

Regulation, the Committee of the Regions would welcome the ability to include such assessment, monitoring and evaluation as eligible expenditure for co-financing by the Cohesion Fund.

4.11. The Committee of the Regions would urge the Commission to ensure that local and regional authorities are engaged at all phases of the Fund from priority setting to monitoring and evaluation.

4.12. Finally, given the procedures outlined in the regulation for amending both the Regulation and its

Annexes, the COR would like an assurance that amendments to the Annexes would not undermine the philosophy of the Cohesion Fund by introducing changes which will not be subject to a unanimous vote in the Council.

4.13. The Committee of the Regions calls on the Commission to revise the proposal for Council Regulation amending the Regulation establishing a Cohesion Fund together with the proposal for a Council Regulation to amend Annex II to this Regulation and, in so doing, to take account of the Committee of the Region's suggestions.

Brussels, 19 November 1998.

The President
of the Committee of the Regions
Manfred DAMMEYER

Opinion of the Committee of the Regions on the 'Communication from the Commission to the Member States on the links between regional and competition policy: Reinforcing concentration and mutual consistency'

(1999/C 51/04)

THE COMMITTEE OF THE REGIONS,

having regard to the Communication from the Commission to the Member States on the links between regional and competition policy: Reinforcing concentration and mutual consistency⁽¹⁾;

having regard to the decision of the Bureau of 15 July 1998 to draw up, in accordance with the fourth paragraph of Article 198c of the Treaty establishing the European Community, an opinion on the subject, and to instruct Commission 1 for Regional Policy, Structural Funds, Economic and Social Cohesion, Cross-Border and Inter-Regional Cooperation to prepare the Committee's work on the subject;

having regard to the draft opinion (CdR 236/98 rev.) adopted by Commission 1 on 30 September 1998 (rapporteurs: Mr Henry and Mr Muñoa),

at its 26th plenary session of 18 and 19 November 1998 (meeting of 19 November) adopted the following opinion.

PART A: GENERAL FRAMEWORK OF THE COMMUNICATION

1. Problem and possible solutions

1.1. Current situation

1.1.1. According to the Commission data, in 1994 to 1999 a total of 50,6 % of the population of the Union

lived in regions eligible for Community structural aid, while 46,7 % lived in areas covered by regional incentives under Article 92(3)(a) and (c). It also appears from the Commission's regional data that 6,6 % of the Community population lived in regions eligible under the Structural Funds where competition policy precluded the granting of regional aid, whilst 2,7 % of the Community population lived in regions which were covered by a national regional-aid scheme but were not eligible under the Structural Funds.

⁽¹⁾ OJ C 90, 26.3.1998.

The aim of the Commission proposal is to grant EU aid only where national aid is also granted. That 6,6 % of the population which currently lives in regions which are eligible for Structural Fund aid but not for national aid would no longer be assisted. The Commission wants to allow a margin of only 2 % of the population. The extent to which regions overlap varies considerably between Member States and regions (e.g. Finland 12,6 %, Netherlands 10,4 %, France 9,6 %, United Kingdom 9 %, Spain 8,9 %, Sweden 8,7 %, Italy 7,5 %).

1.1.2. The COR recognizes the need for a detailed analysis of the situation, with a view to achieving the objectives of regional and competition policy as efficiently as possible in the coming period.

1.2. *Objectives of the Commission proposal: concentration and consistency*

1.2.1. With regard to concentration, the COR agrees with the Commission that despite progress since the Community started to operate a regional policy, there are still important structural disparities within the Union. The COR therefore also agrees that, in line with the requirement of Article 130a of the EC Treaty for the strengthening of economic and social cohesion in the EU, we need to increase the concentration of Community part-financing if we are to reach critical mass and have a significant impact, and that among other things this involves identifying the regions in the Union which are most affected.

1.2.2. With regard to competition, concentration would help to limit the distortions brought about by national regional-aid schemes, in terms of the extent of the geographical area involved.

1.2.3. With regard to consistency, the regional and local authorities are aware that the current decision-making system is unsuitable. Various actors are involved in regional policy, sharing the various institutional responsibilities, with differing objectives and timetables, making it difficult to coordinate these two policies.

1.2.4. Moreover, bearing in mind that Structural Fund co-financing backs up the funds used by the Member States and the regional and local authorities for their own development policies, it would seem logical that the Structural Funds, particularly the ERDF should be able to intervene in all areas to which aid is granted by the Member States and regional and local authorities.

1.2.5. The problem arises in areas which benefit from Structural Fund assistance but not from state regional funding. In these areas it is possible to part-finance

schemes to assist small businesses and schemes dealing with the environment or research, at lower rates than allowed in areas eligible under Article 92(3)(a) and (c).

1.2.6. In such areas, the Structural Funds are not able to attract investment by major companies, even though this would be highly desirable in regional development terms because of the knock-on effects and access to world markets it would bring.

1.2.7. The Committee of the Regions considers that the reasons for seeking consistency are to be found in problems arising from the relocation of businesses and the distortions of competition which can be caused in certain circumstances by the granting of environmental or research aid.

1.2.8. The Committee considers that serious dysfunctions arise when sectors suffering from the same problems within a Member State, as in the case of the fisheries sector, receive discriminatory treatment with regard to state aid, in turn causing businesses to migrate to areas where a higher level of assistance is available.

PART B: DISCUSSION OF THE TWO POLICIES

2. Competition policy: state aid

2.1. The Committee of the Regions considers that maintaining competitive markets in Europe, apart from being an important objective, is also consistent with the predominant economic ideology, with the internal market programme, now complete, and with the single currency.

2.2. At the same time, the Committee of the Regions believes that competition policy is one of the very cornerstones of European industrial policy.

2.3. Thus the Committee of the Regions accepts the dual purpose of competition policy: to maintain rules consistent with the economic system chosen by the EU and to make minimum provision for intervention where essential, particularly when the Community economy is in recession.

2.4. Apart from maintaining these rules, the Committee of the Regions believes that another function of competition policy is to lay down a framework for the activities of economic operators and to provide incentives to those taking decisions on investment and strategy, in other words that it should be concerned more with 'allocation' than with 'distribution'.

2.5. State aid is justified by its contribution to the achievement of balanced and sustainable development, and to the strengthening of the Community's economic and social cohesion, either because these objectives cannot be achieved through the free play of the market,

because the cost would otherwise be intolerable, or because competition would otherwise intensify to a point where it would threaten to become self-destructive.

2.6. Article 92 of the Treaty allows state aid when aimed at serious regional imbalances, facilitating or accelerating necessary sectoral adjustment or to cushion the withdrawal from certain activities to neutralize, at least temporarily, certain distortions of competition caused by external action.

2.7. The Committee considers that state aid permits the equality of opportunity needed if the single market is to perform its resource allocation function. Once equality of opportunity is assured, market forces will come into play and only then can a judgement be made on the basis of results. It is in this field of judgement and analysis that structural policy operates.

3. Regional policy

3.1. The aim of regional policy is to help remove disparities between incomes which diverge from the Community average. Regional problems imply the existence of persistent, large-scale disparities between regions sharing the same economic system, in terms of variables such as per capita income, level of employment and productivity.

3.2. The Committee of the Regions is aware that Europe has a centre and a periphery, a combination of political decentralization and great diversity and considerable disparities between Member States and regions. This implies that private-sector economic operators enter into intra-European competition with very different handicaps.

3.3. The Committee of the Regions recognizes that the European system which is emerging, particularly with the single currency, will be characterized by great mobility of goods, services and certain factors of production mainly financial capital and a high degree of decentralization of political power; this will not however prevent the large-scale transfer of economic power from state to transnational level, which has been reinforced by the adoption of common rules for action. It appears however that the mobility of labour will not be complete.

3.4. On the other hand, it is undeniable that economic integration has had a considerable influence on the state-market interaction, with a major shift towards the latter as the mechanism for allocation. There is, the Committee feels, therefore a danger of the European model becoming more dynamic but more unequal.

3.5. The Committee feels that the basic aim of EU structural measures should be to guarantee long-term support to the regions with the greatest structural difficulties. For the least favoured regions, either in terms of GDP or unemployment, catching up is often a slow process requiring commitments over a long period.

3.6. The Committee of the Regions considers it necessary for the Member States, the Union and public entities at sub-national level to work together to combat inequality in accordance with the principle of partnership. Only in this way will it be possible to facilitate adaptation to new circumstances, including the single currency, and to exploit new opportunities to the benefit of all regions and citizens.

4. Final observations of the comparative analysis

4.1. The Committee of the Regions notes that neither the philosophy nor the principles of competition policy coincide with those of regional policy. It will therefore not always be possible to expect complete and absolute consistency between the intervention mechanisms of the two policies.

4.2. In seeking coherence between the two policies, account should be taken of the type of players involved in the two processes and of the public and private operators involved in managing them.

4.3. In designing regional policy, it should be borne in mind that the part of competition policy dealing with the monitoring of state aid has a direct impact on the active industrial policy instruments available to national and regional government. On the other hand, balanced economic development in the regions and economic and social cohesion are basic components of the European economic model. The right balance must therefore be found between competition and regional policy.

5. Conclusions

5.1. The Committee of the Regions endorses the proposal that the percentage of the population of the European Union eligible for structural assistance under the future Objectives 1 and 2 should be reduced from the figure of 51 % today to an overall figure which is smaller than the population coverage of regions qualifying under Article 92(3)(a) and (c). In this way consistency between Community regional policy and national, regional and local regional policy measures can be reinforced and the spending problems currently experienced by areas benefiting from Structural Fund assistance but excluded from national regional aid can be eliminated.

5.2. The Committee of the Regions wishes to avoid a situation arising whereby coverage for national aid automatically determines Structural Fund eligibility and coverage. This would represent a clear breach of the subsidiarity principle and compromise the ability of the Council of Ministers and European Parliament to take a broad view on the reform of the Structural Funds and eligible areas. As the COR indicated in the opinion drawn up by Mr Behrendt and Mr Fraga, the Member States must involve the local and regional authorities in the definition of areas eligible for regional aid.

5.3. The effort to achieve as much consistency as possible between competition policy and structural policy is welcomed. However, given the different objectives, the desired consistency may not — and cannot — be absolute. The existing regional differences within the EU and within the Member States require the necessary degree of flexibility.

5.4. The COR also endorses as consistent with their effort to achieve concentration, the proposal to reduce the ceiling for coverage of total Community population in the regions of the Union, in the period 2000 to 2006.

5.5. The reduction of the ceiling will mean some areas losing their eligibility for regional aid, once the reform enters into force. The Committee calls for a selective and rigorous approach to ensure that the objective of concentrating aid on the areas where it is most needed is actually achieved, avoiding any proportional reduction which would meet neither qualitative nor quantitative criteria. It must be ensured that the procedures for defining the regional aid areas proposed to the Commission by the Member States are transparent and objective.

5.6. The Committee of the Regions is in favour of greater concentration of aid and of progress towards greater consistency between structural and competition policy.

5.7. However, the Committee stresses that such consistency should be compatible with the maintenance of a certain flexibility, particularly in view of the fact that the two policies do not fully coincide.

5.8. The Committee considers that as 6,6 % of the EU population currently lives in regions eligible for Structural Funds but not for state aid, the margin of 2 % proposed by the European Commission would make it difficult to apply the flexibility principle mentioned previously.

5.9. The Committee supports the idea of two concentric circles representing the relationship between the regional distribution systems of regional and competition policy, as this will guarantee the Member States and regions a degree of flexibility in pursuing their regional policy objectives.

5.10. The Committee of the Regions believes that there are — by definition — differences in the two approaches to demarcating aid areas, thus making it difficult to have a perfect match between national and European assistance areas. The Commission will thus have to accept the fact that there are some exceptions.

5.11. The Committee recognizes that there may be conditions in which maintaining homogeneity in the areas for support, preserving the cultural and regional identity and maintaining the dynamism of areas producing economies of scale sufficient to ensure the progress and growth of the region may indicate a degree of flexibility or differentiated actions.

5.12. The Committee endorses the Commission's proposal that the areas covered by Article 92(3)(a) should be defined by applying the criterion of per capita GDP of less than 75 % of the Community average, and proposes a most remote area criterion and a low population density criterion, i.e. Objective 1 areas. As regards the new Objective 2, the Committee agrees that consistency needs to be established with Article 92(3)(c).

5.13. The Committee proposes that the most remote regions and current Objective 6 areas should be allowed easier access to aid, in accordance with Article 92(3)(a). In this way they would also be considered as Article 92(3)(a) regions, independently of their level of income, thus maintaining the objective of coordination proposed by the Commission in relation to the criteria for defining areas eligible for regional aid.

5.14. The Committee would refer to its opinion of 17 September 1998 on the draft general Structural Funds Regulation ⁽¹⁾ and point out that it welcomes the special attention paid to unemployment indicators and GDP in determining the ceilings for aid areas covered by Article 92(3)(c) in each Member State. It would, however, highlight the need, within these national ceilings, to make provision for sufficient flexibility to enable other indicators to be applied and thereby make it possible to take adequate account of country and region-specific conditions. Local and regional authorities should, at all events, play a part in the selection of these aid areas.

⁽¹⁾ CdR 167/98 fin — OJ C 373, 2.12.1998, p. 1.

5.15. The Committee of the Regions welcomes the proposal that areas currently covered by Article 92(3)(a) which lose their status for National Aid coverage, will be able to access 'transitional' State Aid support.

5.16. The COR also proposes that, in line with the principle of subsidiarity, the regions be assigned a greater role in the granting of Structural Fund aid and national regional aid. The regions can and must participate in the definition, management, evaluation and supervision of these measures, in partnership with all the players involved.

5.17. However, the Committee considers it essential that, in order to prevent excessive disparities or comparative injustices arising within a region, almost all of which is eligible for Structural Fund assistance, the regional government should be able to make the whole

of its territory eligible for support, making it possible to design and apply integrated regional development strategies for the whole region.

5.18. The Committee agrees with the Commission's proposal that regions losing their current status after 2000 as a result of the concentration effort will be subject to the provisions of each of the policies, with the guarantee that regions which continuing to benefit from transitional (phasing out) support from the Structural Funds will have to comply with the competition rules on state aid.

5.19. Provided that the process retains a certain flexibility and consistency, the Committee of the Regions endorses the Commission's wish that designations under both national regional-aid schemes and the Structural Funds should be adopted in time for them to enter into force on 1 January 2000.

Brussels, 19 November 1998.

*The President
of the Committee of the Regions*

Manfred DAMMEYER
