Brussels Office

Regional State Aid Guidelines – COSLA response

1. The **Convention of Scottish Local Authorities (COSLA)** is the representative voice of all Scottish Local Authorities both nationally and internationally and it has long being advocating that the European Union legislation to fully respect the local competences and autonomy of Councils to organise and provide local services, including local economic development.

2. We welcome the opportunity to provide our views on the reform of the regional state aid regime. As in previous rounds this review mirrors the one of the EU funding regulations and, in a context of reduced EU financial transfers to most regions, this time it is even more important than before that regional aid guidelines fill some of the gaps that can no longer be addressed by the EU funding element.

Key Political Messages

i. COSLA welcomes the opportunity to contribute to the ongoing discussions on Regional State Aid Guidelines. It is our view that these Guidelines must remain an instrument available to public authorities to foster local economic development.
ii. Precisely at a time of reduced resources we disagree with Commission's proposal to artificially limit the ability of public bodies to support local companies.
iii. We would be keen that the levels and coverage of support is kept at least to current levels. Equally we see the limitation of support to companies only on the basis of number of employees as arbitrary criteria, as number of employees does not reflect the financial status of a company or their importance for local growth.
iv. We welcome the designation in the draft Guidelines of part of the Highlands and Islands as pre-designated areas.
v. We would be keen that the designation of areas is based on domestic, rather than EU-wide disparities and that the most recent available data is used as to better reflect changes in economic performance of many areas. For that reason we welcome the mid-term review in 2017 to ensure that the areas reflect levels of prosperity.

General Considerations

3. COSLA does respect the fact that the Commission has under the Treaties the statutory obligation as guardian of the EU Single Market to prevent distortions to trade created by protectionist measures or unfair of intra-EU competition.

4. We are keen, however, that the new Guidelines do respect the fact that whenever no such disruption is observed and provided there is compliance with national rules, business can be supported in those local areas where there are clear challenges in terms of economic development, diversification, regeneration or social inclusion.

5. Therefore COSLA argues that the State Aid Rules are simple, clear and allow sufficient flexibility to Member States. We are in favour of clearly enforced rules but that the new regime focuses only on those issues that really mean a demonstrable impact in EU competition due to its size or the specific nature of the sector in question.

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6. Conversely we make a difference between aid distorts competition from aid that support a wider policy goal that is not or not properly served by existing market conditions. This is particularly the case of regional state aid as it tries to compensate and address place-based constraints to economic, social and sustainable development. While accept that the level of support needs to be proportionate with the level and nature of the local constraint that is being addressed rather than an enticement to overcompensation, however we disagree with some of the statements of the Commission that tend to imply that there is a commonly close link between state aid and market distortion.

7. Concerning the relationship between the Regional Aid Guidelines and its relationship with Europe2020, while it is to be acknowledge that its objectives should permeate all EU policies from now on, let alone the policies that are bound together by the new Common Strategic Framework (CSF) on territorial cohesion and this these Guidelines that complement the CSF interventions, we do not see Europe2020 as a robust argument to reduce existing levels of aid. On the contrary, the Regional Aid is one of the tools, together with the EU grant element and domestic resources that, should be available to deliver the Europe2020 Thematic Objectives and specifically place based inclusive growth.

Detail

8. In view of the above messages, we are in favour of the current maximum aid intensities being at least maintained at if not increased from current levels in order to secure the incentive effect that the current level of support is at least maintained if not increased in the next period. Given the exceptional economic circumstances and the reduction of EU funds, the possibility of using domestic resources to support local economic activity should be one of the tools available to public bodies.

9. Since the last review of the Regional Aid Guidelines there is no clear evidence that these economic disparities have narrowed to the point where significant cuts in Assisted Area coverage in Scotland are justified.

10. On a related point the sub-regional (NUTS II) spatial targeting of the RAG needs to be maintained as to ensure place based support in local areas that might have lower levels of development than their wider regional context. Finally the rules should fully recognise the geographical handicaps of remote, peripheral and sparsely populated regions, particularly in the case of Highlands and Islands.

11. Concerning Article 107(3)(c) areas , we are keen that existing arrangements at national level to identify them is maintained. It should be entirely possible that 107(3)(c) areas could be defined flexibly where the functional economic area is this way better reflected than by the official boundary. Furthermore, rules should made entirely possible that a decision is taken at national level reduce the targeted area well below the maximum 100,000 inhabitants threshold to precisely ensure that the aid is neatly targeted to those areas of real need.

12. In view of the current economic circumstances and the increased in the intra UK disparity of regional income we would see no justification in reducing the current aid coverage from the 23.9% of the UK population for this period through a change in the existing formula. Equally no further reduction of maximum aid intensities should be attempted as it would eliminate the incentive of using the scheme in some areas.

13. We would also be against any proposal that would mean that so called large firms (having more than 250 workers and eligible expenses above €50m) be excluded for regional aid. We see no justification to reduce a level of support that must play a key role in boosting an ailing economic activity and employment levels. Equally a reduction from current aid level would disincentive the use of the scheme for such companies. In particular we do not share the findings of the Commission impact assessment that outlines that the use of state aid over the last 20 years has benefited have only benefited small (less 150 workers) companies but not on firms larger than that. This is often disputed as number of employees is a rather imperfect

measure of the financial state of a company: for instance a key "large" enterprise in a deindustrialised area without ability to access to credit (very common these days) would disqualify on grounds of employees, potentially leading to job losses or facture closure

14. As regards to SMEs we believe that the RAG should be available to encourage entrepreneurial activity, notwithstanding the alternative use of GBER for that purpose. Contrary's to the Commission's view we see no justification to have either the sectoral guidelines or the regional ones; the former has a theme rationale whereas the latter have a territorial one thus they are not necessarily mutually exclusive.

15. Finally we call on the latest data available by the time of the publication of the Guidelines to be used. It would be counterproductive to the aim of the Guidelines that the data used to reflect areas of need reflect an economic situation that is has deteriorated continuously in some areas over the last five years. On that same note, we welcome the possibility of mid-term review of the Guidelines.

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