments from the application of that Regulation until 1 January 1999.

9. RESEARCH AND DEVELOPMENT

The outermost regions are not the subject of specific measures under the **Framework Programme for Research and Technological Development**. They are dealt with in the same way as other regions covered by Objective 1 of the Structural Funds, in other words, their remoteness has thus far been a feature of the general coordination between the RTD and innovation policy and the policy of economic and social cohesion.

Altogether, these regions took part in specific RTD framework programme measures on no fewer than 204 occasions in 1988-99. The highest rate of participation was recorded in the Canary Islands, followed by the Azores and Madeira. The lowest rates, which were recorded by the French overseas departments, reflect the fairly low level of investment in RTD in those regions.

Since 1989, the **Structural Funds** have financed numerous scientific and technical facilities and a great many measures relating to RTD and innovation. The outermost regions which have benefited from the funds include the Canary Islands, which received ECU 15.6 million in 1994-99 for the funding of two technology transfer centres and the Canary Islands Technology Institute, and ECU 33.12 million for the Astrophysics Centre. In the case of the French overseas departments, funding was made available, mainly in the fields of applied research, genetic research facilities and direct assistance to businesses (ECU 9.5 million). French Guiana has received funds for setting up a tropical forest research station (ECU 5.4 million) and Martinique has received funding for applied research in banana production (ECU 5.4 million). For its part, Madeira has received assistance for technological facilities and innovative projects.

Finally, the **Fifth Framework Programme** (Decision No 182/1999/EC of 22 December 1998) introduced a specific recital to the effect that: “*it is necessary to promote and facilitate*

the participation of the ultraperipheral regions in Community RTD actions through appropriate mechanisms adapted to their particular situation”.

10. THE INFORMATION SOCIETY

The European Union has supported the efforts deployed by the regions and the various players – both public and private – to modernise telecommunications infrastructure, develop the services needed for achieving the information society, and integrate those services in the best possible way in a regional context. While the latter may at times prove very difficult, it is an essential component of economic development at local level.

Although there are still major disparities compared with the regions of continental Europe, there has been a considerable improvement in telecommunications infrastructure in the outermost regions in terms of the number of new regional, national and international lines. Similarly, data transmission services have been developed in order to provide better information to users of public and private services. Moreover, a general reduction in charges following the opening up of markets and the growth of the Internet are close to bringing about a considerable change in the use of the infrastructure and services concerned.

The Structural Funds have played a big part in this improvement, which has sometimes concentrated only on certain points and has not overcome all the problems, although technological progress suggests further positive developments in the years to come, provided the investment still required is forthcoming.

However, the outermost regions organised in a cooperation network have already benefited from exchanges of experience and of knowhow. This is the case with Guadeloupe, which belongs to the Maris regional network, concerned with demonstration and promotion work in the use of new information technologies and remote processing applications in the maritime sector (fishing, harbour logistics, vessel manufacture and maintenance, navigation and traffic management).

Some of the outermost regions have also been involved in European information society programmes under the RTD framework programme. They took part in four telematics application projects (TAP) in the field of administration, research and medicine, and in various ESPRIT (European Strategic Programme for Research and Development in Information Technologies) projects. These projects were mainly involved with education and vocational training, research, innovation, modernisation of production techniques and the environment.

That being said, even despite the improved infrastructure and the initiatives, the potential of information technology and telecommunications is not always exploited in an optimum or sustained manner, through insufficient awareness of the economic opportunities available, the unsuitability of the services on offer, the fact that potential users do not have the necessary training or their qualifications are not in keeping with the requirements of the areas concerned.

11. ENVIRONMENT

The programmes of options specific to the remote and insular nature of the regions – Posei – do not refer explicitly to environmental issues. Concrete measures in this area have been financed by the Structural Funds or other financial instruments.

However, three factors have caused the financial arrangements to be made more mindful of the environment:

- the problems posed by the fragility of the regions’ ecosystems and their prevailing geological and weather conditions (which increase the risk of natural disasters);
- their adherence to Community environmental standards (and the extra costs entailed);
- the close links between the environment and various aspects of socio-economic development.

A budget heading B2-245 (Environment) has been created, in response to the European Parliament’s initiative, to fund environment protection and nature conservation measures as part of the Poseidom, Poseican and Poseima programmes. Four programmes have received Community assistance, totalling EUR 10 000.

12. REGIONAL COOPERATION

Title IV of the Poseidom programme stresses the need for better regional cooperation between the French overseas departments and the neighbouring countries and territories. Such regional cooperation should help the French overseas departments to integrate better into their geographical setting by overcoming traditional shortcomings (competing economies, lack of trade, etc.) and by engaging instead in dialogue and establishing joint projects that take account of the complementarities and development needs of the various partners, regardless of their legal status.

This cooperation has focused since 1989 on relations between the French overseas departments, the overseas countries and territories and the ACP States. To this end, the provisions of Title IV of the Poseidom programme supplement and affirm those taken under Title XII of the fourth Lomé Convention, prior to 29 February 2000, and of the ACP-EC Partnership Agreement after that date, and under Title XII of the Decision on the association of the overseas countries and territories with the European Economic Community.

As in Lomé IV, the ACP-EC Partnership Agreement stipulates that the funding in question is to be added to the funding for the ACP States under the Agreement and that particular attention will be paid to speeding up economic diversification so as to encourage complementarity of production and intensify cooperation and development between the ACP States themselves and between them, the overseas countries and territories and the French overseas departments.

Because of the geographic location of the Canary Islands, Madeira and the Azores, Poseican and Poseima do not contain provisions on regional cooperation.

Consultation between the French overseas departments, the ACP States and the Commission in particular is the most developed of the three strands making up the “Regional Cooperation”

section of the Poseidon programme. On the other hand, the second strand, on regional trade agreements, is almost non-existent at present. Joint regional projects and programmes under the third strand have been established in Réunion (Indian Ocean) but have not yet been established in the French *departments* in the Americas, despite some unsuccessful attempts.

This progress report on the measures to assist the French overseas departments, and the contrasting results achieved in the Caribbean and Indian Ocean, lead one to conclude that the mixed success of regional cooperation is in part due to political resolve, or the lack of it. While the competent local authorities regularly pin their hopes on regional cooperation, they remain critical of each other or adopt protective measures. There are, of course, structural reasons for their reticence because the regional economies compete with, rather than complement, each other. They compete both for trade and available Community funding.

C. GENERAL ASSESSMENT

There are two basic, interlinked, questions which need to be asked:

- **Have the various Community instruments – the Structural Funds and the specially adapted policies – worked satisfactorily?**
- **Since the inception of the Posei programmes, what kind of economic and social development have the outermost regions experienced, given that these instruments were designed to give such development a kick start?**

The foregoing analysis was largely concerned with the **first question**. Action taken by the European Union has, on the whole been effective, despite the numerous difficulties on the ground. The partnership set-up has, generally speaking, worked well.

Over the two programming periods 1989-93 and 1994-99, the seven outermost regions have received financial support under the Structural Funds for their regional economic development to the tune of EUR 7.2 billion (accounting for 2.5% of money allocated to all the regions) for a population of 3.5 million. Because of their specific handicaps, these regions have received per capita Community aid under the Structural Funds of about a third more than the average for the Objective 1 regions (see Table 2: Intensity of European aid 1994-99).

Adapting Community policies has also brought tangible results, without however jeopardising the coherence and unity of Community law and the internal market. While it is true that some of the objectives set out in the Posei programmes have not been fully achieved (e.g. regional cooperation – the responsibility for which does not lie principally with the Community) or pursued (e.g. compensation for the high cost of energy in the Azores and Madeira), the overall picture nonetheless remains very positive.

In reviewing the situation, we have to bear in mind that the European and international contexts have changed substantially over the 1990s: for instance, the internal market is now a reality and there is more rigour, for example, in the field of taxation; reforms have been made to the CAP and to the Structural Funds, and there are new rules set out in Agenda 2000, particularly financial ones. There have also been more prominent roles for GATT and the WTO, the signature of international agreements (Lomé, Mexico, OCT association agreements, South Africa). All this, of course, had consequences for the outermost regions.

As for the **second question**, some of the answer is to be found in the sixth report on the economic and social development of the regions, published by the Commission in March 1999, which attempted a general evaluation of the situation of the regions on the basis of GDP data.

A comparison between the figures for 1986-88 and 1996 show that all the seven regions experienced strong regional GDP growth above the European average (more than 2.7% per year, compared with the average of 2.1%). Since demographic pressure is marked in many of them, it is a useful exercise to base comparisons on per capita GDP. The regions have, generally speaking, experienced significant growth in their per capita GDP over the last ten years compared with the average growth for other regions of the European Union; this is brought out in Table 6 below: the highest rate of growth has been for Madeira, the Azores and French Guiana, while the lowest has been for the Canary Islands, though their GDP was the highest of the seven.

TABLE 6**GDP PER INHABITANT – COMPARISON 1986 - 1996**

European average = 100
(Source: Eurostat)

	1986	1996	Variation
Madeira	40%	54%	+14%
French Guiana	37%	48%	+11%
Azores	40%	50%	+10%
Réunion	40%	46%	+6%
Martinique	49%	54%	+5%
Guadeloupe	37%	40%	+3%
Canary Islands	72%	74%	+2%

The growth in per capita GDP in all the outermost regions reflects a general trend of convergence of the local economies towards the average level for the regions of the European Union. Their relative growth compared with the other regions of Europe likewise reflects the impact of public development policies in these regions, with the high level of financial intensity per inhabitant resulting largely from co-financing measures under the Structural Funds.

Encouraging as this growth may be, it does not, however, mask the specific handicaps which these regions face, the fact that their productive sectors are dependent on trends in unreliable markets, and the fragility of their social fabric. The standard of living per inhabitant remains 50% below the average level for the European Union, and the various regions, with the exception of the Canary Islands, feature among the ten poorest regions in the EU, justifying the continuation of national and European financial input.

Assessing the general impact of European programmes on the employment situation is a more delicate task. In all the regions, migration tends to weigh on the employment market, while in the four French regions, it is demographic pressure which explains the high levels of unemployment. Nonetheless, it has to be said, between 1987 and 1997, the unemployment rate fell in the five regions where it used to be highest, but increased in the other two, although the levels there were and still are low compared with the other European regions.

TABLE 7

UNEMPLOYMENT AS A PERCENTAGE OF THE ACTIVE POPULATION
(Source: Eurostat)

	1987	1997	Variation
Martinique	32.1%	27.2%	- 4.9%
Canary Islands	25.5%	20.9%	- 4.6%
Guadeloupe	31.1%	29.3%	- 1.8%
French Guiana	24%	22.4%	- 1.6%
Réunion	36.9%	36.8%	- 0.1%
Madeira	4.8%	5.4%	+ 0.6%
Azores	2.2%	5.4%	+ 3.2%

What all these elements indicate is that, in most of the outermost regions, there has been significant economic growth which has, however, been partially offset by demographic growth in some of the regions. For instance, the population in French Guiana grew by 37% between 1990 and 1999, compared with 18% in Réunion, 9% in Guadeloupe and 6% in Martinique, while the growth rate in mainland France was no more than 3.18%.

What part has been played by the Structural Funds and by Community policies in the overall performance of these regions? It seems clear that the effects have been very substantial, not to say decisive, in a number of areas, such as transport infrastructure (one of the crucial problems in the outermost regions), fishing and agriculture (two of their essential productive sectors), which has helped push them towards convergence with the rest of the European Union.

It is not easy, though, to find a really precise answer to the question, since Community action is intended to complement national and regional efforts. While it is true that, generally speaking, the results have been very good, the fact remains that changes and different practical arrangements have to be considered. The important thing is to make all these efforts more energetic and targeted, and to gear them to the new European and global context. Overall, the current policy should be continued and improved.

One essential aspect which continues to demand special attention is that of mass unemployment, a problem which is of course linked to more general factors – e.g. the technological revolution, globalisation, demographic growth in the French overseas departments etc. – but whose repercussions, apart from in the Azores and Madeira, are particularly serious, with unemployment rates which, although slightly down (cf. **Table 7**), are twice and in some cases three times the Community average. It has to be said that, without action on the part of the Community, the problem would be even more acute.

Finally, we have to be aware of the historic dimension of the outermost regions issue: it is not simply a matter of helping them to catch up economically and socially – there is also an important political challenge. The Canary Islands, for instance, took some time to decide on integrating fully into the European Union, and we have to meet the promises that were held

out to them when they took their decision. The Azores and Madeira took on all the obligations of Community integration when Portugal joined the EU, and they now have to derive benefit from the EU's advantages and sense of solidarity. The French overseas departments are outposts of Europe in other continents.

Against this background, we have to be mindful of the fact that these regions give the European Union a global dimension and constitute its furthest frontier. Some of their constraints, such as their remoteness from mainland Europe and the physical and human proximity of the ACP countries, the Mercosur and other regional geographic centres, are not just constraints, but also offer potential. Against the backdrop of globalisation, the European Union is the only entity which has a presence in the heart of the Indian Ocean and the Caribbean, and in South America, by dint of its outermost regions. They all have extensive maritime waters, occupy a valuable geo-economic position, and are strategically situated for leading-edge activities and for research which will be fundamental to the future of the planet. In other words, the potential benefits for the European Union are undoubtedly high, although they are by definition impossible to quantify.

II. THE FUTURE

ARTICLE 299(2)

The purpose of the new Article 299(2) of the EC Treaty is to enable the outermost regions to integrate fully into the Community of which they form, while at the same time taking account of their specific features. This Article now provides a single common legal basis for measures to help these regions. The scope of application is broader than that of Article 227(2), which it replaces, since it covers the Azores, Madeira and the Canary Islands as well as the French overseas departments. Special measures to help these regions may be taken in very broad areas covering several Community policies, the list of which is not exhaustive. The final innovative element is that the specific measures for the outermost regions will be taken by the Council acting by a qualified majority (Article 299(2) of the Treaty).

The Article is therefore not simply declaratory, nor does it provide a generalised “opt-out”; it leads instead to the establishment of specific arrangements which take account of all the burdens which their remote location imposes on these regions, without undermining the coherence of Community law and the internal market. It confirms and reinforces the approach taken by the European Union since 1989 under the Posei programmes.

Specifically, Article 299(2) will enable the European Union to continue, consolidate and improve its work. In what direction?

A SUSTAINABLE DEVELOPMENT STRATEGY FOR THE OUTERMOST REGIONS

The Commission has considered the work carried out so far, the sometimes spectacular results achieved and the shortcomings in terms of the objectives laid down in the Posei programmes. It is at any rate clear that the approach was the right one, although the handicaps persist and the work has to continue.

Taking as its cue the political will reflected in Article 299(2), future action must take the form of a general strategy for the outermost regions.

This is the quantum leap made by Article 299(2). Future strategy must address the sustainable development of these regions, and must, in the Commission’s view, comprise three elements:

- firstly, in terms of **traditional economic activities** – generally directed towards the primary and agri-food sectors – special measures to assist agriculture and fishing. Seen in overall terms, these measures have worked satisfactorily. They should be continued, subject to review where appropriate. In agriculture in particular, they must be
 - upgraded, so as to preserve the benefit of existing measures, whose impact is lessening for reasons which are both proper to the Community (e.g. the CAP reform) and externally driven (e.g. changes in world trade patterns, international and bilateral agreements);
 - adapted or intensified in certain fields, in the light of experience;

- secondly, promoting **growth as a result of diversified economic activity**. The approach is different. The objective is to upgrade other activities and attract investment and innovation. The important thing, then, is
 - on the one hand, to coordinate the way existing instruments are used: the Structural Funds, loan facilities, State aid discipline, taxation, customs duties etc.;
 - on the other, to coordinate the application of these instruments to support new productive sectors and the SMEs. The stress must, however, be on strategic fields in terms of global competition: not just transport, energy and the environment, but also the information society, research and development;
- thirdly, the relations between the outermost regions and their geographic environment largely dictate the way they develop. The geographic proximity of developing countries – most of them having advantageous agreements with the Community – and the fact that they produce largely the same range of goods places them in a difficult competitive situation. At the same time, they occupy the position of “bridgeheads” for the European Union in the presence of emerging regional and subregional blocs, of which they form a geographical part or with which they have historical links. This “frontier” position could prove an advantage if it is put to proper use. The European Union must pay heed to these two facets of the outermost regions. It is an aspect which influences the full range of the EU’s policy vis-à-vis the outermost regions.

How should we implement this strategy?

The Commission has examined the ideas and requests put forward in the memoranda from the Member States³ and the regions⁴. It has listened carefully to the various positions which were explained at a partnership meeting the Commission organised on 23 November 1999, and which was attended by representatives of the Spanish, French and Portuguese governments and of the seven outermost regions.

It has taken into account of all these elements in pinpointing what action needs to be taken to put this strategy into practice, as set out below.

³ Memoranda from the Spanish government of November 1999, the Portuguese government of November 1999, and the French government of 10 December 1999.

⁴ Joint memorandum from the outermost regions, 5 March 1999.

A. THE BASIS PROVIDED BY TRADITIONAL PRODUCTION

1. AGRICULTURE

The Commission, using the long-standing legal bases at its disposal, has already established for the agricultural sector an appropriate and significant framework for the application of the CAP in these regions. This has been done in particular through the Posei agricultural chapter which is ambitious, substantial and innovative.

This framework is in itself an appropriate response to the handicaps of these regions. In the spirit of this new Article 299(2) of the Treaty the Commission's intention is to continue with its approach of taking due account of the outermost regions and their specific characteristics and constraints.

The requests submitted by the Member States

The requests presented in the memoranda can be summed up as follows.

Generally speaking, these requests seek initially to consolidate and strengthen the agricultural chapter of the Posei, and then to improve the current system. It is also asked that there be sufficient budget cover for the reform of Posei agricultural chapters. Lastly, with regard to the common organisation of the markets, a guarantee is asked that due account will be taken of the specific features of these regions, particularly in the banana sector.

In more detailed terms, the requests relate to improving the specific supply arrangements (SSA) on three points:

- revision of the list of eligible products and, in addition, examination of the inclusion of non-agricultural products (e.g. fertilisers, packaging, etc);
- revision of the calculation method, particularly in order to stabilise aid, ensure that it offsets extra costs, and to take account of the effects of the problem of “double insularity”;
- improvement of the conditions for re-exporting or re-despatching products processed from raw materials having benefited from the SSA.

The requests seek also to improve specific aid to local production on two points:

- modulation of the CAP (adapting the conditions of eligibility, reviewing the level of additional aid, adapting quantitative limits, etc);
- guaranteeing that products will be marketed (improvement of the competitiveness of local production, aid for local or external marketing, etc).

Each state, it should be noted, has composed a list of tangible demands on the products which concern each region.

Lastly, the requests also cover structural derogations. The structural derogations of the Posei were done away with under the reform of the funds because of the flexibility of the new regulation (1257/1999). Only recital 53 of the "rural development" regulation refers to the specific needs of these regions, but there is no arrangement in the text of the regulation. Requests for flexibility, adaptation or derogations have been formulated by the Member States.

The Commission's reactions

While it is not possible to answer each specific request, the Commission can already give a timetable and a guideline for the examination and consideration of these requests.

In response to these requests, the Commission will in 2000 submit reports on the implementation of the agricultural strands of the Posei programmes in these regions since 1992 and proposals to amend the Council Regulations establishing them where this appears necessary. The requests will have been assessed when the achievements were examined and will have been processed in conjunction with each of the three Member States.

In formulating its answers, the Commission will seek to consolidate and adapt the *acquis*, and will look into ways of improving the current agricultural framework for these regions, albeit always within the constraints of the appropriations available under the financial perspectives.

In the case of the specific supply arrangements, the list of products covered will have to be reviewed for each region as a function of changing needs, as will the quantities of products needed to cover the increase in local requirements and the conditions of the SSA when the products are processed.

An examination will be made of the resources mobilised to meet the objectives of the supply arrangements to offset the additional costs of supplying the regions and reduce prices by stimulating competition between the sources of supply.

Measures for agricultural products cannot be fully effective unless they are adapted to local circumstances and coherent both internally and with the SSA. A scatter-gun approach is useless: the measures should reflect an integrated development strategy.

Agricultural production support measures which have proved unsuited to regional circumstances need to be examined in order to make them more attractive and more effective. The specific conditions of eligibility for measures should receive particular attention, as should the level of aid and the quantitative limits for products having a low rate of supply. An examination will also have to be carried out of the conditions of application of the CAP in the different sectors in order to check the extent to which, and keeping an open mind, derogations might prove necessary.

Where necessary, consideration should be given to the implementation of new measures to take account of special local features and needs whilst complying with the Posei objectives. Such agriculture is facing the globalisation of its economic environment and its main products are exposed to competition from similar products from neighbouring countries (ACP, overseas territories, developing countries) which enjoy favourable social costs and other conditions of production. They are exposed to competition both on their own local markets and elsewhere in the Union, where products from non-member countries enjoy preferential rates of duty. This situation requires vigilance and greater monitoring.

Regular monitoring and, where necessary, the rapid adjustment of these measures may be required to respond to developments in the CAP or the international context which have an effect on these types of agriculture.

It will be important to ensure that management of these arrangements is simplified and that they are made more transparent without impeding their monitoring and control.

As part of Community production, local production in these regions will be concerned not only by the agricultural aspects of the POSEI programmes but also by the forthcoming reforms of market organisations, particularly those for rice, sugar and bananas. The impact of these reforms on the agriculture of these regions will have to be considered.

Requests concerning structural derogations will be examined at single programming document (SPD) or operational programme (OP) level in order to ascertain what the actual problems are, what specific features need to be taken into account, and any solutions that need to be introduced.

2. FISHERIES

Because of the role it plays in the local productive fabric, the fisheries sector is of the utmost importance for the socio-economic development of the outermost region.

In terms of their economies, this sector generates a variety of activities providing work for a large section of the population, particularly through family businesses. These activities represent existing experience in the sector and none of the regions offers many alternatives in terms of diversification of employment. The fisheries sector includes a wide range of activities related to the trade: catching, processing, marketing, and distribution and consumption. Stress should be placed on the prospects likely to provide an adequate response to the needs of the sector.

The Commission has now embarked on the process of considering the adjustments to the common fisheries policy required by the 2002 deadline. It hopes to make use of this deadline to promote a broad discussion on the improvements which should be made to the various aspects of the common fisheries policy so that it can cope with the challenges it faces.

In view of the new Treaty provision on the outermost regions, the Commission will look closely at the different strands of the common fisheries policies in the light of the specific measures already adopted. It will in 2001 propose suitable adjustments to the measures in force and may, if need be, propose specific new measures for the outermost regions.

As regards more specifically the requests contained in the memoranda submitted by the Member States:

- the arrangements for offsetting the extra costs incurred in selling certain fishery products work very well and in 2000 the Commission will, once it has made an evaluation of the arrangements, put forward proposals to extend them;
- proposals specifically concerning the fleet could have consequences for the sustainable use of resources and therefore warrant a cautious approach;

- the proposal on the possibility of re-shipping products which have benefited from temporary suspension of import duties needs to be examined very carefully considering the scale of activity in the waters in question (the Canaries), the quantities landed and the fact that the products covered by the current arrangements involve a broad range of species;
- lastly, research is a vital part of any policy on the conservation and management of resources and the feasibility of Community funding will depend on the overall budget which will be defined by the Council for this area.

B. GIVING A FRESH BOOST TO THE ECONOMIES OF THESE REGIONS

1. THE INSTRUMENTS

a. Structural funds

It should be recalled that the whole of the regional and structural policy of the European Union is a response to the specific handicaps facing the outermost regions. This approach is in line with Articles 158 and 159 of the EC Treaty, which set the goal of "economic and social cohesion" and give regional policy the aim of reducing the gaps in development between the least developed regions of the Union and the rest. Financial assistance from the Union therefore makes a major contribution to establishing development strategies in all the regions.

For the period 2000-2006, as in the two previous periods, 1989-93 and 1994-99, the outermost regions are eligible under Objective 1. Eligibility under Objective 1 guarantees these regions a substantial financial contribution from the European Union, since almost 70% of assistance from the Structural Funds will go to such regions during the new programme period. Such funding reflects the desire to concentrate the Community effort on the least developed regions. Eligibility under Objective 1 also has the advantage that the regions concerned can benefit from the broadest possible scope for eligibility under each of the Structural Funds, including, for example, education and health under the European Regional Development Fund, and higher rates of part-financing. For the future, the Commission intends to consider what would be the best way of reflecting the special situation of these regions - which is recognised by Article 299(2) - in terms of eligibility for the Structural Funds.

The new guidelines laid down by the Commission for the structural measures and regional policy for the 2000-2006 programming period are of particular relevance to these regions, especially in terms of:

- the quest for high level of competitiveness as a condition for growth and development; this presupposes a balance between provision of the main items of infrastructure and direct aid to the development of the productive sectors;
- the quest for sustainable agricultural and rural development which takes account of the needs of these regions arising from their geographical location and specific handicaps;
- the prospect of sustainable development with priority given to the preservation of the environment in regions characterised by island location, small size, and in one case, the sensitivity of the ecosystem of the Amazonian forest. There more than elsewhere there must be a constant search for balance between the development required for economic activity which creates jobs and the constraints of the local environment;
- the strategic priorities of the policy on employment and human resources in regions which usually suffer from strong demographic pressure, a high rate of unemployment (among the highest in the Union) and the need to adjust skills to opportunities in the economies of each region;

- the crucial role of small firms in island and isolated economies where the constraints on production and the small size of local markets restrict profitability. Here it would appear desirable to make use of all the resources for financial engineering permitted by the regulations governing the Structural Funds, as detailed in the SEM 2000 datasheets. This should provide a response to the pressing needs for finance which have surfaced in these regions over the past 10 years.

For the outermost regions, these guidelines should be supplemented by better local geographical integration through regional cooperation (see below). Expanding the economic horizon of these regions is one of the keys to their future development. A response to these concerns should be sought in strand B of the INTERREG III Initiative, which opens the way to multinational strategic reflection. The SPDs/Programmes to be adopted under Objective 1 will permit regional cooperation with neighbouring countries in each geographical area concerned. There should be much greater attention than in the past to ensuring that economic development has a place in the content of these measures. Strand B includes specific areas for cooperation among the outermost regions with priorities which take account of their special features.

As regards the implementation of the Structural Funds Regulations, and bearing in mind the requests put forward by the Member States in their memoranda, consideration will be given to the following points:

- increase in the seven regions in the Funds' contribution to investment in SMEs from 35% to 50%;
- equal treatment for all seven regions through extension to the four French regions of ceilings to Structural Fund assistance equal to those applying to the outermost regions eligible under the Cohesion Fund: 85% instead of 75% throughout Objective 1.

In addition, when it comes to prepare and negotiate with the Member States concerned the Community support frameworks (CSFs) and single programming documents (SPDs) for the seven outermost regions, the Commission will, in accordance with the guidelines it adopted for the 2000-2006 period, introduce and consolidate financial arrangements for companies, particularly financial engineering arrangements such as risk capital. It will also promote and support craft industry, develop projects for energy savings and the production of renewable energy, set up projects for the environment, and develop transport and energy networks.

This could also be the time to consider financial intervention to further the prevention of natural disasters (e.g. upgrading to storm-resistant standards) in order to safeguard the durability of major infrastructures and productive investment, and in order to help to repair these in the event of natural catastrophe.

b. The loans of the European Investment Bank

On the loan instruments front, there should be more extensive use of individual loans from the European Investment Bank (global loans intended for SMEs are handled in point 2) to finance productive investment in the public and private sectors. It should be stressed that the EIB devotes over 2/3 of its financing to projects located in the less advantaged regions.

In addition to the traditional sectors (infrastructure, transport, etc.), the EIB has in recent years broadened out the eligible sectors. Education, health, the natural and urban environment

(waste treatment, water management, etc.) are examples of sectors eligible for loans and in which the outermost regions have substantial needs.

In addition, the EIB is also active in funding projects for the rational use of energy. The Bank's interventions in the renewable energy sector (solar, wind, geothermal, etc.) would contribute to make good the energy shortfall in the outermost regions.

The extended reimbursement periods (5-12 years in the case of loans for industrial and commercial activities, and 15 and even 30 years for infrastructure funding) and the periods of grace (3-6 years) are a very considerable advantage. Furthermore, the significant fall in interest rates in recent years should boost use of these loan instruments. Nevertheless, it is as well to remember that the loans have to be applied for (by way of comparison, it should be noted that EUR 34 million of loans were granted by the EIB to the ACP countries of the Caribbean in 1998, while no operation was signed in the French overseas departments of the region).

c. State aids

State aids in sectors other than agriculture, fisheries and transport

The adoption of the new Article 299(2) is a strong signal and the Commission is accordingly determined to take the utmost account of it on the basis of Article 87 of the EC Treaty.

The present Community framework, which is in the same spirit as that established by the Amsterdam Treaty, has already proved flexible and adaptable to the special circumstances obtaining in the outermost regions.

This is clearly illustrated by the wide-ranging measures to encourage development in these regions, targeted on businesses by the European Union, the Member States or the regions themselves.

The Commission will therefore in the coming weeks **amend its guidelines on State aids for the regions** on two essential points.

Firstly, the granting of operating aid which is not digressive and is not limited in time will be feasible in the outermost regions eligible for regional aid when this aid is intended to reduce the additional costs arising in the pursuit of the economic activity from the handicaps identified in Article 299(2). The proposals for aid will be examined on the basis of the level of development achieved and the way in which they contribute to the future development of the region. The evaluation of the handicap, which is a matter for the Member State, and the examination of the aid envisaged could take account of the specific features of certain economic sectors.

Secondly, and so that all the outermost regions can benefit from this new possibility, the benefit of the derogation 87.3.c of the Treaty will be extended to them by virtue of their being an outermost region, but in full respect of the national population ceiling.

The Commission has carefully studied the **other requests** formulated in the memoranda of the Member States and the regions.

Certain requests seem to contradict the current policy of Community control of State aid based on proportionality of the aid authorised as a function of the relative development lag of the region (proposal for automatic qualification for derogation 87.3.a for the outermost

regions) or of the size of the company (in this case, the risk is that the broadening of the definition of SME could end up giving an advantage to the branches of major groups), and have as a consequence been rejected. Other requests have failed to convince the Commission that the link with the characteristics of an outermost region as defined in the new Article 299(2) is close enough to warrant separate treatment of these regions (e.g. request for consideration for the specific condition of outermost region in all the Community texts on State aid, specific conditions for notification). Lastly, the Commission will examine in greater detail certain requests (e.g. the maintenance of the activities of the French Development Agency or the system of offsetting the extra costs of transport to the Azores) before taking a final decision.

State aids to agriculture

In November 1999 the Commission adopted new guidelines on State aids in the agriculture sector. These have been in force since 1 January 2000 and include specific provisions on State aids in the outermost regions.

Since approval for certain types of operating aids for these regions is a recent development in the context of the policy approach to agricultural State aids, consideration should be given to inserting an appropriate legal basis to amend the current Posei regulations to take account of the specific handicaps of these regions.

State aids to the fisheries sector

The special features of the outermost regions have already been incorporated in the provisions on the Structural Funds by authorising higher State aid rates in this sector. When revising the guidelines for examining national aid in the fisheries and aquaculture sector, the Commission will consider whether any further specific provisions are required.

State aids to transport

The financing of transport infrastructure

The Commission generally considers that the public funding of infrastructure open to all current and prospective users is not an aid within the meaning of Article 87(1) of the Treaty. This approach should nevertheless take due account of recent trends in the transport market, characterised in particular by the persistent trend for the number of private operators to increase. It cannot therefore be ruled out that the public funding of a transport infrastructure can give a direct or indirect competitive advantage to one or more companies and may thus constitute an aid to them. When it comes to examine infrastructure situated in an outermost region, the Commission will accordingly take the utmost account of how compatible the measure is in relation to the rules governing State aids and of how positive the impact of this infrastructure is on the development of the region.

A consistent and global approach to transport aids

The rules applicable to State aids already make provision for taking account of the needs of the outermost regions.

Article 87(2)(a) of the Treaty enables the Commission to authorise measures to provide residents in the outermost regions with cheaper air and sea connections between these regions and the Member State in question and between the islands of the archipelago.

As mentioned earlier, the regional aid framework authorises the offsetting of the extra transport costs which hamper the development of local industries.

The application of these arrangements nevertheless has limits. It is impossible, for instance, to benefit from transport investment aids in these regions under the regional aid framework, and in the absence of a *de minimis* rule in this sector notification has to be given of all aid measures in the transport sector.

The permanent structural handicaps of the outermost regions need a consistent overall approach to aids to transport to, from and in these regions for the air, sea and land sectors. The Commission is accordingly looking at the feasibility of a sectoral structure specific to the outermost regions.

d. Taxation

Indirect taxation

Article 299(2) replaces former Article 227(2) of the Treaty. Commitments based on that Article therefore remain valid.

The new Article 299(2) of the Treaty authorises measures in favour of the outermost regions in the field of taxation as long as the requests are justified in view of the region's handicaps.

The Commission is examining the future of the fiscal measures applicable to the outermost regions on the basis of the requests contained in the memoranda submitted by France, Spain and Portugal.

It feels that in each case the instruments most appropriate to the regional development and support of these regions should be sought, including by fiscal derogations, possibly with provision for application on a long-term basis. However, this would not be a substitution for a specific evaluation of requests, in line with the procedures in force. The requests must be processed in conjunction with each of the three Member States in an open spirit of co-operation and pursuant of the objective defined in Article 299(2) of the EC Treaty. In each case, the measures proposed should be the most appropriate for attaining the objectives defined in this provision of the treaty. This was the basis for examining the fiscal strand of the three memoranda and for envisaging a response to the specific requests.

France's requests and the Commission's reaction

France asks that the system of dock dues which will expire on 31 December 2002 be maintained, given the economic and social situation of the overseas regions.

France also requests the maintenance of the specific fiscal status of her overseas departments whereby these departments remain outside the field of application of the sixth Directive establishing the common VAT system.

Lastly, France is asking for an extension of the fiscal regime applicable to the traditional rums of the overseas departments on the French market and which is due to expire on 31 December 2002.

France basis its arguments on the persistence and even the worsening of the handicaps which prejudice the economic development of the overseas departments.

With regard to dock dues, authorised by a Council Decision of 22 December 1989, this measure has up to now been considered as an instrument of development. Indeed the Commission on 24 November 1999 adopted an interim report which was forwarded to the Council and the European Parliament, describing the system of dock dues and observing that these dues are an essential instrument for the maintenance of the level of development in these departments. It should nevertheless be pointed out that the application of the Council Decision of 1989 has given rise to procedural problems which have prompted the Commission to enter into negotiations with the French authorities with a view to adopting a code of conduct covering the procedure to be respected when submitting notifications. This project has not yet come to fruition.

Article 3 of Decision 89/688/EEC of 22 December 1989 and the report of 24 November 1999 stipulate that in 2001 the Commission will submit a new report to the Council on dock dues, analysing the impact of exemption measures on the economy of the overseas departments and the way in which they contribute to promoting or maintaining local economic activities.

This evaluation should therefore be conducted in conjunction with the French authorities which could provide the Commission with the elements they used as a basis to formulate the request contained in their memorandum. The renewal of the dock dues will be considered on the basis of the criteria of need, proportionality and the detailed nature of the measures adopted. In the light of the conclusions of this evaluation, the Commission will submit an appropriate proposal to the Council.

As for the system applicable to the **traditional rum** of her overseas departments, France argues that the production of rum has, thanks to this measure in particular, safeguarded the situation and also contributed to maintaining the cane-sugar-rum trade, the importance of which in economic and social terms in the overseas departments makes the measure indispensable.

The French request has to be examined in relation to the steps taken on overseas departments' rum, particularly through regional policy financial instruments, the Poseidom agricultural measures and any additional measures implemented nationally. It is up to France to analyse the situation accurately on the basis of these elements.

Furthermore, the broader evaluation of the economic and social situation of the cane-sugar-rum trade should also take into consideration the conditions applicable to sugar in the overseas departments in the context of the market organisation of sugar

Generally speaking, France considers that the specific measures adopted for her overseas departments should henceforth be based on a long term footing rather than setting at the outset a cut-off date for their application, and that an evaluation arrangement should be introduced whereby at regular intervals and on the basis of pre-established criteria their impact on the economic and social development of the region could be gauged. This solution does not allow the adoption of appropriate measures at the Community level based on the temporary nature of fiscal derogations, but considering the need to create for the economic operators concerned a climate of security which is essential to the development of their activities, a protracted duration of the derogations will be envisaged along with evaluation reports to prepare the extension or adjustment of the measures.

Spain's requests and the Commission's reaction

Spain is asking that the existing fiscal measures for the Canary Islands be extended, i.e. an extension of the so-called APIM tax on production and imports, the IGIC (general indirect Canaries tax) and the special tariff for island tax applicable in this territory because of the exclusion of this territory from the common VAT system. Spain is nevertheless willing to envisage the introduction of a neutral tax which would take account of the need to achieve a certain level of development of production of goods in the Canary Islands.

In order to appreciate these requests, it should be remembered that the APIM tax is due to end on 31 December 2000. However, the Council Regulation of 13 December 1999 suspended the reduction of APIM rates and stipulates that before that date the Commission will examine with the Spanish authorities the impact of the suspension of the withdrawal of the tax on the economic sectors concerned, and, in particular, on the sensitive products belonging to the most vulnerable sectors covered by this regulation; these are products belonging to various foodstuffs sectors, tobacco, chemicals, paper, textiles, metalworking industries and other manufactured goods. The Council calls upon the Commission to submit to it if necessary, depending on the results of this examination, a proposal on the measures to be taken on the basis of the Treaty in order not to compromise the existence of certain local production activities which are particularly vulnerable, while ensuring in the long term the withdrawal of the tax in force.

There is no way this evaluation can be dispensed with. But it is also necessary to examine and if necessary implement the alternative proposal formulated by Spain, a proposal which is interesting but not set out in detail at this stage, and which envisages the introduction of a specific neutral tax which takes account of the development features of the Canary Islands.

At this stage there are therefore various options which could be gone into in greater detail in conjunction with the Spanish authorities. On this basis, the Commission will submit during the second half of this year an appropriate proposal.

Portugal's requests and the Commission's reaction

Portugal asks that the current reduced VAT rates for rum products and fruit liqueurs be maintained for the autonomous region of Madeira.

Portugal also asks that the reduced excise rates on fuel consumed in the region be maintained in order to offset the extra costs generated by the transport of fuel to the region.

For Madeira, Portugal is also requesting authorisation to apply rate reductions of upwards of 50% for rum produced in the region (claiming that the current reduction is not enough to guarantee the continued viability of rum production), for liqueurs based on subtropical fruits, and for rum-based Poncha and Macia.

The reduced rates applied by Portugal are an implementation of Article 12(6) of Directive 77/388/EEC on the common VAT system. As this measure comes under the sixth VAT directive which does not discriminate between imported products and local products, it is not the Commission's intention at this time to propose to amend or repeal it.

As it stands, Article 7(3) of Directive 92/84 authorises Portugal to apply, in the autonomous regions of Madeira and the Azores, reduced rates of excise duty not falling more than 50% below the national rates levied on the products covered by the Portuguese memorandum. The Commission is not against maintaining these reduced rates. However, as regards the

additional request to be allowed to apply reduced rates of more than 50% on rum, liqueurs based on subtropical fruits, Poncha and Macia in the region of Madeira, the Commission first needs more information before expressing an opinion. It therefore calls on Portugal to supply all the available material to back up its request.

The reduced rates of excise on fuel consumed in the region are granted on the basis of Article 8(4) of Directive 92/81/EEC and have been authorised until the end of 2000. The derogations granted in application of this arrangement are periodically reviewed and their extension is subject to the agreement of the Council. The Commission at present sees no reason to object to a fresh extension of this measure.

Direct taxation

The code of conduct for business taxation annexed to the conclusions of the Council meeting (Economic and Financial Affairs) of 1 December 1997 was designed to consider potentially harmful tax measures that might affect the location of business activity in the Community. The "Code of Conduct" group set up by the Council has considered some 250 business taxation measures that may fall within the scope of the code, including eight relating to the outermost regions.

Those eight measures were assessed in accordance with the provisions of the code, paragraph G of which includes the following guidance: "insofar as the tax measures are used to support the economic development of particular areas, an assessment should be made of whether the measures are in proportion to, and targeted at, the aims sought. In assessing this, particular attention will be paid to special features and constraints in the case of the outermost regions [...], without undermining the integrity and coherence of the Community legal order, including the internal market and common policies".

The Council is now examining the Group's findings, and developing its strategy: where it considers a measure potentially harmful, the approach may involve abolishing it, requesting the Member State to adjust it, or restricting its application. Depending on these results, it will be up to the Commission to decide on follow-up and guidelines.

e. Customs

As regards the Canaries, the Spanish authorities at the beginning of 1999 requested – a request reiterated in the memorandum – a general exemption from CCT duties on industrial products for the free zones and on raw materials for processing in these free zones, using it as a basis the measures previously granted to the Portuguese free zones. The only free zone set up is the port of Las Palmas.

This request has already met with a preliminary positive reaction from the Commission. At present, the Spanish authorities are examining what types of companies and industrial activities will in principle set up and develop in that free zone, in order to be able to subsequently determine the lists of products and raw materials which should benefit from the exemption.

In parallel with this, the Spanish authorities have just requested that certain products the raw materials for which have undergone processing, be considered as being in free circulation. The Commission intends to examine this request in the overall context of the previous request, i.e. on condition that the processing in question is carried out in the free zones and in accordance with rules to be established there.

In addition, the permanent maintenance of tariff exemptions on the importation of sensitive and ultra-sensitive industrial products for the internal market of the Canaries beyond the transitional period established for the gradual introduction of the CCT has also been requested by Spain.

Just as a reminder, these products currently benefit, in accordance with the provisions of Regulation 1911 and particularly Regulation 527/96, from a temporary suspension – and a more flexible phasing-in than for other products, of CCT customs duties for a transitional period which is to end on 31 December 2000, the point being to take account of the difficulties of certain processing and trade sectors. As things currently stand, the rates of duties applicable to the Canaries amount to 60% of the CCT rates for sensitive products, and 35% for ultra-sensitive products. The rates of duties applicable must be equivalent to 100% of the CCT rates as from 1 January 2001.

The Commission's view is that permanent maintenance of the tariff exemptions – the introduction of which is, moreover, at an advanced stage – would be detrimental to the consistency of Community law and the internal market insofar as the integral application of Common Customs Tariff duties in relations with non-Member countries is one of the essential pillars of the customs union.

Be that as it may, they are ready to study and envisage a limited extension of the tariff exemptions after examination on a case-by-case basis and provided that it is properly justified from the economic and social point of view, and proportional in relation to the objective pursued of full integration of this region into the Community.

The French overseas departments are put at a competitive disadvantage by their geographical proximity to the ACP States and to countries enjoying concessionary tariffs under the Generalised System of Preferences (GSP). Not only are products from neighbouring countries that undergo substantial processing imported into the Community, and thus into the overseas departments, under preferential arrangements; the overseas departments also have to face duties or quantitative restrictions when exporting their own products to their neighbours.

It should be possible under Article 299(2) of the Treaty to compensate for this extremely unfavourable situation by taking specific measures similar to those adopted for Madeira and the Azores. However, such measures are linked to the existence of free zones in the French overseas departments; at the moment, there is no free zone in operation in any of them.

Lastly, the measures taken in the Portuguese outermost regions (the Azores and Madeira), and which consist of general exemption from CCT duties for both products for the free zones and for raw materials for substantial processing in these free zones, and for which an extension has been requested in the Portuguese memorandum, will be examined by the Commission this year in order to determine their impact on the economy of the Madeira and the Azores archipelagos. Extensions, and possibly expansion, of the measures in question will be considered in the light of this examination.

2. THE STRATEGIC AREAS

a. Support for SMEs, craft firms and tourism

The Euro

The introduction of the Euro on 1 January 2002 will have several positive effects on the companies of the outermost regions. It will make public and private investment easier through a more transparent financial market and thanks to lower interest rates than in previous years. It is worth stressing that the cost of bank loans in certain of the outermost regions is far higher than equivalent operations in the respective continental territories. The introduction of the Euro will also favour the development of investment capital and capital flow to these regions. The Euro likewise will be a factor economic and monetary stability in relation to their neighbouring and competitor regions (Brazil, Venezuela, etc.) which have experienced severe monetary crises in the past.

On the trade front, the establishment of a Euro zone with a single currency with no exchange risks or conversion costs will stimulate trade between the outermost regions and all the countries of the Union. The Euro will for the same reasons bring companies in the tourism sector a comparative advantage in relation to the other destinations of the world.

As for the costs of adapting to the Euro, the Commission, in association with the Member States, will ensure that the outermost regions receive special attention in awareness raising and training campaigns in order to smooth over the switchover to the single currency.

In the case of the Island of Saint Martin, where the dollar is dominant, the use of the Euro and the trial of strength against the American currency should be monitored closely.

Financing

The significant fall in interest rates in the past few years and the extended reimbursement periods should boost use of EIB global loans by SMEs (particularly in the French overseas departments in the context of the abandoning of the rediscount mechanism resulting from the disappearance of the French Franc in due course).

Inadequate own resources and guarantees are major hurdles for the creation and development of SMEs in craft industries. There is therefore a need to continue efforts to consolidate financial resources through the use of financial engineering techniques and programmes (risk capital, mutual guarantee systems, etc.). The new regulation of the Structural Funds also encourages efforts in this direction.

The Commission, the EIB and the European Investment Fund have set up a programme (Amsterdam special action programme) to develop innovative companies⁵ or which are in a phase of rapid growth, through risk capital instruments (own resources and other forms of quasi-capital: subordinated loans, convertible loans, etc.). The "SME counter" appears well adapted to help diversification of the companies of the outermost regions which are

⁵ Considering the technology lag and the small scale of companies in the outermost regions, it would be wise to accept the criterion of innovation in the broad sense (innovation is anything which can contribute to improving the competitiveness of a company through improving its equipment, its manufacturing processes or its management, etc.).

excessively rooted in traditional activities. This programme also provides for guarantee mechanisms for the SMEs.

The EIB's overall loans and the risk capital operations have to be applied for by companies. They are concluded in cooperation with banks or specialised intermediaries. Increased knowledge and use of these initiatives by companies and the local financial networks is necessary. By way of comparison, it should be noted that EUR 27 million of global loans were granted by the EIB to SMEs in the ACP countries of the Caribbean in 1998, while the value of loans granted to SMEs in the French overseas departments of the region was only EUR 0.7 million during the same period.

A more favourable environment for the SMEs

In order to promote economic initiative and employment, the Commission intends to take steps to give the outermost regions the widest coordinated access possible to measures in favour of SMEs. Certain of these measures are described in the chapters of this report.

- The BEST action plan includes action to be taken by the Commission and by the Member States and is implemented in conjunction with the latter in order to improve the environment of companies;
- In the context of the Structural Funds, which provide support for national actions in the assisted regions of the Union, the Commission's guidelines call upon Member States to give priority in their programmes to the SMEs;
- There must be greater, and even exclusive, space for SMEs in other Community programmes, e.g.
 - R&D, ADAPT, Leonardo, MET-Startup, JEV, CREA, the e-Europe initiative, proposed by the Commission at the Lisbon Extraordinary European Council (23-24 March 2000)
 - The process, launched as part of the 'concerted actions', for exchange of experience and good practice on SME support policies and measures;
 - The multiannual programme for the SMEs (1997-2000) and the new multiannual programme for companies (2001-2005) which the Council should adopt by 31.12.2000.

The common denominator of all these initiatives is that they seek to achieve excellence in the policies targeting companies, particularly the smallest, through co-ordination mechanisms. The outermost regions are encouraged to use them.

The Commission also intends to promote better quality of SME support services and better access to these services for the smallest companies, something which is important for the companies of these regions.

The Commission has improved information on its programmes and feedback from companies, particularly through Community networks such as the Euro-Info-Centres, the Innovation Relay Centres and the European Enterprise and Innovation Centres (CEEI-BIC). It hopes to extend network cooperation and Internet use. In this connection, the recent creation of the "One-Stop-Internet-Shop for business" is particularly relevant for the SMEs of the outermost regions which would like to operate in the single market and thus mitigate the effects of remoteness.

Tourism

On the basis of a Commission proposal the Council at its meeting on 21 June 1999 gave new impetus to activities relating to quality and to sustainable tourism, which will certainly be of benefit to the outermost regions.

Future "direct action" in the field of tourism could involve, amongst other things, projects to promote the incorporation of best quality-management practice, covering also the

environmental aspects. Experience of such practice could be shared through an electronic *benchmarking* network.

“Indirect action” can provide a way of taking action under other Community policies, especially those concerning employment, regional development, rural development and the environment. In this connection, the guidelines for programmes for the period 2000-2006 recommend that the Structural Funds should support the development of sustainable and quality tourism through detailed planning incorporating economic, social and environmental considerations; they concentrate on the modernisation of infrastructure, the improvement of occupational profiles, encouragement for partnership, and efforts to avoid overcrowding in tourist destinations.

It is also worth mentioning work in progress on recommendations at Community level to promote sustainable tourism in the areas covered by the Natura 2000 network set up as part of the environment policy.

b. Transport

The geographical location of these regions means that transport has great strategic importance. Maintaining political, economic and social links with the rest of the European continent depends largely on air and sea links. In addition, the fact that most of these regions are part of the archipelago increases their dependence on the services. The extra costs of transport arising both from the remoteness of these regions and from the need to ensure regular services are also a major handicap to the economic development of local companies. Lastly, air and sea passenger links are key factors in the development of tourism.

The Commission feels that the specific handicaps of the outermost regions call for a global and coherent response. It will therefore take account of Article 299(2) of the Treaty to incorporate the remoteness of these regions in all the strands of the common transport policy which have an impact on the development of these regions. A common transport policy can no longer be regarded merely as a factor in the completion of the internal market and must also increasingly be considered as a key factor in regional and social development and the cohesion of the Union.

The Commission observes that certain aspects of the common transport policy are particularly important to the development of the outermost regions. These include: trans-European networks

Trans-European networks

The Treaty stresses the importance of the trans-European transport networks for improving access to the islands and outlying regions of the Union. Better integration of the airports and ports of the outermost regions in the trans-European networks is vital if the specific needs of these regions are to be met.

The Community guidelines for the trans-European transport networks already identified certain projects of common interest specific to the outermost regions with regard to airports. Road projects are not identified individually but are part of the TEN concept when they are essential for access to an airport or a port. The Commission's proposal for guidelines for the "ports" is currently being discussed by the European Parliament and the Council. Guidelines on the TEN are also examining projects for traffic management infrastructure and some relate

to the outermost regions directly or indirectly through participation in national or European systems.

The TEN guidelines and the identification of projects of common interest make it possible to steer towards these projects Community funding and financial intervention by the Member States and private operators.

In the outermost region where infrastructure needs are particularly great, Community funding comes essentially from the ERDF and the Cohesion Fund for the regions which are eligible.

The TEN budget heading is mainly used for actions on air traffic management infrastructures, particularly in the Azores and the Canaries (which are integrated into the project for a new national air traffic control system known as SACTA/FOCUS).

In addition, under the EGNOS (European Geostationary Navigation Overlay Service) project, Portugal receives TEN funding for the purposes of the RIMS (Ranging and integrating monitoring stations) for terrestrial observation stations of GPS (Global Positioning System) and GLONASS (Global Navigation Satellite System) satellite constellations. This initiative is used in particular to build up a demonstration installation in the island regions, the locations for which still remain to be established. In the long run, the development of the Galileo system will re-use these installations and will have a positive impact on the whole of the outermost regions by inter alia improving safety at sea and air traffic control on the routes linking Europe to these regions.

The Commission intends to review before long the Community guidelines for the trans-European transport and energy networks. This review will be an opportunity for the Commission to implement the policy priority it gives to projects for these regions when they reach a satisfactory stage of maturity.

Public service obligations

The common transport policy should provide an adequate framework for maintaining and expanding transport services (including those at local and regional level) which, while not necessarily yielding a profit in strictly financial terms, make a substantial contribution in socio-economic terms.

The need to ensure regular, continuous and frequent transport services to link continental Europe with the outermost regions and within those regions may justify the conclusion of public service contracts which impose on the operator obligations which he would not accept if he were motivated solely by economic considerations. The Commission considers that the reimbursement of operating losses resulting from public service obligations imposed on a carrier does not constitute aid within the meaning of Article 87 EC.

This is, for instance the case of air transport when the procedure described in Article 4 of Regulation (EC) 2408/92 is followed. However, due caution must be exercised in defining the level of air service required for the region in order to obtain the optimum effect on the regional economy in relation to the compensation needed to ensure this level of service.

As for the maritime sector, the Community guidelines on State aids for sea transport stipulate the criteria which must be met if the compensation resulting from meeting public service obligations are not to trigger the notifications required under Article 87(3) of the Treaty. If the Member States concerned opt not to put out a call for tenders, the Commission will check that

the compensation is not directly linked to the features of these regions, particularly their extreme remoteness and the need to ensure territorial continuity.

The Commission acknowledges how important the principle of territorial continuity is and to convert it into public service obligations. It will ensure that the rules of the common transport policy enable the Member States to maintain these obligations in full respect of the principle of freedom of provision of services.

c. Energy

The main thrusts of energy development for the outermost regions are:

- the development and modernisation of transport and distribution networks;
- the development of electricity generation using renewable energy sources, mainly wind and solar power;
- the promotion and development of energy efficiency and energy management;
- integration into the trans-European networks, if appropriate, by introducing natural gas (LNG terminal), and, possibly, the construction of undersea cables between the islands (depending on the distance and cost involved).

Oil

Specific Community assistance linked to remoteness was decided on when the Poseima programme for the Azores and Madeira was adopted. This is known as the “energy measure”. The measure compensates the two regions for the additional costs they incur for oil supplies.

However, it has not yet proved possible to continue the measure after 1994 for lack of dedicated funding (following the deletion of the Poseima budget heading) and because of the eligibility rules for the Structural Funds (under which it was considered operating aid, and therefore ineligible).

The Commission will look into the feasibility of co-funding from the Structural Funds, avoiding the funding of operating aid which would not be linked to specific investments for the development of new energies.

Gas

The isolation of the outermost regions limits the advantages of the liberalisation of the markets and the benefits of increased competition. A Community commitment is therefore needed for the economic and regional development of these regions whose geographical circumstances confront them with a number of natural handicaps.

In these regions bottled gas still plays a major role in final energy consumption because of the absence of alternative solutions. The liberalisation of the energy markets should therefore have a positive impact on prices to the final consumer thanks to greater competition at the supply stage.

While the long-term objective is to seek integration of the gas networks across the island and continental systems, it is nevertheless unlikely that the industry itself will pursue this objective, even in return for favourable financing conditions and despite the Community

interest, as long as conditions of economic viability are not met. Depending on what the market outlook is, providing financial help towards the construction of LNG terminals would appear to be the more realistic option at least for the near future.

Electricity, renewable energies and energy savings

The development and modernisation of electricity transport and distribution networks, and the connection to these networks of renewable electricity generation plants will continue to receive Community support, essentially through the ERDF.

A number of instruments exist to favour the deployment and integration of renewable energies, and the development of energy efficiency in the islands or isolated locations, and thus in the outermost regions. These are the Altener II, Save II programmes and the Fifth R&D Framework Programme (Energy Programme).

When the Altener II programme is reviewed, it might perhaps be possible to introduce a special mention on the outermost regions. Similarly, the Energy (R&D) work programme for the years 2001 and 2002 is currently being reviewed. This would be an opportunity to look at the feasibility of including specific references to the outermost regions in the new calls for proposals.

d. Environment

A central element of Community action for the outermost regions will be the protection of the natural environment and the improvement of people's quality of life. This will be done by applying the *acquis communautaire* on the environment, by the mainstreaming of environmental policy objectives in other policies, and by the creation of the requisite environment infrastructures (e.g. waste water and solid waste treatment facilities, soil conservation).

Preservation of the environment must take its place as one of the main priorities of economic development programmes being part-financed by the European Union in the outermost regions during the period 2000-2006. These regions, which are usually relatively small but very densely populated, have particularly fragile ecosystems. In one case, French Guiana, more than 80% of the area is covered by the Amazonian forest, which has again drawn the attention of the Community authorities. Tourism, which is crucial to the economies of all these regions, makes it essential to preserve and even improve their natural setting. It is important to try to devise economic development strategies which take account of environmental imperatives, and it is also vital for environmental protection to remain compatible with the human and physical resources of these regions, particularly their small size, their distance from continental Europe, and the additional cost of equipment.

In order to deal with the outermost regions' environmental problems as described in Part I of this document, the following measures could be financed by the Structural Funds:

- measures for the management of nature conservation areas, with a view to integrating them into the development process while safeguarding their special features;
- promoting the use of alternative sources of energy (solar and wind energy) on the basis of renewable energy plans;
- tourism plans adapted to available resources (regional planning);

- measures to encourage farming methods adapted to the climate and the land, combined with the aim of soil conservation;
- measures to combat erosion, with specific support for restoring plant cover and indigenous afforestation;
- regional planning, e.g. measures relating to buildings and other constructions acting as windbreaks to reduce sand blowing, or integrated and coordinated development of coastal areas (harbours);
- integrated sustainable development programme (in all sectors), in particular on certain islands declared to be world heritage sites; the experience gained could serve to establish models of island development; this approach is still possible, and should be considered for the outermost regions;
- waste treatment measures, in particular urban waste, special waste, dangerous waste (selective collection, treatment, transfer points);
- efforts to ensure a proper water supply, and to promote more efficient use of water for the various purposes to which it is put, through integrated management, action to combat waste, and economic use of treated water;
- encouragement for businesses to adapt to Community standards relating to public facilities, for example waste treatment and industrial equipment, particularly with regard to pollution emissions, by providing financial assistance (with due regard for the rules on State aids);
- organisation of pilot projects in the field of sustainable development, and encouragement of regional cooperation with neighbouring countries in each geographical area on subjects linked to the environment.

e. The information society

The development of the information society through the growth of telecommunications networks, multimedia services and technological innovation presents a real opportunity for the outermost regions. By reducing the barriers of time and distance, the new information and telecommunications technologies are helping to change their socio-economic environment, even though their feelings of isolation have not completely disappeared.

In order to seize that opportunity, those involved at local level, with the active support of the public authorities and private partners, must look at the needs that these new technologies could satisfy and devise measures to take advantage of the changes now taking place in the field of information in all areas of human activity.

Bringing the outermost regions into the information society would offset some of the handicaps caused by their geographical position and:

- in the social sphere, would allow changes in the fields of public information, health, education and training and culture;
- in the economic sphere, would permit the development of certain forms of teleworking and the creation of new service activities. Using electronic data transmission, a region can connect to and benefit from world markets, providing that

consideration is given to the whole information chain, including those aspects relating to electronic commerce and the reduction of freight costs. Steps must be taken to ensure the viability of the measures implemented, which must be based on local strengths and abilities. Reaching a wider market could increase the potential of traditional activities, such as tourism.

These few possibilities illustrate the potential for improving socio-economic conditions in the outermost regions, but they will only become a reality if local people are involved and given the necessary support from the public authorities concerned (in particular under appropriate European programmes dealing with this type of problem). In view of the weakness of most of the economies concerned, support must be given when new projects are implemented (infrastructures and services, training), but it is also important to ensure that communications tariffs are competitive with those paid by socio-economic players in the more developed regions and permit equitable access to markets.

Integrated, long-term pilot measures, involving local players and adapted to actual needs, must be implemented in all these regions. The aim must be to promote the spread of IT and telecommunications tools throughout the socio-economic fabric, where they can help create new services and activities and play a structural role in the development of the outermost regions, integrating them more closely and more effectively with the rest of the world.

The European Union is actively supporting the development of the information society by means of various instruments relating to promotion (the Promise programme), research and development (the IST programme) and the introduction of information technology in the regions.

A number of pilot projects are being implemented. These activities could be extended in the future to the outermost regions.

An initiative for Mediterranean non-member countries receiving funding under the Meda programme could also serve as an example. Under the programme, the Commission works in cooperation with designated focal points in each partner country and provides financing for projects in five priority sectors:

- communications and information technology in education, including distance learning;
- electronic commerce and economic cooperation;
- health networks (links between hospitals, remote diagnosis, joint databases, etc.);
- multimedia access to cultural and tourist resources;
- information and communications technology in industry and for innovation.

Participants in the projects will be grouped in consortia and include companies, universities, public authorities, hospitals, etc. in the Mediterranean countries and in Member States. These measures could be adapted for the outermost regions taking account, of course, of their particular needs and expectations.

Great emphasis has always been placed in these activities on dialogue and the exchange of experience, both before and during implementation.

In order to define needs and expectations, under the Promise programme or the IST research programme, and/or with support from the Structural Funds and the regional funds, we could:

- establish some form of systematic consultation between the Commission, the national authorities of the Member States concerned and the outermost regions (forum) to define priority needs;
- provide support for the creation of lightweight structures to disseminate information and act as catalysts and points of exchange for local initiatives;
- develop a network of contacts with other measures in these fields, such as digital cities, distance learning or other specific measures;
- draw up integrated pilot projects adapted to actual needs, involving those active on the ground (small firms, universities, hospitals, local authorities, etc.).

The aim must be to promote the incorporation of IT and telecommunications tools into the socio-economic fabric in order to develop services and new activities which can play a structural role in the development of the outermost regions, integrating them more closely and more effectively with the rest of the world.

f. Research and development

The substantial contributions from the Structural Funds to the outermost regions have allowed them to catch up to a certain extent in terms of their scientific and technological potential, and this must be continued.

In order to maximise the effectiveness of measures financed by the Structural Funds in the area of research, the Commission proposed the development, in partnership with the Member States and the regions, of integrated regional RTD and innovation strategies (communication entitled "Reinforcing cohesion and competitiveness through research, technological development and innovation"). The outermost regions will be able to benefit, in the same way as the Union's other less-favoured regions, from measures to disseminate information and, in particular, from access to the Commission's website, created to permit the exchange of best practices in the fields of RTD, innovation and economic development between the less-favoured regions and other regions.

The experience gained through the RIS (regional innovation strategies - Article 10 of the ERDF Regulation) and RITTS (regional innovation and technology-transfer strategies - an innovation programme carried out under the Framework Programme) pilot projects will be directly accessible to the outermost regions via the RINNO (Regional Innovation Observatory) database now being developed.

During the preparation of structural measures for the period 2000-06, in cooperation with the Member States and the regions concerned, the Commission will determine the best way of implementing the integrated regional RTD and innovation strategies in the outermost regions. The strategies should permit the closest possible participation of those regions in the Community Framework Programme on RTD.

C. THE INTERNATIONAL ENVIRONMENT AND REGIONAL COOPERATION

Owing to their geographical position in the Caribbean, the northern edge of South America, the eastern Atlantic in the vicinity of the African coast, and the Indian Ocean, the outermost regions are situated close to third countries tied to the European Union by association agreements (e.g. ACP, Morocco, Mexico, South Africa) or independent preferential arrangements (e.g. Latin America). The integration of the outermost regions within their overall regional geographical context is one of the conditions for their economic development. The similarity of many types of agricultural and artisanal production with activities in neighbouring countries may pose certain problems of competition for these regions, as a result of differences in wage levels, although the same situation may also provide scope for cooperation in the search for outlets. There is also the problem of access for the products of outermost regions to the regional markets in their geographical areas.

The Commission therefore remains committed to encouraging regional cooperation between its outermost regions on the one hand and the ACP countries and overseas countries and territories (OCTs) on the other hand. This commitment is already found in the Lomé Convention and its successor, the ACP-EC Partnership Agreement, as well as in the OCT Association Decision. This dimension also constitutes a priority of the Interreg III initiative, strand "B", for the period 2000-2006. In more concrete terms, simultaneous operations under the European Development Fund and the European Regional Development Fund are a possibility. The Commission is prepared to examine and support pilot projects submitted to it. It notes that the environment, research and technological development, energy and telecommunications have been mentioned as areas in which regional cooperation is considered to be particularly important. The same applies to cooperation with other countries, especially in Latin America. The Commission is also in favour of its outermost regions participating in the various regional cooperation organisations, in line with the regions' own wishes.

In the past regional cooperation has been one of the priorities of the programme covering the French overseas departments, but not of those for the Canary Islands, the Azores or Madeira. Nevertheless, the Commission is quite open to the development of the regional cooperation strand for the outermost regions of Spain and Portugal.

In general, it is important for regional cooperation with the neighbouring countries to be based on the situations of the outermost regions. Up to now, most of these regions' trade has been between them and their Member States. The same is doubtless true of investment. In future, what is needed is a more open approach to neighbouring countries or territories, even if this is bound to pose problems in the regions concerned, particularly in terms of labour costs and migratory movements. But it is essential to give the outermost regions a greater presence in their geographical areas.

What we should remember is that the trade situation in the outermost regions will evolve in line with the current process of economic integration in their geographical areas, and the resulting impact must be regularly assessed. The signing of economic partnership agreements between the European Union and the ACP countries, for example, can progressively open up the ACP markets to the outermost regions. In the meantime, the Commission is inclined to have an independent analysis carried out of the impact of the ACP-EU Partnership Agreement on the outermost regions. This would respond to the requests made by the Member States and regions concerned.

Against this background, the report adopted by the European Parliament on relations between the Overseas Countries and Territories, the ACP States and the ultraperipheral regions of the European Union advocates that "*in trade matters, local arrangements be made for the reciprocal opening up of ACP/OCT/ultraperipheral region markets, so as to boost and strengthen regional integration and thus facilitate, in due course, the gradual transition of the region as a whole towards the establishment of free trade with the entire Union*". At the same time, the Community must respect the obligations entered into through the World Trade Organisation. At first sight, a making a distinction between the trade arrangements applied by outermost regions and those applied by the Community itself seems incompatible with the integrity and coherence of the customs union. At the same time any preferential treatment granted for trade with a neighbouring country of an outermost region, in the absence of an economic integration agreement in the WTO sense or of a waiver, should be regarded as incompatible with the WTO's fundamental principle of non-discrimination, unless the same preferential treatment is also granted for trade with any other trading partner which is a member of the WTO. However, the Commission is prepared to examine these matters together with experts from the Member States and the outermost regions themselves.

The European Union's possible future action in this field will therefore follow two main lines of approach:

- regional cooperation: it will be necessary to encourage cooperation between the outermost regions on the one hand, and the ACP countries, OCTs and other partners on the other hand. Cooperation should be achieved, in particular, by simultaneous action under both the European Regional Development Fund and the European Development Fund, as well as by using other financial resources available under cooperation or association agreements; the Commission is also keen to encourage the outermost regions to play an active part in establishing cooperation structures in the geographical areas in which they are located;
- the international environment: it will be necessary to analyse the possibilities and questions connected with ongoing economic integration within the geographical areas in which the outermost regions are located; the Commission is inclined to have an analysis carried out of the impact on the outermost regions of the new ACP-EU Partnership Agreement, in order to draw up any appropriate compensatory measures for producers in those regions.

CONCLUSION

This report, and the memoranda presented by the Member States and regions concerned, show that the action taken so far by the European Union in favour of the outermost regions has produced solid results, with considerable support for socio-economic development. They also show that the method devised ten years ago and used for the Posei programmes adopted by the Council in 1989 and 1991 was the right one. In the face of ongoing handicaps, it must therefore be maintained.

However, in a European Union which is now preparing itself for the important changes that enlargement will bring and which is facing the challenge of globalisation, such action must be better targeted, more flexible and more effective. The new Article 299 (2) is an important political lever in this connection. The three action programmes (Poseidom, Poseima, Poseican) will continue to play an essential role in the light of the new Article.

On this basis, the Commission will develop the measures described in Part II of this report, and will present the Council with proposals in the course of 2000. It will ensure **continuity** where existing measures are extended. Where **permanent** measures are not possible, it will endeavour to ensure the **long-term** nature of the proposed measures, subject of course to regular checks. Each year, it will also draw up a **programme** of initiatives planned with regard to these regions. The Commission's proposals with budgetary implications will receive special attention, pursuant to Article 299(2), under the financial perspective included in the interinstitutional agreement of 6 May 1999.

In order to respond to the constant changes in Community and international circumstances, the Commission will endeavour, wherever it proves necessary, to adapt the policies laid down under the Posei programmes.

It is determined to continue the **partnership between the Commission, the Member State and the region**, in accordance with the principles laid down in the Posei programmes, when preparing new initiatives. Furthermore, in order to ensure an ongoing and comprehensive dialogue between the Community institutions and the outermost regions, an overall partnership meeting could take place on a regular basis, for example once a year, to permit a broad exchange of views on all the issues affecting those regions.

Finally, the Commission has taken steps to ensure that its **internal organisation** is able to deal effectively with dossiers relating to the outermost regions. These dossiers involve nearly all the Members of the Commission and nearly all the Commission departments. However, there is also a need for effective coordination, sustained effort and contacts with the central and regional authorities concerned. This was true in the past and will be even more so in the future, because of the global approach that follows from Article 299 (2). This is where the **interdepartmental group responsible for these regions** comes in. It has proved its worth, and the Commission wants it to continue and intensify its work.

One point in particular should be stressed. The Commission will not just examine individual requests concerning these regions; when considering any new Community legislation, it will first look at whether there are any **issues affecting the outermost regions** which require attention. In fact, in connection with each and every policy, consideration should be given to the possible implications, whether direct or indirect, positive or negative, for these regions. The Commission, and particularly the interdepartmental group, will ensure that this is done.

The future of the outermost regions will be determined, to a large extent, by the success of the strategy proposed in this report. However, this success will also be of considerable importance for the European Union as a whole, which will thus have proved its ability to deal successfully with one of the most complex challenges existing within it.

ANNEXES

ANNEX I - MAIN MEASURES TAKEN SINCE ADOPTION OF THE POSEI PROGRAMMES

REGIONAL POLICY - STRUCTURAL FUNDS

	FOD*	CANARY ISLANDS	MADEIRA	AZORES
Financial assistance under Objective 1 89-93/94-99/2000-2006	X	X	X	X
Financial assistance under Regis I and II 89-93/94-99	X	X	X	X
Financial assistance under Interreg IIIB 2000-2006	X	X	X	X
Financial assistance under Leader and Equal 2000-2006	X	X	X	X
Financial assistance under the Cohesion Funds 94-99/2000-2006		X	X	X
Community assistance limited to a maximum of 75 %	X			
Community assistance limited to a maximum of 85 %		X	X	X
Grant per inhabitant increased from 25 to 100% compared with the average for the Objective 1 regions	X	X	X	X
Definition of specific regional cooperation zones under Interreg IIIB 2000-2006	X	X	X	X

* French overseas departments.

AGRICULTURE⁶

MEASURES	FOD	Canary islands	Madeira	Azores
COM⁷				
Bananas (Council Reg. 404/93)	X	X	X	
Sugar (Council Reg. 2038/99)	X		X	X
Pineapples (Council Reg. 525/77)	Martinique			
Rice (Council Reg. 3072/95)	French Guiana			
AGRICULTURE STRAND, <i>Posei</i>	Council Reg. 3763/91⁸	Council Reg. 1601/92	Council Reg. 1600/92	Council Reg. 1600/92
DEROGATIONS				
Non-application of customs duties to a tobacco quota (20.000 t)		X		
Non-application of regional ceiling, individual premiums, density factor (cattle)	X			
Milk production aid, non-application of quota	X			
Non-application of vine grubbing and distillation		X	X	X
Regional aid authorisation, tobacco		X		
Limitation (April/October) on potato entries (end of 1999)		X		
Non-application of co-responsibility levy on cereals		X		
Structural derogations (5a)	X	X	X	X
ADDITIONAL AID				
Aid/ha tobacco production				X
Additional aid	X	X	X	X
Premiums for adult male cattle and dairy cows				

⁶ In the case of temporary measures, their expiry date is given in parentheses, in bold.

⁷ COMs which specifically concern the outermost regions, either in terms of the type of production or because they contain a specific adaptation to these regions, are noted here in order to present an overall picture of how the CAP has been adapted.

⁸ As amended by Council Regulation No 2598/95.

= (EUR 50/head)				
Additional aid for sheep and goats (= diff. heavy/light lambs)		X		
AD HOC AID				
SSA (Specific supply arrangement)	X	X	X	X
Animal feed supply aid for French Guiana	X			
Supply of breeding animals	X	X	X	X
Supply of cattle for fattening (up to mid-1997)	X	X	X	
Possibility of traditional export/shipping	X	X	X	X
Additional aid for dairy cows (max. 78 000 head, EUR 40/head)				X
Aid for human consumption of dairy products		X	X	
Aid for private storage of traditional cheeses				X
Aid for the fruit, vegetables and flowers initiative programme	(end 95)	X	X	X
Aid for local marketing of fruit, vegetables and flowers	X			
Aid for the production of green vanilla and essential oils (vetiver, geranium)	X			
Aid for marketing to the EEC of fruit, vegetables and flowers	X	X	X	X
Aid for local processing of fruit and vegetables	X			
Study of the fruit and vegetable sector	X	X	X	X
Aid for pineapple production (EUR 1/kg)				X
Aid for sugar-cane restructuring and land improvement	X		X	
Aid for sugar-cane processing into rum or syrup	X		X	
Aid/ha beetroot				X
Aid for local processing of beetroot into white sugar (EUR 20/t)				X
Aid for ageing of desert wines (max. 20 000 hl/year)			X	
Aid for production of quality wines psr (= EUR 500/ha)		X	X	X

Aid for purchase of concentrated grape must and wine alcohol in EEC			X	
Aid/ha for production of potatoes for consumption (= EUR 500/ha)		X	X	
Aid/ha for production of seed potatoes and chicory (= EUR 500/ha)				X
Aid for marketing of seed potatoes to EEC				X
Aid/ha for rice production (mid-1996)	X			
Aid for marketing of rice from French Guiana (20 000 t)	X			
Aid for olive oil processing in the Canary Islands		X		
Aid for honey production (= EUR 20/hive, limit 5 0000 hives)		X		
Breeding aid for Réunion and Martinique (1996/2000)	X			
Logo	X	X	X	X
AD HOC / DEROGATIONS				
Plant health provisions	X		X	X
Veterinary provisions	X	X	X	

FISHERIES

	FOD	CANARY ISLANDS	MADEIRA	AZORES
Marine resources exploitation programme (statistics, oceanography and environment, thunnidae, demersals) – Dec. 92/448 (1992-93)			X	X
Setting up of aquaculture experimental centre – Dec. 92/448 (1992-93)			X	
Fixing of carry-over premium for sardines - Regulation 1674/92 (1992)		X		
Construction of oceanographic research ship – Dec. C(93)2032 (1993)				X
Contribution to the acquisition of equipment for this ship – Dec. C(93)3167 (1993)				X
Study of sea and land transport conditions for fishery products – Dec. C(93)3157 (1993-96)	X			
Enhanced aid system for producers' organisations – Reg. 1603/92 (1992-97)	X	X	X	X
Plan to promote wild tropical shrimps in French Guiana – Dec. C(93) 3157 (1993-96)	X			
Aquaculture programme (technology transfer and technical centre) – Dec. C(93) 3157 (1993-96)	X			
Study of fresh tuna market - Dec. C(93) 3157 (1993-96)	X			
Support for cephalopod marketing – Reg. 1658/93, 712/97 (1993-97)		X		
Study on a standard boat design – Dec. C(93) 3157 (1993-97)	X			
Study of the position of fish on the European market for exotic sea products – Dec. C(93) 3157 (1993-97)	X			
Temporary suspension of import duties on fishery products – Reg. 3621/92 (1992-2000)		X		

Compensation for the additional costs involved in marketing certain species – Dec. 92/448, 92/449, R. 1503/94, 2337/95, 1587/98 (1992-2001)	X	X	X	X
Acceptance of representative ports for prices – Reg. 1672/92		X		
Application of specific price for sardines – Reg. 1673/92		X		

TAXATION

MEASURES	FOD	Canary Islands	Madeira	Azores
Exclusion from the scope of the sixth Directive 77/388 establishing the common system of VAT (Article 3 of Directive 77/388/EEC and Article 4 of Regulation (EEC) No 1911/91).(1)	X	X	(1)	
Taxes on production and imports (APIM) and special import tariffs (Articles 5 and 6.4 of Regulation (EEC) No 1911/91, Articles 1 and 2 of Regulation No 2674/99, and Articles 1 and 2 of Regulation No 564/93) 31 December 2000		X		
Tax on production and imports Dock dues (Council Decision 89/688) 31 December 2002	X			
Reduced rates of duty on rum (Council Decision of 30.10.95) 31 December 2002	X			

(1) The regions subject to the common system of VAT apply reduced rates to certain categories of local produce.

CUSTOMS

MEASURES	FOD	Canary Islands	Madeira	Azores
Derogations				
Inward processing operations in free zones not subject to economic conditions (Article 173 of Reg. 2913/92)	X ⁹	X ¹⁰	X	X ¹⁰
Temporary suspension / progressive introduction of customs duties on certain industrial products (Reg. 1605/92 : end of 1996 - Reg. 527/96 : end of 2000)		X		
Non-application of antidumping measures for industrial products (Reg. 1602/92: up to end of 1996)		X		
Temporary suspension of customs duties on ECSC products (Dec. 92/319: up to end of 1995)		X		
Temporary suspension of customs duties on equipment for free zones (Reg. 1657/93: up to end of 2000)			X	X ¹⁰
Non-application of customs duties on products for processing in free zones (Reg. 122/96: up to end of 2005)			X	X ¹⁰
Non-application of quantitative restrictions on certain textile products (Reg. 1087/97)		X		

⁹ In practice, this measure is not applied as there are no free zones in this region.

REGIONAL COOPERATION INITIATIVES

INITIATIVES	OUTERMOST REGIONS	LEGAL BASIS
Study to select the main sectors for joint regional projects (EDF + ERDF financing)	Caribbean/French overseas departments in the Caribbean	Lomé IV <i>a</i> , Title XII Regional cooperation (more particularly Articles 156-158), cf. Annex XXXII ; [+ ERDF Regulation]
Regional programmes on tourism, the environment, fisheries and trade development (participation in management committees; provision of premises by Réunion)	Indian Ocean (IOC)/Réunion	Lomé IV <i>a</i> , Title XII Regional cooperation (more particularly Articles 156-158), cf. Annex XXXII
Study on the impact on Réunion of the negotiations for a free-trade area between the EC and South Africa	Indian Ocean/ Réunion	EC budget
Safeguard clause for outermost regions in the Agreement between the European Community and South Africa	All outermost regions	Council Decision No 1999/753/EC of 29 July 1999 concerning the provisional application of the Agreement on Trade, Development and Cooperation between the European Communities and the Republic of South Africa, Article 24(2), OJ L 311, 4.12.99
Caribbean Regional Indicative Programme (CRIP) of 1997 providing for coordination of ACP/ OCT/French overseas department economic policies and ACP/OCT/French overseas department measures covered by the EDF/ERDF respectively	Caribbean/French overseas departments in the Caribbean	Lomé IV <i>a</i> , Title XII Regional cooperation (more particularly Articles 156-158), cf. Annex XXXII
Cooperation between French overseas departments and Organisation of Eastern Caribbean States (OECS) (regular meetings)	Caribbean/French overseas departments in the Caribbean	Lomé IV <i>a</i> , Annex XXXII

STATE AIDS

List of “State aids” decisions concerning the schemes in force at 1 January 2000 or subject to the procedure for beneficial measures concerning regional schemes¹⁰

NAME OF MEASURE	FOD	CANARY ISLANDS	MADEIRA	AZORES
N 144/96 REF Canary Islands economic and tax scheme (up to 31 December 2006)		X		
N 708/98 ZEC Special Canaries area (up to 31 December 2006) ¹¹		X		
N 363/99 - French overseas department guarantee fund (up to 31 December 2006)	X			
NN 121/93 - Six tax measures (in the process of being re-examined)	X			
N 131/92 - Regional enterprise and employment fund (in the process of being re-examined)	X			
N 197/87 - Exemption from business tax in the French overseas departments (in the process of being re-examined)	X			
E 19/94 - Madeira free zone (in the process of being re-examined)			X	
N 394/96 - Measures to promote tourism – SITRAA (up to 31 December 2001)				X

¹⁰ When this table was prepared, certain schemes concerning Madeira or the Azores had been submitted to the Commission, but it had not yet made a decision on them.

¹¹ The Special Canaries Area (ZEC) came into effect on 1 January 2000.

EAGGF GUARANTEE EXPENDITURE 1992/1999 (EUR million)

Budget year	1992	1993	1994	1995	1996	1997	1998	1999	Average
Marketing year	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	98/99	1995-1999

Poseidom – French overseas departments

Expenditure	8.4	38.0	34.1	31.9	26.3	25.1	30.7	41.4	31
of which 1 830 crop products	8.4	37.2	32.2	30.2	23.7	17.3	20.9	29	24
of which supply		23.1	17.2	14.0	7.5	5.1	4	10.3	8
of which other aids		14.1	15	16.2	16.2	12.2	16.9	18.7	16
of which 2 510 animal products	0	0.8	1.9	1.7	2.6	7.8	9.8	12.4	7
of which supply		0	0	0.6	0.6	0.2	0.6	0.1	0
of which other aids		0.8	1.9	1.1	2	7.6	9.2	12.3	6
Appropriations entered in initial budget	45	47	50	35	61	49	34	45	
of which 1 830 crop products	42	45	47	31	48	36	22	33	
of which 2 510 animal products	3	2	3	4	13	12.6	12	12	

Poseima – Madeira and Azores Portugal

Expenditure	0.8	36	41.7	40	43.1	24.2	30.2	40.2	36
of which 1 831 crop products	0.8	27.9	26.9	22.7	16.3	13.8	14.3	15.5	17
of which supply		27.3	25.8	18.5	10.7	10	8.8	11.9	12
of which other aids		0.6	1.1	4.2	5.6	3.8	5.5	3.6	5
of which 2 511 animal products	0	8.1	14.8	17.3	26.8	10.4	15.9	24.7	19
of which supply		6.2	7.2	7.6	8.7	7.9	6.5	8	8
of which other aids		1.9	7.6	9.7	18.1	2.5	9.4	16.7	11
Appropriations entered in initial budget	11.5	55	55	55	58	46	36	40	
of which 1 831 crop products	1.5	33	34	32	34	25.2	18	21	
of which 2 511 animal products	10	22	21	23	24	20.4	18	19	

Poseican - Canary Islands Spain

Total expenditure	0	110.1	140.1	137.9	115.8	104.3	92.6	120.6	114
of which 1 832 crop products	0	30.1	43.8	44.2	30.9	34.8	25.8	37.7	35
of which supply		29.9	38.5	32.7	19.8	23.6	20.6	26.1	25
of which other aids		0.2	5.3	11.5	11.1	11.2	5.2	11.6	10
of which 2 512 animal products	0	80	96.3	93.7	84.9	69.5	66.8	82.9	80
of which supply		76.8	92.2	89.2	80.5	65.3	62.6	78.5	75
of which other aids		3.2	4.1	4.5	4.4	4.2	4.2	4.4	4
Appropriations entered in initial budget	9.5	216	217	215	147	117	104	106	
of which 1 832 crop products	1.5	91	89	95	52	40.8	37	38	
of which 2 512 animal products	8	125	128	120	95	75.8	67	68	
TOTAL EXPENDITURE			9	184	216	210	185	154	154 202
Total appropriations entered in initial budget			66	318	322	305	266	211	174 191

Non-execution	57	134	106	95	81	57	21	-11
% non-execution	86%	42%	33%	31%	30%	27%	12%	-6%