

Opinion of the European Economic and Social Committee on How to achieve better integration of regions suffering from permanent natural and structural handicaps

(2005/C 221/23)

On 27 January 2004, the European Economic and Social Committee decided, in accordance with Rule 29(2) of its Rules of Procedure, to draw up an opinion on How to achieve better integration of regions suffering from permanent natural and structural handicaps.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 19 January 2005. The rapporteur was Mr Barros Vale.

At its 414th plenary session of 9 and 10 February 2005 (meeting of 10 February), the European Economic and Social Committee adopted the following opinion by 80 votes, with no votes against and three abstentions.

1. Introduction and general comments

1.1 Identification and definition of the concept of regions with permanent natural and structural handicaps

1.1.1 One of the European Union's strategic objectives is to achieve the overall harmonious development of all its territory, in particular by removing all factors — socio-economic, historical, physical or natural — which might compromise the competitiveness of given areas and hamper their development.

1.1.2 Inaccessibility is one of the most significant obstacles, seriously affecting the way life is lived in certain areas, such as island regions or mountain areas. Low population density is a further handicap to development in various regions. Some territories experience more than one handicap at the same time, as in the case of mountainous islands, with increased difficulties as a result.

1.1.3 As part of its efforts in favour of economic and social cohesion, the European Commission has recognised the existence of permanent natural handicaps (specific geographical or natural and demographic disadvantages) in some regions of the EU — upland regions, areas of low population and island regions — which are an obstacle to economic activity and represent a real disadvantage for the development of the regions concerned.

1.1.4 The EESC considers, however, that European regional policy has not overall provided a fully satisfactory response in the sense of taking proper account of the powerful constraints affecting these regions.

1.1.5 A series of Community measures exists, targeting and either actually or potentially involving some of these regions. But there is no structured European policy for all the territories

affected by this type of disadvantage, comprising measures individually tailored to their specific needs.

1.1.6 The EESC believes that this situation has come about largely because of the lack of a genuine Community definition of 'regions suffering from permanent natural and structural handicaps' in legal and institutional terms.

1.1.7 In the present context of a post-enlargement Europe of 25 Member States, the EESC considers the legal and formal recognition of this concept to be of the utmost importance as a starting-point for devising a specific framework for action.

1.1.8 The EESC considers that such areas merit special attention, specifically through the introduction of a specific framework including permanent measures, which are in the final analysis the only ones capable of minimising the most persistent structural problems. This is the only way to avert the danger of such regions becoming more isolated/marginalised and to help them to be integrated into the Community of which they are part on fair conditions.

1.1.9 In its opinion on the future of upland areas in the EU (¹), the EESC argued that the first step towards instilling a common vision was to enshrine the special position of these areas within the Treaties, as had already been done in Articles 158 and 299 of the Treaty of Amsterdam. Such recognition was justified by the disadvantages and challenges facing these areas, which could be given the right to solidarity, difference and experimentation.

1.1.10 The EESC has always believed that such areas require recognition enabling them to build on the basic principles which would in turn allow them to realise their full potential as regions characterised by authenticity and diversification.

(¹) OJ C 61 of 14.3.2003, p.113.

1.1.11 The EESC therefore welcomes the inclusion in the European Union's Constitutional Treaty, adopted on 18 June 2004 by the Intergovernmental Conference attended by the EU Heads of State and Government, and still subject to ratification — in an article which appears to be a reworded version of Article 158 of the Treaty of Amsterdam — of an explicit reference to regions affected by permanent structural handicaps such as islands, mountain areas, or those with low population density.

1.1.12 In the section on economic, social and territorial cohesion, Article III-220 adds the following paragraph to the two already contained in Article 158 of the Treaty of Amsterdam: *'Among the regions concerned, particular attention shall be paid to rural areas, areas affected by industrial transition, and areas which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density, and island, cross-border and mountain areas'*.

1.1.13 The EESC is convinced that the fact that regions with this type of handicap are now clearly mentioned in the Constitutional Treaty will serve as a political lever, opening the way to future national and Community measures which are more appropriate to actual circumstances in these areas and aimed at substantially reducing permanent structural handicaps or at least reducing their impact.

1.1.14 The EESC welcomes the European Union's continuing commitment to encouraging economic and social cohesion, and believes that the recognition in the Treaty of these areas' specific features definitely represents an opportunity for their future. However, the EESC considers that the establishment of a real legal benchmark for recognising the areas in question necessarily entails clarification of the concept, and in particular of the meaning of 'permanent natural or demographic handicaps', 'regions with very low population density' and 'mountain areas'.

1.1.15 It is now important for Community legislation to make an objective definition of which areas are eligible, in order to ensure the implementation of future permanent specific measures for these regions.

1.1.16 Formal acknowledgement of this concept would certainly lend greater strength to Community policy measures, tailored to the specific features of these regions, aimed at compensating them for the structural handicaps they suffer.

1.2 Problems of European Union island regions

1.2.1 Insularity is indicated as a geocultural factor and a permanent handicap representing an additional constraint on competitiveness in the areas concerned.

1.2.2 In institutional terms, clear reference is made to island regions (Article 154 of the Maastricht Treaty, Article 158 of the Amsterdam Treaty and Declaration No. 30 appended to the latter) which recognise that the structural handicaps linked to their island status seriously impair their economic and social development and recommend that Community legislation may include, where justified, special measures in favour of these regions in order to integrate them better into the internal market on fair conditions.

1.2.3 A March 2003 report on island regions⁽¹⁾ stated, however, that however important these institutional references might be, they had so far produced very little in terms of specific measures.

1.2.4 The study of the 286 island regions⁽²⁾ showed that:

- they have a population of almost 10 million people who occupy an area of 100,000 km² (approximately 3 % of the European Union's total population and 3.2 % of its total area);
- their estimated total GDP of these areas is EUR 18 billion (i.e. 2.2 % of EU GDP) and that per capita GDP (in Purchasing Power Standard) is EUR 16,300 (72 % of the EU average) with major disparities between the various island regions;
- with a few exceptions, their economic and social situation is less favourable than that of the country to which they belong. Their per capita GDP is generally lower than the national average, although not necessarily the lowest in the country to which they belong (being substantially higher than that of the EU's ten poorest regions);

⁽¹⁾ Final report (2000.CE.16.0.AT.118), Analysis of the island regions and outermost regions of the European Union, March 2003.

⁽²⁾ The five criteria which Eurostat uses to define islands are as follows: they must have an area of at least one sq. km; they must be at least 1 km from the continent; they must have a permanent resident population of at least 50; they must have no permanent link with the continent; and they must not house an EU capital.

- island economies are very vulnerable, as they concentrate on a limited range of activities with hyper-specialisation in certain sectors such as agriculture, fisheries and tourism. The lack of raw materials hampers the development of the secondary sector (the secondary sector employment rate in island regions is lower than the EU average). A number of strategies seeking to enlarge the economic base and reduce seasonal activities have been implemented;

- they have a high percentage of small firms. The small size of domestic markets, the continuing low level of qualifications and the lack of a tradition of establishing firms make these businesses particularly vulnerable;

- the breakdown of the island population is highly unbalanced among the three geographical areas: 95 % of this population is concentrated on the Mediterranean islands and only 5 % on the Atlantic and northern islands. A breakdown by island makes this imbalance even more marked (five islands or groups of islands account for some 85 % of the population);

- population size is the determining factor in the handicaps they suffer. There appears to be a threshold of 4-5,000 inhabitants above which the rate of population growth is generally positive, the level of facilities and infrastructure is high and the population is younger. Below this threshold, islands are especially vulnerable to out-migration and ageing, and are noticeably under equipped;

- alongside population size, geomorphologic and natural conditions constitute a triple disadvantage: island status, mountainous terrain and being part of an archipelago. Most of these regions are mountainous and must also deal with the constraints imposed by belonging to an archipelago;

- island regions do however possess a number of advantages which must be put to greater, and better use, especially in connection with leisure activities (tourism, sport, second homes, etc.), so that they can play an important role in connection with the 'motorways of the sea'.

1.2.5 The Eurostat definition of an 'Island' excluded any island which houses an EU capital. Prior to enlargement this effectively excluded Great Britain and Ireland, however now it also excluded two relatively small islands Cyprus and Malta. The EESC suggests that the definition be revised to allow for the possible inclusion of these two new Member States. This has already been acknowledged by the EU Commission in its proposal for the new Structural and Cohesion Funds ⁽¹⁾ as well as in the context of the new European Constitution ⁽²⁾ which included a declaration to this effect.

1.3 Problems of upland regions

1.3.1 Mountain areas cover some 40 % of the EU's territory, with a population of nearly 66.8 million (17.8 % of the total EU population).

1.3.2 Because of their specific geophysical, cultural and economic features (mountains often coincide with national borders), upland regions are unsuited to many economic activities. This has an impact on the way of life of local populations.

1.3.3 A recent study on mountain areas ⁽³⁾ not only highlighted their various natural, economic and social handicaps, but also focused on the considerable disparities between these areas.

1.3.4 The study concluded that national policies for mountain areas varied, in some countries taking on a sectoral character, directed basically to agriculture/rural development, while in others they aimed at multisectoral development, especially in areas such as public infrastructure, the environment and tourism.

1.3.5 The study also pointed out that the environment, landscapes and cultural values, representing a heritage in themselves, are now better protected under national and Community laws, but argued that closer coordination with development strategies was required.

⁽¹⁾ COM(2004) 492 final, Art. 52, point 1b) i)

⁽²⁾ Appendix XIX

⁽³⁾ *Mountain Areas in Europe: Analysis of mountain areas in EU Member States, acceding and other European countries*, European Commission, January 2004.

1.3.6 The study warned of three risks arising from globalisation: the trend to turn mountain areas into 'outdoor museums' (nature/cultural reserves and leisure areas), the trend to promote economic growth with no regard to the principle of sustainability, and the trend to population loss.

1.4 *Problems faced by areas with a low population density*

1.4.1 For areas with a low population density the main problem is usually transportation, in terms of both the length of time and cost. In many cases the problem is a real lack of transportation facilities. Economies of scale are seldom to be found in such areas, which is not only a problem for private production but also for social and other public services. This puts national solidarity in society to the test when public services for areas such as these are to take up a larger part of public expenditure than the size of the population would indicate.

1.4.2 A further problematic characteristic of these areas is the climate. Low population density and a cold climate often go together. On top of the costs for long journeys there are also among other things higher costs for heating.

1.5 *Questions linked with transport and transport costs, either in per capita or in absolute terms*

1.5.1 In its Resolution of 12 February 2003 on the White Paper on transport policy, the European Parliament highlighted the need for transport policy to contribute to economic and social cohesion and take into account the specific nature of outlying, island and mountain regions and regions with low population density and stressed that their particular needs must also be taken into account. Given their geographical position, transport is of strategic importance to these regions.

1.5.2 Furthermore, the fact that some of these regions are archipelagos accentuates their dependence on transport, since air and sea transport services are vital for their political, economic and social relations with the mainland.

1.5.3 The additional transport costs generated by both the remoteness of these regions and the need to ensure that

services are regular represents a further obstacle to their economic development. These economic disadvantages are, in practice, reflected in the high cost of passenger and goods transport to and from these regions (in island regions, the cost of transporting goods to the external market is higher because of the need to use sea or air transport, both of which are more expensive than road or rail for the same distance), in high distribution costs (given the need to maintain large stock volumes in order to prevent shortages in the event of bad weather or other events, and in order to meet seasonal demand), and in higher production costs (aggravated by the small size of the local market and, in some cases, the high cost of land and low local investment capacity).

1.5.4 Although their economic and demographic weight is modest in relation to the EU as a whole, some regions, including the more remote and outermost ones, represent a potential platform from which Europe can develop its trade relations with neighbouring areas.

1.5.5 It has been argued that the common transport policy is crucial if the specific needs of these regions are to be met in a way permitting their economic and social development, in particular by better integration of their airports and ports into the trans-European networks.

1.5.6 In its Report on structurally disadvantaged regions, the Committee on Regional Policy, Transport and Tourism points to the role that the major trans-European networks can play in the transport and energy sectors, in order to ensure better connections between them and the rest of the EU, and to reduce the internal fragmentation of regional markets.

1.6 *Telecommunications questions*

1.6.1 Long distances to main European markets as well as within the regions seriously hamper their competitiveness and their possibilities for development.

1.6.2 The development of the information society, telecommunications networks, multimedia and technological innovation offer real opportunities to these regions.

1.6.3 By removing the constraints of time and distance, the new information and communication technologies are seen as a means of reducing the effects of insularity and helping provide islands with a range of services (especially in the fields of education and health, in the latter case by means of developing telemedicine); they are also one of the main prerequisites for the growth of businesses in these regions.

1.6.4 Aware that these issues are crucial to the development of local economies, the European Union has been backing the efforts of the regions and of both public and private economic operators to modernise telecommunications infrastructure, build up the services needed to complete the information society and mainstream them more effectively into the regional setting.

1.6.5 Studies show, however, that in spite of considerable improvement to the regions' telecommunications infrastructures, regarding the quality and number of lines, regional and national connections, and international communications, and the development of telematics services, which has enabled users of public and private services to be better informed, important disparities persist with regard to regions on the European mainland.

1.6.6 In brief, despite significant progress, not all problems have yet been fully resolved, but it is hoped that technological advances will pave the way for positive changes in the next few years to lessen the feeling of psychological isolation suffered by people in such regions.

1.7 *Infrastructure and access to public services, namely ports, airports, railways, roads, health services, education and training and knowledge policy*

1.7.1 The regions suffering from permanent natural and structural handicaps have on the whole found it very difficult to keep their populations.

1.7.2 The absence of a critical mass generally leads to qualitative or quantitative public service shortcomings in these areas. The additional costs of basic services, such as transport, have affected the economic development of these regions. It is, therefore, the view of the EESC that public services are also vital to the territorial dynamism of the regions in question, on account of their social impact.

1.7.2.1 As the provision of public services is a responsibility of the Member States, the policies for these services is mainly a

national question. The EESC, therefore, urges the Member States to create social service systems characterised by socio-geographical solidarity.

1.7.3 Although information and communication technologies have provided some solutions, progress in this area has remained very slow in most of these regions.

1.7.4 Like the European Parliament, the EESC considers that the reform of Community competition policy must make it possible to enhance the impact of regional aid on regions with permanent geographical handicaps and to ensure that quality public services are preserved therein.

1.8 *Constraints and possibilities relating to the environment; diversity of ecosystems*

1.8.1 The environment of several of these regions is very fragile, and growth of tourism, especially on a number of Mediterranean islands, is further increasing the pressure. However, huge opportunities also arise from, for example, the very diversity of ecosystems. Balanced and sustainable use of these opportunities can and should be made.

1.8.2 With regard to energy, island regions — especially the most remote — are typically highly dependent on oil supplies (on account of their location, distant from the major energy networks, and the higher cost of electricity generation because of the average size, often very small, of the electricity networks to be supplied). For this reason, alternative sources of energy — with which these regions are generally well provided — must be harnessed.

1.9 *Problems concerning economic activity; concentration of sectoral activities and the lack of alternatives; employment situation*

1.9.1 One of the main problems faced by these regions is unquestionably the low capability for establishing and consolidating businesses due to a lack of capital and, in large part, to an economic and social climate which is unfavourable to business growth.

1.9.2 Some studies recommend that the economies of these regions, and especially those which depend exclusively on tourism, should be diversified, and that new integrated sources of locally-general development should be promoted.

1.9.3 Some studies consider that a training programme designed to support innovation and business creation is essential to the development of new sectors or to allow tourism to take off, and by this means, to promoting employment.

1.9.4 The structure of employment in general shows the considerable weight of the agricultural sector. Employment is also high in the service sector, but is largely due to employment in the public sector.

1.10 Opportunities for tourism and recreation

1.10.1 Tourism is without question of great importance as a powerhouse of economic activity and, as such, for overcoming the development gap of regions with permanent structural handicaps. The sector is the largest in terms of wealth-creation in some regions.

1.10.2 The EESC believes that efforts to bring these territories into closer line with the more developed regions of the EU require that maximum advantage be drawn from the role of tourism, put on a truly professional basis, and its potential for economic development.

1.10.3 The EESC continues to argue that tourism must not be the sole foundation for these territories' economies, which should be diversified and multifaceted.

1.10.4 In its earlier opinion on the future of upland areas in the EU (¹), the EESC maintained that, with due respect for the need for sustainable development, upland tourism must become more diversified so that it is spread out more evenly over the year (better seasonal balance of visitors) and spatially (better spatial distribution of visitors).

1.10.5 The EESC continues to hold that the attraction of upland areas as a destination for tourists from other areas or simply for recreation is to a large extent thanks to their intrinsic qualities, but considers that this role must be nurtured and adjusted to changing demand.

1.10.6 Studies show that tourism and recreation are key values for these regions, but warn of the disadvantages of excessive specialisation in this economic sector.

1.11 *Capacity to attract investment and generate opportunities to keep the population in a region and to develop its endogenous potential*

1.11.1 Since these are regions with objective, permanent disadvantages which constantly generate additional costs, the EESC views it as of the utmost importance that active policies be implemented, e.g. through tax measures, to promote the development of local economies so that local populations can remain in place.

1.11.2 Given the characteristics and constraints specific to these regions, and the clear importance of securing, in each case, the strategy most in line with the objectives, the EESC believes that it is particularly important to support the growth of sustainable and high-quality tourism, together with local production, in order to enable a local economy to develop and contribute to the creation and/or preservation of jobs. One way of doing this might be to develop support services close to businesses and encouraging the creation and development of small and micro enterprises.

1.11.3 The EESC also feels that greater cooperation/involvement between local authorities and the social partners of these regions, for example through integrated actions, could build up the conditions and critical mass which would help in taking greater advantage of the regions' development potential, in order to bring them more into line with the more developed regions of the EU. Because of their tourism-related impact, these regions serve to disseminate the European Union's values.

1.11.4 The EESC believes that access to high quality education and vocational training is the key to the development of these regions.

1.12 *Remoteness from the main markets and major decision-making centres; absence of a 'critical mass' for the economic sustainability of multiple activities*

1.12.1 The remoteness of these regions and also their internal fragmentation present an obvious obstacle to their development, especially since their small size implies difficulties in securing returns on heavy investments and creating economies of scale, or ensuring the economic sustainability of multiple activities.

(¹) OJ C 61 of 14.3.2003, p. 187.

1.13 *Situation of representative economic and social movements of the regions in question*

1.13.1 In the EESC's view, public policies matching the specific needs of each region can only be put in place with proactive, representative economic and social movements. The absence of a critical mass (people, infrastructure, services, etc.) in many of these regions, and the lack of effective levels of organisation among the economic and social partners are restraining factors on development and competitiveness.

1.14 *Community and national policies for minimising permanent structural problems*

1.14.1 The Structural Funds have covered a significant part of the population of these regions (in the case of islands, more than 95 %), as they are eligible under Objectives 1 and 2.

1.14.2 A number of programmes have been implemented with the support of Community and national policies in order to bring about sustainable development in these regions, based on the exploitation of their specific advantages. Important instances are support for the development of local craft activities, tourist projects, and new transport, training and environmental infrastructures.

1.14.3 A substantial proportion of Community funding has been earmarked for modernisation and reinforcement of economic sectors in order to help create or maintain businesses. As well as conventional direct aid for investment, actions include certain financial engineering devices (guarantee arrangements, strengthening of own resources, preferential interest rates, etc.) which have had a lever effect in mobilising resources on the capital markets. Public aid has also been applied to aspects affecting the business environment, such as equipping business areas, supplying common services, developing applied research projects and technology transfer, and making use of the new communication technologies.

1.14.4 In the agricultural sphere, specific actions have been implemented to strengthen traditional local crops, and to stimulate diversification. applied research and experimentation.

1.14.5 With regard to fisheries and aquaculture, some regions were able to receive financing for projects concerning

building and modernisation of vessels, fish farming, equipping of fishing ports, processing and marketing.

1.14.6 Some investments have also been made in the area of training (creation of infrastructure and training courses) with a view to boosting intake capacity and matching the needs of certain sectors.

1.14.7 Measures have also been taken in connection with the environment, seeking to reduce pollution, particularly with regard to the handling and processing of residues and liquid effluents of industrial and domestic origin.

1.14.8 Community rural development measures specifically aimed at supporting upland regions were intended to ensure the continued exploitation of agricultural land in the less productive areas and to provide greater support for investment in them. Agricultural production methods compatible with the demands of environmental protection and conservation of natural areas were supported by agrienvironmental measures.

1.15 *Development of these regions over the years, in the light of the public policies which have been applied to them*

1.15.1 Community policies, particularly by means of the Structural Funds, have played a very important role in the overall development of these regions, especially with regard to convergence with the rest of the European Union. The impact of these policies has been very considerable, or even decisive, in a number of fields, such as transport infrastructure or fisheries and agriculture, two essential economic sectors.

1.15.2 The creation or development of infrastructures reducing external isolation has been one of the most visible aspects of the projects co-funded by the European Union in each of the regions. Accessibility has clearly improved in all regions, to the benefit of both local populations and the tourist industry. Internally, the regions have benefited from major road improvements and, in some cases, measures to develop public transport. In some spheres, infrastructures underpinning economic activity have been boosted to cope with changing requirements.

1.15.3 Together with enhanced air and sea links, advanced communications technology initiatives (teleconferencing, remote diagnostics, telematics and cable networks) have also helped to lessen the inherent disadvantages of island status and/or remoteness.

1.15.4 The efforts made with regard to the various economic sectors have contributed to enhanced productivity for companies and supply more in line with the opportunities of local and export markets.

1.16 *The solidarity effort in structural policies*

1.16.1 In the context of the reform of the Structural Funds for 2006-2013, the specific situation of the islands and regions with permanent handicaps and their permanent structural constraints should be taken into account in addition to their socio-economic characteristics.

1.16.2 The EESC is particularly pleased that the Third Report on Economic and Social Cohesion, adopted by the European Commission on 18 February 2004, refers to the particular problems of these regions and to the need to adopt measures in line with their circumstances.

1.16.3 In the EESC's view, the way resources are allocated under Priorities II (Regional competitiveness and employment) and III (European territorial cooperation), envisioned in the new architecture for EU cohesion policy for the 2007-2013 programming period, should take proper account of criteria which assess permanent structural handicaps such as remoteness, isolation, poor accessibility and low population density. It is known that such factors represent serious obstacles to the economic and social development of the regions affected.

1.16.4 The EESC therefore supports the European Commission's intention to take due account of the territorial dimension alongside the economic and social dimension as part of the new Structural Funds approach for the new financial programming period. The European Commission proposes that Community aid under Priority II should apply territorial criteria reflecting the relative disadvantage of regions with geographical handicaps (islands, mountain areas and regions with low population density).

1.16.5 The EESC agrees with the European Commission's proposal that the Member States should ensure that the speci-

cities of these regions are taken into account when it comes to the targeting of resources within regional programmes, and that territories with permanent geographical handicaps should benefit from an increase in the maximum Community contribution.

1.16.6 The EESC believes that special attention should be given to situations where there is an accumulation of such factors (for example, islands with mountain areas and sparse population).

1.16.7 Moreover, the specific needs of such territories should be reflected not only in cohesion policy, but in all Community policies.

1.16.8 The EESC is convinced that, in tandem with the need for cohesion policy to address the competitiveness-related problems of regions with permanent structural disadvantages affecting their development, other Community policies — such as competition policy — should take account of their direct and indirect and positive and negative implications for these regions, in order to integrate them fully into the Community to which they belong.

1.17 *Objective 1 regions: a sustained and well-adapted effort*

1.17.1 The economic and social development of the least favoured areas of the Union is not only socially just, it is also important for the political stability and harmonious development of the Union itself. It is legitimate that priority be given to those regions whose levels of development rank among the lowest in the EU and which suffer from the most acute social problems.

1.17.2 Within the Structural Fund envelope earmarked for Objective 1 post 2006, constraints linked to permanent handicaps should, in proportion to their respective intensities, be regarded as determining factors in the distribution criteria. The budgetary allocations should also take account of aggravating factors such as the archipelago effect, desertification and problems of accessibility linked to rough terrain.

1.17.3 It matters little whether such an instrument is legally framed as a stand-alone programme, or as a set of special measures in the framework of a new 'Objective 2' regulation, as long as a number of ends and criteria are met:

1.17.3.1 The existence of durable or permanent geographic or demographic constraints should be an explicit criterion for eligibility.

1.17.3.2 The areas in which it is applied should be those which clearly entail durable geographic or demographic constraints. In particular, by:

- financing the purchase or renewal of fixed or mobile transport infrastructure;
- financing risk capital for developing new sea or air links, within the EU or with third countries;
- financing public infrastructures the proliferation of which is justified by an archipelago-type situation, or by isolation due to rough terrain or low population density;
- covering certain additional costs arising from the application of EU legislation in these areas (e.g. application of standards in the field of the environment, waste management, water management, etc.);
- aid to island companies (particularly small ones), for promotion and market canvassing campaigns, insofar as this aid helps them overcome the problems linked to the small size of their local market.

1.17.3.3 The manner in which this instrument is allocated should be based on the principle of proportionality, based on the intensity of the handicap suffered, measured in terms of degree of accessibility, demographic situation, and, possibly, productivity. It should also be possible to take account of the accumulation of constraints which affects many island regions (such as archipelago-type fragmentation, a difficult demographic situation, or the mountainous nature of part of their territory) in the criteria for distributing aid.

1.17.4 If the creation of such an instrument is to be more than merely symbolic, significant resources must be allocated to it. These should range from an amount of aid corresponding to that currently granted to Objective 2 regions, at the lower end of the scale, to that currently granted to Objective 1 regions, at the higher end of the scale.

1.18 *Revising the state aids systems* ⁽¹⁾

1.18.1 The aid mechanisms operated within the Member States concern comparatively greater sums of money than the Structural Funds. It is therefore crucial for these regions that the various aid systems controlled by the Community take account of the additional costs and constraints linked to their specific features.

1.18.2 The case made by the representatives of such regions for a more flexible framework is based on the fact that the aid designed to offset the additional costs linked to their situation, far from distorting the market, contributes to rebalancing it.

1.18.3 EU legislation on aid, in particular state regional aid and agricultural aid, therefore needs to be revised. Such aid must, in accordance with the principle of positive differentiation, include the constraints of their particularities and their possible accumulation with other permanent constraints of a geographic or demographic nature. The following are some examples:

1.18.3.1 The state regional aid system takes account of the constraints suffered by very low population density regions, and currently allows them higher aid levels, together with the possibility of direct aid to transport. It does not, however make any reference to the islands (apart from an anecdotal reference). A minimum requirement, therefore, is that the benefits granted to the low-population areas be extended to all the islands, that is to say:

- comparable NGE (net grant equivalent) thresholds;
- entitlement to operating aid designed to cover additional transport costs.

1.18.3.2 Moreover, in a best-case scenario, this very same legislation tolerates operating aid only where such aid is 'temporary and progressively reduced'. This restriction fails to take account of the permanent nature of the constraints of the island phenomenon and should, therefore, be eliminated in particular in the case of transport subsidies.

⁽¹⁾ State aid is considered as direct transfers to enterprises under the form of grants, tax exemptions, equity participation, soft loans, tax deferrals and guarantees calculated so as to harmonise the state aid component data into a common comparable indicator across countries.

1.18.3.3 The formal prohibition on direct aid to transport in the case of trade between Member States of the Community should be reconsidered in the case of the islands, because such aid could help improve their economic integration in the Community space and enable them to take advantage of their geographic positioning in the maritime spaces around Europe. This particularly concerns those islands closer to the coast of another Member State than to that of their own mainland and even more so — and on another scale — those whose trade with the Community is carried on via trans-oceanic transport.

1.18.3.4 The problem of aid to transport should also be dealt with in the framework of the WTO so as to encourage the development of direct trade with the nearest third countries.

1.18.3.5 The system of competition which prevails in the field of sea and air transport contains miscellaneous provisions in relation to the islands which should be improved or supplemented. For example:

- the rule of the 'lowest bidder' should be amended to take account of factors such as the economic and social impact which the attribution of the contract can have on an island;
- the practice of breaking routes serving a region up into several invitations to tender should be avoided where this practice could jeopardise the quality and reliability of the services;
- it should be possible to extend the term of service public contracts in the field of shipping to take account of the period of depreciation of the ships.

1.18.3.6 In the case of agricultural or fisheries aid, specific support measures for local productions designed to limit the effects of additional transport costs, or the effects of the limited size of the market, should be envisaged. This could apply, for example, to the operating aid intended for small transformation units (abattoirs, creameries, etc.) where the modest volume of the regions' productions, or the small size of the local market, preclude their operation in conditions of economic viability.

1.18.3.7 The application of uniform indirect taxation rates (VAT, excise, etc.) tends to aggravate the situation in the islands where consumption prices are highest. The states should be allowed to exercise a degree of flexibility in the application of certain taxes in those regions where such an approach would

contribute to reducing additional structural costs and improving the living conditions of the population. The same applies, for obvious reasons, to transport related taxation of user charges (e.g. airport taxes).

2. Conclusions and recommendations

2.1 The state of vulnerability which characterises the regions with permanent handicaps tends to make it more difficult for them to develop, and in many cases to exacerbate their economic and social difficulties. Faced with a similar context, established populations in regions not experiencing such handicaps will enjoy greater prosperity or at least suffer fewer difficulties.

2.2 It would both inaccurate and simplistic to claim that there exists a sort of 'fatality' which condemns regions with permanent handicaps to the role of second-class territories and their inhabitants to endemic under-development. In many cases, European regions with permanent handicaps boast several assets or potentials capable of promoting development: their proximity to relevant natural resources, their capacity to produce renewable energies, their attractiveness to tourists, their geo-strategic position, the proximity of shipping lanes, diversity of ecosystems, etc.

2.3 The problem facing these regions is that, in order to seize these opportunities, they will probably have to work harder or take much greater risks than would be necessary to successfully undertake a similar undertaking in other, more advantaged parts of the EU. During times of recession, on the other hand, they would be among the first affected owing to the poorer profitability of their industries.

2.4 A European policy for regions with permanent handicaps should therefore consist of a set of measures designed to minimise their vulnerability and to help create a real 'equality of opportunities' between these territories and the rest of the Union. As this policy constitutes a response to objective natural constraints, it is legitimate that it be graduated according to the intensity of these constraints. For the same reason, it should constitute an addition to, rather than a replacement for, the measures traditionally implemented as part of the economic and social cohesion policy.

2.5 What should such a policy entail?

2.5.1 A European policy for regions with permanent handicaps should be based on three major principles and on several goals:

- the **first** is the principle of 'permanence', because the geographic constraints which affect these territories are of a durable nature. This principle of permanence is in contrast to the 'catch-up' concept which has heretofore served as a basis for EU policies for dealing with economic and social problems;
- the **second** principle is that of 'positive discrimination'. This consists in regarding the measures granted to certain territories to enable them to offset permanent structural constraints not as constituting unfair advantages but as measures designed to bring about real parity. In this respect, positive differentiation is in contrast to discrimination which, according to the definition given by the European Court of Justice, '... consists in treating similar situations differently, and different situations similarly' (Judgment of the Court of First Instance, Fourth Chamber, of 26 October 1993. Joined cases T-6/92 and T-52/92);
- finally, the **third** principle is that of 'proportionality', because situations in regions with permanent handicaps are synonymous with geographic and demographic diversity. The implementation of positive differentiation with regard to regions with permanent handicaps is only justified if it is based on the realities of their geographic, demographic and environmental characteristics, and on the constraints that these entail. These realities are necessarily different from region to region.

2.5.2 The aim is not to come up with measures applied systematically and uniformly to every territory, but, first and foremost, to create a framework which would make it possible to take account of these differences. Based sometimes on legal provisions, sometimes on financial resources, sometimes on modes of governance, such a permanent framework would make it possible to design solutions adapted to each of these regions in proportion to the nature and intensity of the problems encountered. In some cases, this will mean measures common to all the regions with permanent handicaps, and in others provisions specific to a given situation, not suitable for general application.

2.6 Goals of a policy for regions with permanent handicaps

2.6.1 The three types of goal for policy for regions with permanent handicaps are of a social, economic and environmental order. These goals are intimately intertwined.

2.6.2 For the proper implementation of aid in underprivileged areas, the term 'sustainability' should be considered to have a dual meaning; firstly, from a socio-economic perspective, it ensures the survival of viable family businesses and productive systems, curbing the demographic exodus, and secondly, it consolidates environmentally friendly practices.

2.6.2.1 **Social goals:** the 'social goals' are to enable the inhabitants of these regions who so wish to 'be born, live and work at home'.

2.6.2.2 The inhabitants of these regions should have a degree of choice and a quality of infrastructures and services as close as possible to those generally available in the other parts of the Union.

2.6.2.3 This concerns a multitude of sectors, especially education, initial and lifelong vocational training, health, transport and telecommunications. Parity with the other parts of the Union cannot be defined in a purely statistical manner; it must be assessed in qualitative terms. When infrastructures or services are sophisticated, the smaller the population of a region, the more disproportionate their size and cost will be with respect to the number of inhabitants. There is no uniform response to this problem, apart from the application of a principle: the need to aim for optimal quality services so as to at least maintain the population.

2.6.2.4 The required resources are those of the Structural Funds, targeted in particular on the fields of transport (fixed or mobile infrastructures), waste management, water, education, and health. In the field of transport, energy and telecommunications, the intervention of the Structural Funds should be strengthened by the effective application of Article 154 of the Treaty in relation to the trans-European networks, with appropriate financial resources.

2.6.2.5 The inhabitants of regions with permanent handicaps should be able to gain access to consumer goods or services at socially acceptable prices.

2.6.2.6 This situation can, in certain cases, be remedied by measures designed to reduce consumer prices, or encourage certain service providers to set up in the most isolated and least populated areas.

2.6.2.7 The required resources are interventionist measures of a social nature, such as:

- direct aid for certain commercial activities or services providers;
- special fares for residents on sea or air transport;
- the existence of high-quality public services.

The intensity of some of these measures may be proportional to the isolation of the communities concerned and also inversely proportional to the size of their market.

2.6.2.8 Extensive use of the provisions of Articles 73 (public services in terms of transport), 86(2) (on undertakings entrusted with the operation of services of general economic interest) and 87(2) (in relation to aid having a social character, granted to individual consumers) of the TEC could, in certain cases, serve as a basis for such provisions.

2.6.3 **Economic goals:** the economic goals of a European policy for regions with permanent handicaps should contribute to integrating the islands in the single market while taking account of their social and environmental fragility. The principles of the free market must therefore be tempered by those of economic, social and territorial cohesion.

2.6.3.1 The integration of the economies of these regions in the single market requires equitable conditions.

2.6.3.2 In general, a reduction in the additional transport costs via direct aid to the companies.

2.6.3.3 On a case-by-case basis, and depending on the situations, provisions designed to counterbalance the restricted nature of the local market, and the limited nature of the natural or human resources. These include incentives and support measures for the private sector, modulated on the basis of the nature of the activities, their profitability, and their social and environmental impact.

2.6.4 **Environmental goals:** the 'environmental goals' of a European policy for regions with permanent handicaps consist in helping to preserve the environment of these regions, in harmony with the requirements of their economic and social development. The 'environment' includes the natural resources, landscapes and ecosystems of these regions, together with their cultural heritage in its most diverse manifestations: architecture, historic monuments, linguistic heritage, song, dance, literature, arts, craftwork, etc.

2.6.4.1 The preservation of the environmental heritage should not be a static or passive approach, tending to turn the regions with permanent handicaps into 'Indian reservations'.

On the contrary, it should constitute an active and dynamic approach designed, in particular, to promote the sustainable development necessary to keep resident populations at home, and to guarantee them a good-quality living environment.

2.6.4.2 The environmental goals require interventions at widely different levels, not only local, but also national, European, and even sometimes planetary. For example:

- the preservation of the linguistic heritage requires the implementation of educational policies drawn up on both local and national level;
- protecting the coasts against maritime pollution requires surveillance of navigation in national and international waters, and restrictive measures (such as passage in the straits) which are discussed, not only between the neighbouring states but also on a global level (in the framework of the IMO);
- management of fish resources involves, not only the regions, the Member States, the Community, but also third countries (for example in the Caribbean) or international bodies (such as the North Atlantic fisheries);
- all the policies linked with the observation of the greenhouse effect and the limitation of its consequences must be dealt with at all the previous levels, but must also be dealt with at world level, in the framework of the United Nations and of the various conferences on the environment.

2.6.4.3 The environmental goals are, to a very large extent, a question of governance. The island, northernmost, mountain and outermost communities should be consulted, and if possible, associated, with the environmental decisions concerning them.

2.6.4.4 The European Union should take account of the special vulnerability of its islands when environmental questions are discussed on the international stage (for example for fisheries accords with third countries, or in the field of the fight against the greenhouse effect).

3. Final comment

3.1 In view of the importance and wide geographical spread across the Union's territory of regions possessing the special characteristics discussed in the present own-initiative opinion, and of the comments and suggestions the EESC intends to make in order to ensure that they are better integrated, the European Economic and Social Committee will continue to monitor events in this field, contributing to the assessment of future policies designed to resolve their problems.

Brussels, 10 February 2005.

The President
of the European Economic and Social Committee
Anne-Marie SIGMUND