Review of competences between the UK and EU

COMPETITION AND CONSUMER POLICY

Response to the government review from the Industrial Communities Alliance

Industrial Communities Alliance

The Industrial Communities Alliance is the all-party association of local authorities in the older industrial areas of England, Scotland and Wales.

The Alliance was formed in 2007 by the merger of the longer-established associations representing coal and steel areas and includes a wide range of other industrial areas. Over sixty local authorities are currently members. The role of the Alliance is to press for policies and funding streams that deliver economic, social and environmental regeneration in the areas represented by its member authorities.

Alliance local authorities cover many of the parts of Britain that have traditionally been designated as ‘Assisted Areas’ under the State Aid rules governing regional aid, which form part of EU competition policy. The Alliance and its predecessor bodies have been closely engaged with the EU rules since at least the late 1990s. Indeed, the experience within the Alliance on this aspect of competition policy is arguably second to none outside central government.

The focus of this response is therefore on EU competition policy as manifested in the EU rules on regional aid.

EU rules on regional aid: an overall perspective

The UK government and the devolved administrations provide financial assistance to companies to support investment projects that create or protect jobs in less prosperous regions. This form of ‘regional aid’, funded from the UK Exchequer, is regulated by EU rules.

The Alliance and its member authorities recognise the value of EU rules that prevent indiscriminate subsidies to firms that would distort the market and could lead to a damaging upward spiral in the value of aid to attract investment projects. In this respect, regulation works to all member states’ advantage.

On the other hand, the Alliance and its member authorities take the view that the regional aid provided to companies under EU rules has a major beneficial impact on the UK’s less prosperous regions. Employment and economic output in these areas are higher than would otherwise have been the case. Even so, in many areas the job of regeneration and renewal is far from finished and the recession and difficult economic conditions have often slowed or reversed previous positive trends.

The Alliance therefore welcomes the willingness of European Union to recognise that the need to ensure that fair competition across the EU is balanced by the opportunity for member states to provide aid to companies in less prosperous regions.

A question of balance

The Alliance also takes the view, however, that the balance has now swung too far in restricting the legitimate activities of member state governments in promoting growth in their own regions using their own money.

The latest Regional Aid Guidelines for 2014-20, which set out the EU rules, follow a trend of increasing constraints on the scope for member states to address the problems of their poorer areas. This is especially evident in two changes to previous arrangements:

Aid to large firms

In category ‘c’ Assisted Areas, which account for the vast majority of UK Assisted Areas, the new rules allow regional aid to large firms only where “it is granted for initial investments that create new economic activities in these areas, or for the diversification of existing establishments into new products or new process innovations”.

This is major step away from the previous arrangement, and one that was opposed by the UK Government, the devolved administrations and the Alliance. The effect is to seriously weaken the effectiveness of regional policies in the UK by making it much more difficult to support re-investment in existing large firms in the regions, even where this would have major positive effects on local employment.

Aid intensities

Reducing aid intensities also hinders the effectiveness of government intervention to address regional disparities. It is questionable whether there is any incentive effect when aid intensity ceilings are below 15 per cent of the project cost.

However, the new rules for 2014-20 reduce the maximum share of project costs that can be funded by regional aid to just 10 per cent for large firms (250 or more employees worldwide) in category ‘c’ Assisted Areas. The new rules have also lowered the aid intensity ceiling to large firms in the top-priority category ‘a’ areas (Cornwall and West Wales & the Valleys in the UK) to just 25 per cent.

Effective subsidiarity

The fundamental problem is that the EU takes the view that the rules on regional aid should address differences in prosperity across the EU as whole. Yet the larger member states, such as the UK, need rules that allow them to address their own internal disparities in economic prosperity:

- The provision of regional aid to companies should be treated as a legitimate and desirable activity of member state governments
- Rules are needed to ensure fair play, but the determination of how much money is spent and where, within the rules, ought to be a matter for member state governments
- Equally, the population coverage to which each member state is entitled under the EU rules should be calculated in relation to the imbalance within the member state, not across the EU as a whole
- The detailed designation of the Assisted Areas, likewise, should fall within the competence of the member state government

The present review is about the balance of competences between the EU and UK. The question of balance is at the heart of the Alliance assessment of the State Aid rules on regional aid. The EU does not allow sufficient flexibility for member state governments to address economic disparities within their own borders.

In conclusion

The EU has a legitimate role to play in regulating regional aid as part of competition policy, but the balance of competences needs to be shifted:

- Member states need the flexibility to support their own regions with their own money
- The acceptable scale of support in each member state should depend on the scale of regional disparities within that member state, not on EU-wide comparisons
- Member states should not be required to operate within the framework of aid intensity ceilings that are unlikely to be effective in delivering investment

Industrial Communities Alliance
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