

555/77

444.42 - text
+ 4416.1

LIBRARY

THE IMPACT OF THE COMPETITION POLICY PROVISIONS (ARTICLES 92, 93)

ON REGIONAL POLICY IN A COMMUNITY CONTEXT

INTRODUCTION

1. INTERPRETATION OF 92
2. THE COORDINATION SOLUTION
3. THE CHIEF REGIONAL INSTRUMENTS IN EACH MEMBER STATE
4. THE SUCCESS WITH WHICH THE EEC HAVE IMPLEMENTED ARTICLES 92 and 93

September 1977

(Note worked out by Mr Jefferson)

INTRODUCTION

A first approach to the relationship of the apparently discordant aims contained in the two Community policies - competition policy and regional policy - must at least establish that the two policies are in fact closely inter-related rather than inherently conflicting.

Competition policy seeks to ensure that the common market operates in a manner whereby efficiency will be maximised and market distortions minimised. Regional policy aims at achieving a balanced growth rate amongst the regions of the common market and a harmonious development of economic activities, as proscribed in Article 2. Article 92 accepts this fundamental link between the two policies, and seeks to ensure that, in a period of rapid economic and structural change, intervention of a regional nature makes a positive contribution to the furtherance of economic prosperity. The Commission is wholly opposed to aids that merely keep an otherwise uncompetitive undertaking in operation. Thus ongoing aids are not acceptable, except in instances of extreme social conditions - 92(3)a.

One can really only begin understanding the relationship between competition policy and regional policy by analysing the text of Article 92. The Article commences from the standpoint that intra-state trade must be affected by the granting of a particular State Aid. In instances where such an aid distorts or threatens to distort competition it is incompatible with the common market.

However, in this paper, one is primarily concerned with only one type of aid for which an exception to Article 92 is invoked; that is state aids in pursuit of regional policy as opposed to sectoral aids or general aid schemes. The relevant sub-paragraphs are then 2a, 2c, 3a, 3b and 3d.

Thus, by providing an exemption from the fundamental principle of the unity of the market and the most efficient utilisation of resources, the Treaty accepts that considerations of a social or political nature may override the concept of economic efficiency with respect to regional aids. It is the role of the Commission to ensure that regional aid is allocated on a pro rata basis to the areas of greatest need and that, in the allocation of such aid, the detrimental effects on competitive forces are minimised.

The effective supervision of regional and sectoral aids at the Community level is of course essential to the proper functioning of the common market, for in an area of total internal trade liberalisation the effects of competitive forces are more acutely felt in the regionally backward areas in that the structural decline of these areas becomes both more rapid and more difficult to adjust to. Hence, Member States presented with these difficulties will resort to regional assistance far more readily and employ a much greater quantity of resources than would be the case were the State able to resort to protectionism.

The effective regulation and control of such aids by the Commission, as representatives of the Community interest, must therefore be aimed at ensuring that the measures of an individual

Member State do not either aggravate existing problems at the Community level nor merely transfer such problems to other Member States. If the activities of one Member State act against those of another Member State without resulting in a better balance of activities or a more rapid overall growth rate, then the Commission must initiate the procedure under Article 93. This problem is particularly acute in industries undergoing structural decline in the EEC as a whole due to intense world competition or a slackening of world demand, for example in shipbuilding.

Thus one major aspect of the Commission's role is based on this idea of preventing competitive outbidding, with respect to regional aids, among Member States. Thus the Commission must impose a framework so that the coordination of aids can be established in a manner that reflects the interdependence of national interests.

Secondly, the Commission must establish the type of aid that is acceptable in so far as it is held not to distort competition. On this point, the Commission must establish that the aid in question will enable the particular undertaking concerned to become commercially viable and to be able to compete in the market successfully. Or, if it is a regional aid that is designed to improve the infrastructure of the region in question, that it will have a pump priming or multiplier effect and will not simply impose an extra burden on the backward area.

A major criticism of the post war regional policies of the Member States is that the instruments and policies adopted have not been properly attuned to the gravity and nature of a particular regional problem. There has been a distinct lack of careful analysis regarding the type of industries that should be developed in a particular area, particularly with respect to the development of ancillary industries.

George and Joll in 'Competition Policy in the EEC', summed up very neatly the detrimental effects of ill-conceived regional aid measures. 'State intervention in the economy can have direct and very damaging consequences for trade and competition between Member States and consequently for the proper functioning of the common market.' It is the Commission's role to seek to establish the right balance between the harmful consequences of the measures and the economic and social needs of the so-called development areas.

The Commission's attitude and behaviour in this field is best established by an analysis of the texts of the three 'Coordination solutions' - on 'Regional Aid Systems' of October 1971, February 1975 and May 1977. This is the area that is discussed in Section 2.

THE COORDINATION SOLUTION

The Coordination Solution represents the philosophy of the Commission with respect to its interpretation of the contents of Article 92. It reflects, as stated in the previous section, the overriding significance of the interdependence of Member States' interests and the need to put the regional problem into a Community rather than a national perspective. Moreover, it accepts the limitations within which, due to political and financial constraints, the Commission has to operate. It accurately reflects the role as being more one of supervisor than of initiator. A more detailed framework cannot really be expected, given the balance of power between the national and Community bodies and the wide diversity in the nature of regional problems existing in each Member State, which itself will necessitate considerable variation in the most suitable regional instruments to be employed.

The Coordination Solution attempts to regulate the level of regional aids operating in Member States, their nature and effect, and the area that they cover.

Ceilings of Aid Intensity

- 1) In the Mezzogiorno, Ireland, N. Ireland and West Berlin the intensity of measurable aids must not exceed the level that existed on 1 January 1975. The Commission may however ask for the examination in advance of individual cases if particular sectoral problems or the proper functioning of the common market necessitate such an examination. The Commission will be informed of projects exceeding 25m. units of account for which the envisaged level of aid exceeds 35% (net grant equivalent).
- 2) In the French PDI areas, the designated areas of Italy in the Centre or North as in the British Special Development and Development Areas the level of aid intensity must not exceed 30% (net grant equivalent).
- 3) In the Zonenrangebeit, Northern Jutland and the Danish Islands, the Danish special development areas, the level is 25% (net grant equivalent).
- 4) Divisions 1-3 are classified as peripheral areas. Elsewhere, regions are classified as central regions and an upper limit of 20% (net grant equivalent) is imposed.

- 2 -

It should be pointed out that these levels of intensity of aids are maxima and the Commission would except assistance of a much lower order in the vast majority of instances. However, the levels of set go along way to reducing the problem of outbidding by firstly restricting the level of aid granted in the less regionally backward areas so that they do not draw away resources that would have otherwise gone to those areas in class 1, and secondly by aligning at a standard level, the intensity of aid in regionally backward frontier regions where competitive outbidding is more prone to occur.

Transparency

In discussing the ceilings of intensity, constant reference was made to the term net grant equivalent. This is the standard measure that has been adopted by the Commission for comparing the level of aid net of tax. There are three levels of measurement - 1) transparent which are those aids which can be expressed as a percentage of the amount of investment, 2) measurable - which are aids that can be measured but only within the confines of a wide margin of uncertainty, 3) opaque - which are those aids for which the Commission have not yet established a comparative measure and which themselves can further be divided into those which could be made transparent and those which could not. The latter category must be terminated by Member States. (The Commission compiled a list of opaque aids on 17.11.76).

However, progress in this area of coordination has been hampered by the wide diversity of aids currently in use in Member States and by the rapidity with which they change. The Sixth Competition Report stated that 50% of aids are not measurable. The Commission has declared it inadmissible to introduce any further opaque aids.

The clearest example of transparent aids are capital grants and soft loans; the latter being loans with favourable rates of interest or payback periods. Methods of measurement exist for other aids that are related to investment but not necessarily to the actual amount such as state guarantees or arrangements for reduced rent on industrial property.

5

Aids with respect to job creation cannot be based on the standard measure used but can be expressed in units of account per job created. Further, they are disapproved of by the Commission because they are essentially an ongoing aid i.e. they are related to operating costs. Other aids such as subsidies or tax-relief on depreciation, or reduction in instances, difficulties of measurement arise due to the variability of the factor to which the aid is related.

Regional Specificity

Regional aids should not cover the whole of a national territory. The limits of the region in question must be defined either by geographical or quantitative criteria, or within these regions such criteria must be established to define the limits of the areas that are to benefit. The level of aid must be related to the nature and gravity of the problem involved. Furthermore, the Commission states that aid must not be granted in a pinpoint manner whereby they would have practically no influence on the development of the region in question.

Having summarised the Commission's broad policy framework with respect to the compatibility of regional aid measures with Article 92, one is now in a position to undertake an analysis of how successfully the Commission has invoked the Coordination Solution with respect to the regional policy of each Member State.

This can best be done in two stages. Firstly, an outline should be given of the major regional instruments in use in each Member State, and from this one should investigate instances where the Commission's investigation have revealed that a particular regional aid measure is incompatible with Article 92 and so ordered its termination.

SECTION 3

THE CHIEF REGIONAL INSTRUMENTS IN EACH MEMBER STATE

In Belgium, all the aided regions are classified at the same level. The legal foundation for much of the regional aid was established in the 1970 Law of Economic Expansion.

The foundation for Luxembourg's regional policy, in so far as regional policy is needed at all in Luxembourg is couched in the Law of Economic Expansion of July 1973. The law sought to effect a more satisfactory geographical distribution of economic activities by encouraging the rationalisation, conversion or establishment of firms by various types of investment aid. On account of its size, the country is treated as a single region.

A survey of the major regional instruments employed in Belgium establishes a strong bias in favour of interest rebates, guarantees and tax exemptions with little emphasis being placed on investment grants or subsidies. The major instruments are as follows:-

- 1) Interest rebates of 5% for a five year period with a ceiling of 75% of the total investment being imposed on such loans, or for a three year period with no ceiling. In the very depressed areas, such as the Borinage, a maximum rebate of 7% per annum can be claimed. Finally, the interest relief grant can be replaced by a capital grant of the same value, if for example the firms principal source of investment is ploughed back profits.
- 2) Capital grants.
- 3) Loans are given at concessionary interest rates for the purchase of land.
- 4) Tax concessions - 5 year exemption from the tax deducted at source on buildings, land and machinery,
- 5) State guarantees can be sought for loans and interest.
- 6) Depreciation subsidies at double the standard rate can be claimed for two years,
- 7) Subsidisation up to the level of 80% can be sought for the creation and equipment of industrial estates,
- 8) Exemption in development areas from the tax on the recording of capital goods and capital investments - le precompte immobilier

Grants and loans from the state are not only allocated by the Government itself but also by an organisation known as the So No. 1 who are primarily concerned with the financing of small and medium-sized firms.

DENMARK

Greenland is in a category of its own with respect to regional aid and no restrictions are applied except in so far as the Commission might declare that a particular aid needs altering on account of a lack of specificity, for example.

Within Denmark itself, areas are categorised either as special development areas or normal development areas. Together they cover about 50% of the land area and 30% of the population. The normal development areas can only make use of loans, which amount to a net grant equivalent of 14%. The loans are made available either directly to the enterprises or are made available to them by way of the communes. In the special development areas both grants and loans are used, together amounting to a net grant equivalent of 24%. Both may be claimed to cover part of the cost incurred in infrastructural investment and grants may be claimed for moving industrial or service enterprises to development areas. Finally in both areas, state guarantees can be sought and commercial premises, either for sale or lease are provided.

FEDERAL REPUBLIC OF GERMANY

In Germany there are three categories of regionally backward areas -

- 1) Zonenrandgebiet
- 2) Areas with a one-sided declining industrial structure
- 3) Rural areas.

Regional policy is couched in the 'Regional Action Programme' which is operated as a 'Joint Scheme' simultaneously at the Federal and Länder level, with coordination being ensured through the Federal/Länder Planning Committee. The organisational structure is completed the Regional Development Programme Fund, the European Recovery Programme Fund and the Social Security Fund.

In Germany as a whole, there are 312 growth centres of which 40 are concentrated in the zonal areas, with the ability to claim grants for the establishment and extension of industrial plant up to a level of 25%. The level falls to 20% for 20 areas outside the zonal area, and is 10-15% for the remaining growth points. The total area in question accounts for 60% of the Republic's land area and 30% of its population.

Such a growth point philosophy is aimed at the concentration of regional aid, which it is hoped will produce strong dynamic side effects.

Outside the key growth areas, extension grants of the order of 10-15% can be given to plants established before 1 January 1972. For conversion and fundamental rationalisation of industrial plants the maximum level of subsidy is fixed at 10%.

Investment grants are the principle form of regional assistance but loans can also be made available. An investment allowance of 7½% of the sum invested, taking the form of a tax concession paid directly out of government revenue is also made available. Between 1972 and 1975 DM 230m. were made available in the form of tax free investment allowances, alongside a sum of DM 266m. each from both the Federal and Länder Governments for the promotion of industrial investment and industry-related infrastructure.

Special terms, over and above these, are given to Berlin and the zonal areas, particularly to those areas that had strong economic links with East Germany. Such assistance takes the form of freight subsidies, favourable consideration with respect to the allocation of Government contracts and the institution of a special depreciation scheme for investments. In the service industry, a reduced level of turnover tax is exacted in Berlin.

FRANCE

Regional aid is distributed by the relevant Government ministries with the assistance of other official bodies such as the Fonds des Développement Economique d'Aide à la Décentralisation. These funds orientate the investment more toward the modernisation of plant and infrastructure than

towards increasing capacity. There exist 22 métropoles d'équilibre in France, ten of which are able to claim a maximum grant for projects where the level of investment exceeds F.10m. Besides grants, such organisations can also make available loans with reduced levels of interest.

However, the most important instrument in French regional policy is the PDR, the regional development premium which is of particular interest because it is based on the number of jobs created; it may also be claimed for extensions and conversion of plant and machinery. Another significant feature of the PDR is that it is discriminatory so it is only awarded to projects that have received government approval as being important for regional development.

A maximum amount of F. 25,000 per job created can be claimed in Bretagne, Massif Centrale, Pyrenées and in Corsica, with an upper limit amounting to 25% of total investment being set on such government disbursements. In Western and South Western France F.20,000 per job can be claimed with maximum level of aid intensity being set at 17%. In Northern France, Lorraine and South Alsace the amount is F.15,000 and the intensity limit 12%. Such assistance is designed principally to promote industrial activity. Further, where a situation of an abnormally high level of unemployment pertains, the grant can be claimed for projects outside the assisted areas.

PDR is replaced by a similar regional weapon in the tertiary sector - the PLAT (a premium for the location of certain service industries). In areas where the PDR operates in the industrial sector, F.20,000 per job created can be claimed under PLAT and F.10,000 per job can be claimed anywhere else in France. An additional F.5,000 is paid together with the F.20,000 if the job in question is a head office job - a bonus designed to stimulate movement out of Paris.

Other measures also exist which are designed to bring about decentralisation such as the decentralisation allowance applicable to industries currently located in Paris, the Paris region, and five cantons of the Oise département which transfer all or part of their plant to the provinces. The level of aid amounts to 60% of removal costs, as long as 500 square metres of floorspace are vacated.

France also makes use of certain fiscal aids

- 1) exoneration from la taxe professionnelle in the areas that receive PDR at a level of 17% or above,
- 2) exoneration from la taxe sur le plus value foncière
- 3) réduction of the droit de mutation
- 4) depreciation subsidies.

Finally special aid exist for the relocation of research activities in the assisted areas in the form of the PLAR.

HOLLAND

Dutch regional assistance is concentrated in two main areas - South Limburg and Northern Holland, (Groningen, Friesland and Drenthe). Together they cover 30% of the land area and 17% of the population.

The principal source of assistance is aid to capital investments in the creation or extension of industrial plant, which may in exceptional circumstances be made available to the service sector where the undertaking concerned serves more than a purely local market.

Such capital subventions can be claimed to a maximum of 16.8% net grant equivalent on land, buildings and equipment. Alternatively, a mixed premium of 10.2% net grant equivalent on capital * 12,500 guilders per job created up to an overall maximum of 20% net grant equivalent can be claimed. Clearly after a certain level, the latter method proves more fruitful. In certain regions where there are particularly high levels of unemployment pertaining, capital intensive industries which cannot claim the full 20% net grant equivalent through the mixed system can claim extra assistance, to bring them up to the 20% level, on buildings. These capital subventions apply only to investments of at least 200,000 guilders and are not claimable on the excess investment of

projects that exceed the maximum level of 5,000,000 guilders. Finally, they apply not only to the South Limburg and Northern Holland regions but also to 17 development centres located outside the Randstadt.

Minor use is also made in Holland of the following instruments:

- 1) Loan guarantees
- 2) Tax concessions, particularly accelerated depreciation on one third of the buildings, and the further possibility of offsetting losses during the first six years against later profits.
- 3) Labour mobility assistance
- 4) Training grants
- 5) A state owned development company in the North involved in equity acquisition.

The Dutch system is expected to undergo a major re-orientation as from the beginning of 1978 when the General Law - Investment Account Law - should come into effect with only minor changes. It is based on the following six premiums.

- 1) The basic premium which is applicable everywhere and can be claimed for any investment including replacements. The levels applicable are 11% on buildings, 7% on open air fixed equipment and 7% on internal fixed equipment.
- 2) A general premium of an additional 2% for the proportion of the investment up to 200,000 guilders
- 3) A general premium of 4% of the total amount of investment plus an additional amount for each job created, for large projects in excess of 50m. guilders. This is a discretionary premium.
- 4) A general regional premium of 12% on buildings and 6% for open-air equipment can be claimed for investments outside the Randstadt.
- 5) The levels mentioned in group four rise to 20% and 10% respectively for regions with acute socio-economic problems.
- 6) The levels mentioned in group five apply to certain growth poles which have been selected for reasons of physical planning.

All the above premiums can only be claimed if the investment in question exceeds 2,000 guilders.

Regional assistance in Eire is directed through the Irish Development Authority, who are not only responsible for instituting the grants system but also for the establishment of advanced factories; thirdly, they may if they see fit, take up a shareholding in a particular undertaking.

Although the whole country is classified as a peripheral region, it is split at the national level into designated and non-designated areas with the former being primarily located in the East and the latter in the West.

The most important form of incentive is the exemption from tax on export profits until 1990. An undertaking can claim this exemption for a maximum of twenty years.

A new industrial undertaking satisfying certain conditions can claim a basic grant of 40% in the designated and 25% in the non-designated areas. An additional grant of up to 20%, determined by reference to the significance and character of employment likely to be provided, the development or utilisation of local materials, the potentiality of linkages with existing or future enterprises, or the existence of exceptional growth potential, can also be claimed. The net grant equivalent of the seen total of this aid would be 53% in the designated areas and 40% in the non-designated.

With respect of modernisation plans or re-equipment the maximum grants are 35% and 25% in the designated and non-designated areas. Most grants either for new investment or for modernisation are usually of the order of 20-30%. The maximum rates for Dublin turn out to be about 10% below those for the rest of the country.

Thirdly, limited use is made of interest relief grants and loan guarantees, with a borrowing ceiling of £500,000 normally being imposed.

Fourthly, rent grants may be given on government-owned factories, or in the designated areas, local authorities may grant remission for up to ten years on two thirds of the rates payable on industrial premises.

Finally, a temporary employment premium of £12 per week, later reduced to £6 per week was instituted from June 1975 to June 1976, being available to manufacturing firms that recruited unemployed persons. £27 million was distributed through this scheme.

ITALY

Italian regional assistance is primarily directed towards the growth nuclei or development poles of the Mezzogiorno. However, an extensive area in the Centre and North of Italy also benefits from regional aid.

There are three fundamental methods through which Italy has sought to redress the regional imbalance that exists within her frontiers. Firstly, the state controlled sector of industry, which includes such monolithic organisations as IRI and ENI, are obliged to direct 80% of new capital investment and 60% of total investment to the South.

Secondly government controlled bureaus allocate the funds made available for regional aid. The most significant of these is the Cassa per il Mezzogiorno which had distributed 12,600 billion lire by 1973. Capital grants and loans at reduced interest rates amounting to 35% of the total investment, and to 45% in areas of marked depopulation, are available for small firms. For medium-size firms, the level of assistance is 15-30%, and for firms with a capital base in excess of five billion lire, the level is 7-12%. The level of assistance actually received will vary according to the size of the investment, the location of the undertaking and the sector within which it operates. Grants are raised by 10% where certain equipment is constructed in the South.

Further funds have been allocated under the Law No. 464 of 8 August 1972 in the form of grants and soft loans to enable firms to undertake restructuring programmes that would prevent unemployment. 16,000m. lire was dispensed under this law in 1975, and 28,000m. lire per annum has been made available till 1989.

Thirdly, social security contributions are reduced by 10% in the Mezzogiorno, and by 20% in the case of newly employed workers. However, it has been agreed that the system will be phased out in 1981 and by 1985 in the case of those employees who took employment between 1976 and 1980.

Besides the Cassa, there is IMI which under Law No. 1470 of 18 December 1961 provides low interest rate loans to ensure the survival of firms in financial difficulties provided the loan is used to effect restructure and reorganisation. Under Law No. 184 of 22 March 1971, the IMI is now able to make temporary equity acquisitions in those small and medium sized firms that are in financial difficulty. For its workload in this field, the IMI was allocated 40,000 million lire. Similarly the GEPI, which operates under the direction of the Interministerial Committee for Economic Planning (CIPE) has been allocated similar tasks, with a fund of 111,000 million lire being made available. In 1971, in the Italian economy as a whole only 23.4% of total investment could be attributed to self-financing while a further 23% was capital provided by the state.

Finally, the state has also established a number of industrial research and experimental institutes whose findings are made available to interested small and medium-sized firms.

UNITED KINGDOM

The British regional aid programmes divide the country into special development and development areas, both of which are classified by the EEC as peripheral regions. At a lower level of assistance, are the intermediate areas which are classified as central regions. Northern Ireland is treated as a region within its own category both by the national government and by the EEC.

The principal form of assistance is the Regional Development Grant which can automatically be claimed in the special development areas, to the amount of 22% net grant equivalent of the total investment and to a level of 20% in the development areas. It can be claimed on buildings, plant and machinery, so it can cover operating capital costs. In the intermediate areas, it can be claimed on buildings to a level of 20% of the investment. In Northern Ireland, the level is between 30 and 40%.

Additional regional aid comes under the general heading of Selective Financial Assistance, which is available on a discretionary basis in all the assisted areas. It is made available for a wide range of purposes to projects which will provide, maintain or safeguard employment. Assistance for such projects could take the form of loans at concessionary rates of interest, interest-relief grants, or removal grants. Such assistance can only be made available to projects with a real prospect of leading to long term viability. The most favourable terms under this scheme again of course exist in Northern Ireland.

Under Section 7 of the 1975 Industry Act lump grants proportional to the number of -jobs created in assisted areas are available service industries which relocate themselves. Assistance with the relocation costs and office rent relief grants are also provided. At least ten employees must be moved with their current work, with £800 being paid for each transfer, up to a limit of 50% of the number of additional jobs provided at the new location. A maximum of five years exemption of rent payments on approved premises may be given.

The national government itself has shown the way in relocating the service sector by disbursing 65% of government officials, that have been moved out of London, to the assisted areas. 14,000 posts in new government organisations have also been created outside London and 12,000 are to follow.

Other forms of regional assistance are listed as follows -

- 1) The provision of industrial sites - advance factories - with rent free periods.
- 2) Building grants
- 3) Grants and loans for the improvement of public services
- 4) Training grants
- 5) The development of new towns
- 6) The NEB which has the power to acquire equity in firms in need of external finance.

There are also subsidies available designed to forestall firms making redundancies. A £10 per week temporary employment premium payable for a period of three months and possibly six over a twelve month period is obtainable for each employee in a group of at least fifty who would

otherwise be made redundant. A recruitment scheme, designed primarily to help the young find work, pays a subsidy of £5 per week for a 26 week period for each young person recruited who left school before July 1975 and was unemployed. To be able to claim the Temporary Employment Premium and/or the recruitment subsidy a firm must be structurally sound.

Finally, it should be noted that the Regional Employment Premium still operates in Northern Ireland.

SECTION 4

THE SUCCESS WITH WHICH THE EEC HAVE IMPLEMENTED ARTICLES 92 and 93

Section 2 has already speculated on the success with which the Commission have instituted the text of Article 92 in the Community, though considering the content and effect of the Coordination Solution.

This section, therefore, will deal with the instances where the Commission have investigated a particular regional aid that is either operating in a Member State or has been proposed by the state.

It should be remembered that it is the obligation of each Member State to inform the Commission of all the regional instruments that are or will be in use in that state. Such an analysis should reveal the success with which the terms of the Coordination Solution have been instituted and should secondly reveal the real extent of the Commission's power in this field. If the Commission concludes that a particular regional aid is incompatible with the Treaty, then the state in question must abolish or alter the aid under fear of the matter being taken to the Court of Justice.

Luxembourg The Commission requested the amendment of the draft law of 28.7.73 with the main criticism of the law revolving around a lack of regional specificity.

Belgium The Belgium law of Economic Expansion was criticised by the Commission because it covered virtually the whole country and was not based on proper economic and social criteria.

The Commission concluded in its investigations of a BF 15,000 employment premium for small businesses in development areas that the premium involved such a small sum that it should be likely to have an insignificant effect on competition.

France The Commission instituted a 93(2) procedure in June 1972 against the PDR, the PLAT and also against certain tax concessions (allègements fiscaux). In fact, the procedure is still in operation against the tax concessions. The Commission questioned the economic and social evidence that had been used in classifying the aided areas that were to receive PDR and criticised the lack of regional specificity in the scaling of

the bonus rates. Finally, they disapproved of the fact that the scheme provided for the granting of pinpoint aids to areas outside the assisted areas other than Paris or Lyons.

In response, the French altered the geographical applicability of the aids, the variation in their level and the conditions of eligibility to the extent necessary counteract the Commission's criticisms. Certain areas can now only claim the premiums for a specified length of time. Finally the premiums were adjusted to enable them to meet the Commission's measurement criteria more satisfactorily.

In 1975 the Commission requested that the government apply regional assistance at the current level for no longer than two more years, and inform the Commission of any significant changes in assistance granted outside the specified areas, in the Ardennes département.

Germany In September 1974 the Commission accepted measures designed to rectify the exceptionally high level of unemployment by July 1975. In those areas where unemployment was half a point higher than the national average, firms were entitled to an allowance equivalent to 66% of gross wage costs, payable for a six month period. The scheme intended to provide jobs for about 90,000 unemployed persons.

A grant of DM 210 million was provided to absorb labour made redundant by Volkswagen particularly in areas experiencing a high level of unemployment. 18,000 people were involved and the grant was intended to cover a three year period.

Finally, the Commission took Germany to the Court over her failure to terminate blanket investment grants in the coalmining regions of North Rhine/Westphalia.

Holland The Commission instituted a 93(2) procedure against interest free loans which were not conditional on any restructuring programme. The Commission believed that such aid could well affect trading conditions contrary to the common interest, in the textile industry.

Italy Italy has to submit regular reports on the acquisition of holdings through IMI and GEPI, outlining the nature and effect of such acquisitions. The Commission requested this by reference to the powers conferred on it by Article 93(1).

The 93(2) procedure was instituted against Italy when the Commission felt that certain temporary acquisitions by the Friulia in the Friuli-Venezia-Giulie region were in fact merely salvage operations.

The procedure was also instituted against Law No. 623 which provides low interest rate loans to small and medium-sized businesses. The Commission was particularly worried about the criteria of eligibility that had been set. They disapproved of the fact that certain firms in the Centre and North were receiving this aid.

The Commission recently concluded that supplementary aids to Sicily in the form of employment premiums and supplementary grants were justified due to the severe economic backwardness that characterises the area.

United Kingdom

The Commission granted an exception to their established ceilings in respect of aid granted by the Scottish Highlands and Islands Development Board due to the backwardness of the region.

Conclusion A survey of the Commission's investigations into certain regional aid schemes does not give a complete picture of the work of the Competition Directorate. It is considerably more difficult to make an objective assessment of regional aids as compared to sectoral aids or general aids. The range of beneficiary undertakings covered is broader than would be the case with sectoral aids, thus the specificity criteria cannot be used in such definitive terms. This problem is particularly important as regards ensuring that unviable enterprises are simply not merely propped up through the receipt of such aids. However, given the limitations imposed on the Commission, in terms of finance and the possession of power, marked progress has been made in ensuring that those regional aids that are used by Member States lead to the minimum of distortion of the competitive forces. Even though, Member States have become notorious for adjusting the emphasis and importance placed on