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A stronger partnership for the outermost regions

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1. INTRODUCTION

The European Council of Seville¹ has asked the Commission to submit a report containing an overall and coherent assessment of the specific characteristics which affect the situation of the outermost regions. It also invited the Council and the Commission to press ahead with the implementation of Article 299(2) of the Treaty and to adopt suitable measures to take account of their special needs, in particular transport policy and the reform of regional policy. This communication presents the principal elements of this strategy which will be developed in more details in a future Report.

Seven of the regions in the European Union are classified as ‘outermost’. They are:

- the Spanish Autonomous Community of the Canary Islands;
- the four French overseas departments: Guadeloupe, French Guyana, Martinique and Réunion;
- the Portuguese autonomous regions of the Azores and Madeira.

Following implementation of the specific guidance programmes for remoteness and insularity (POSEI) in 1989 and 1991, specific measures for the outermost regions have been based on a recognition of their special features and a desire to promote their socio-economic development in a way which would encourage their convergence and integration with the rest of the European Union.

The recognition of their special status in Article 299(2) of the Treaty is based on the principles of equality and proportionality which allow differing treatment to take account of the distinct situation of those regions. Under that status, the European Union adapts Community measures so that those living in the outermost regions can enjoy the same opportunities as those in the Union as a whole. It should also be noted that since 1989 cohesion policy has worked to offset the economic and social disparities affecting these regions, which benefit from a higher level of financial support from the Structural Funds and, in the case of those forming part of Portugal and Spain, the Cohesion Fund.

The outermost regions have to cope with the specific constraints listed in the Treaty – remoteness, insularity, small size, difficult topography and climate, economic dependence on a few products – all factors the permanence and combination of which severely restrain their development. They share features which accentuate their isolation and render their socio-economic conditions and development still more fragile (these include the very low level of economic diversification, which is based primarily on tourism and agriculture).

The request of the European Council of Seville has furthermore been supported on a number of occasions by the European Parliament, the European Economic and Social Committee and the Committee of the Regions, which have constantly placed the need to implement a genuine strategy for the outermost regions at the head of the list of priorities to be developed.

The outermost regions and the three Member States concerned have also sent regular memoranda to the European institutions. The Commission has studied these carefully as part of its partnership relations with these regions on used them as a basis for preparing a strategy for their development.

This communication sets out the operational recommendations in the Commission’s working paper *A stronger partnership for the outermost regions: situation and prospects*.

¹ Paragraph 58 of the conclusions of the Seville European Council on 21 and 22 June 2002.

The Commission has accordingly selected three priorities for action which will guide the future development strategy for these regions: competitiveness, access and the offsetting of other constraints and integration into the regional area (including in particular justice and home affairs). These priorities run alongside the efforts being made by the Community under the Lisbon and Göteborg strategy for a competitive European Union capable of sustainable economic development. The priorities for the outermost regions will therefore be implemented through special instruments: the policy on economic and social cohesion through its financial instruments and the other Community policies.

To develop this action plan, the Commission intends to consolidate its partnership relations by systematically associating the representatives of the national authorities directly concerned with the meetings between the Commission and the Monitoring Committee for the outermost regions. It also intends to increase the number of thematic and targeted forums bringing together the economic and social partners and non-governmental organisations.

2. MEASURES STEMMING FROM THE THIRD COHESION REPORT

On 18 February 2004 the Commission adopted the third report on economic and social cohesion whose conclusions contain its proposals for a reformed cohesion policy after 2006, including the general context of the reform of the cohesion policy, the specific programme to compensate for additional costs and the wider neighbourhood action plan. It constitutes the background to the future status of the outermost regions².

2.1. The measures in the general context of the reform of the cohesion policy

Regarding the action of the Structural Funds and in the framework of the reform of the future cohesion policy, it is foreseen to make the outermost regions eligible for any one of the objective depending on their relative level of development.

It should be emphasised that it is still too soon to pronounce on the future status of the seven outermost regions under the reformed cohesion policy since the eligibility of any of the Union's regions for that policy will not be known until the financial perspective is adopted on the basis of per capita GDP statistics for the last three years available when the decision is taken. However, the trends of their current levels of development suggest that all the outermost regions should be eligible under the future cohesion policy under either the 'Convergence' or the 'Regional competitiveness and employment' objective and will benefit under the 'European territorial cooperation' objective.

Besides the common rules on programming, management, inspection and the evaluation of the projects part-financed, the Commission is proposing that the future rules on the cohesion policy should provide for an increased rate of assistance to the outermost regions. This will include raising the ceiling on assistance for the 'Convergence' and 'Regional competitiveness and employment' priorities to 85%.

² Extracts from the conclusions of the 3rd Cohesion Report of 18 February 2004: "The Commission intends, within the convergence objective, to set up a specific programme to compensate for the specific constraints of the outermost regions, as recognised by Article 299(2) of the Treaty and requested by the European Council of 21-22 June 2002 in Seville. In addition, an action "Grand voisinage" aimed at facilitating cooperation with the neighbouring countries would be included under the new "European territorial cooperation" programmes. In accordance with the request of the Council, the Commission will shortly present a report on an overall strategy for the outermost regions."

2.2. The specific programme to compensate for additional costs

The conclusions of third Cohesion Report of 18 February 2004 stated “the Commission intends, within the convergence objective, to set up a specific programme to take into account for the specific constraints of the outermost regions, as recognised by Article 299(2) of the Treaty and requested by the European Council of 21 and 22 June 2002 in Seville.”

The cohesion policy should act both to reduce the impact of the handicaps listed in Article 299(2) and to increase the competitiveness of these isolated economies.

Although the measures taken by the Union with regard to the outermost regions have proved successful, constraints mean that their development and integration are still lagging behind those of other regions of the Union. Poor access and obstacles to their firms’ competitiveness in the context of the single market remain.

Although the gradual removal of trade barriers within the European single market has increased economies of scale and external economies in most regions, the natural barriers to trade which still exist in the outermost regions weaken the position of firms located there compared with those in regions which enjoy full access to the Community market. Firms in the outermost regions remain restricted to a limited local market which is fragmented and remote and which does not enable them to benefit on equal terms from economies of scale and external economies.

It also appears that certain Community policies do not take adequate account of the special features of these regions. The inappropriate nature of certain Community instruments is due mainly to their having been designed for the Community as a whole without incorporating the specific dimension of the outermost regions. Three sectors illustrate this point to differing degrees: the environment, transport and the internal market.

In the case of sustainable development, in a quest for synergy all Community policies include obligations relating to the preservation of the environment. In the desire to preserve their ecosystem, the outermost regions spend a substantial amount of money, particularly under their regional programmes, on developing appropriate environment-related infrastructure. As regards environmental concerns, it should be noted that certain obligations are still disproportionate in view, in particular, of the remoteness and small size of these regions. For example, some categories of waste cannot be processed on the spot and have to be sent to treatment centres on mainland Europe. The result is a constant burden of additional costs falling solely on the outermost regions.

The recasting of the guidelines on the trans-European transport networks (TEN-T) is part of an approach clearly centred on the continental European network in preparation for enlargement. At the same time as these networks are being designed to improve the integration of the central outlying regions of the Union by improving high-capacity links so as to preserve the competitiveness of the European economy, the outermost regions remain isolated and distant in their local markets with projects to interconnect them and link them to mainland Europe receiving only low priority. The financing of transport infrastructure under the Structural Funds resolves the problem of building modern high-capacity infrastructure but is not intended to provide a satisfactory answer to the problems of access, particularly internal access, the additional costs engendered by the geographical situation of the outermost regions, the impact of limited competition and the absence of intermodal competition in the other mainland regions.

A final example is the process of building the single market, which has not had the positive effects supposed in these remote regions. The impact of economic liberalisation in the regulated sectors, particularly public services, has had certain consequences for competition and the prices of these

services in the outermost regions. Because the markets are small, *de facto* monopoly situations have been created which reduce the competitiveness of the whole economy of these regions and generate inflationary effects. It has also impeded the maintenance of balancing systems to ensure a single pricing scale throughout the national territory. The conclusion is not that this attempt at liberalisation should be discontinued in the outermost regions but rather that it should be supported through the national and Community instruments available for improving competition (particularly Articles 81 and 82 of the EC Treaty, public service obligations and other instruments of regulated liberalisation).

These factors plead for the creation of a specific programme to offset the constraints on the outermost regions adapted to their special features and financed by the European Regional Development Fund (ERDF) under the financial perspective for 2007-13. The aims are initially to reduce difficulties of access from these regions not only to mainland Europe but also from one region to another and within the regions and then to increase the competitiveness of their firms. The programme's objective will be grouped in three fields:

- (1) **Difficulties of access due to their great isolation, fragmentation and topography:** the aim will be to reduce the impact of the main constraints affecting these regions, i.e. isolation, fragmentation and difficult topography and so improve their capacity for economic access, particularly to the Community market. Particular attention will be paid to freight transport, energy supplies and access to the communications and information technology networks and services.
- (2) **Small regional markets, breaking bulk and no or inadequate economic diversification:** the aim will be to take account of a number of constraints arising from the small size of markets in these regions. To combat the lack of adequate economic diversification, greater support will be given to innovative sectors, including measures for research and innovation (for those which have not yet been financed under the framework programme for research and development or the instruments of the cohesion policy), the training of human resources and the promotion of local products outside these regions.
- (3) **Environmental and climatic difficulties (including cyclones, volcanic activity and earthquakes) and the preservation of biodiversity:** measures should concentrate on improving environmental conditions, the treatment of waste and taking into account the additional costs generated by particular climatic conditions.

The arrangements for assistance under this programme will be strictly defined. In general, the applicable principles under the general reform of the cohesion policy, programming, partnership, additionality, evaluation and coordination with the other existing Community financial instruments, will apply to the specific programme for the outermost regions. Compliance with the other Community policies (particularly competition policy and the rules on public contracts) will have to be guaranteed.

The Commission will propose using Article 299(2) of the Treaty to adjust the rules on the eligibility of expenditure under the ERDF to include operating aid intended to take into account extra costs. With specific reference to mobile transport assets, the Commission could be open to authorising their part-financing if they are used only for communications within the outermost regions and between outermost regions in the same geographical area.

The maximum rate of part-finance would be 50% of the total eligible cost

To ensure that the specific programme has a real economic impact on the outermost regions, the Community funding allocated would not replace structural public or similar expenditure by the Member States concerned.

2.3. The ‘wider neighbourhood’ action plan

The third Cohesion Report of 18 February 2004 announced that a ‘wider neighbourhood’ measure to facilitate cooperation with neighbouring countries would be included as one of the new programmes for “European territorial cooperation”.

One of the most promising of the Union’s approaches to assistance concerns the strengthening of the economic, social and cultural links between the outermost regions and neighbouring territories. The aim is to enlarge the natural area of socio-economic and cultural influence of the outermost regions (including the treatment of questions concerning migratory populations) by reducing the barriers which restrict trade with their geographical neighbours. These regions are very far from the European mainland but very close to the geographical markets of the Caribbean, America and Africa, particularly those of the ACP countries.³

This will require the coherent development of trade in goods and services and the movement of people, along with exchanges of experience. The Commission proposes that the wider neighbourhood action plan should be based on two main principles: transnational and cross-border cooperation, commercial trade, and customs measures. This action plan will also have to be accompanied by a campaign to raise the awareness of all those concerned, including Commission delegations in non-member countries, of the importance of the challenge facing the outermost regions and their neighbours.

2.3.1. Transnational and cross-border cooperation

The Commission has given consideration both to ways of improving cooperation among the outermost regions and their neighbours and to the priorities for such cooperation.

In the context of the ‘European territorial cooperation’ objective of the reformed cohesion policy, the Commission intends to improve transnational and cross-border cooperation to the benefit of the outermost regions. Some of the funding allocated to cross-border cooperation in the outermost regions could be allocated to projects implemented with neighbouring non-member countries (particularly the ACP countries and those around the Mediterranean). That derogation from the territorial rules on eligibility would be based on Article 299(2) of the Treaty. It is justified by the constraints on the outermost regions and efficient cooperation work.

Furthermore, the cooperation programmes could be coordinated at the level of programming and implementation with the regional indicative programmes (RIP) financed by the European Development Fund (EDF) in the ACP countries. In the overseas countries and territories and where there is no RIP, the measures financed could be requested by the authorities of those countries and fall under the cooperation fields listed in the decision to associate the overseas countries and territories with the EU⁴. Finally, the possible budgetisation of the EDF will allow this coordination strategy to be improved, by allowing specific funding from the RIP to be earmarked to step up cooperation between the outermost regions and the ACP countries.

³ African, Caribbean and Pacific countries parties to the ACP – EC Partnership Agreement signed in Cotonou on 23 June 2000 (OJ L 317, 15.12.2000, p. 3).

⁴ Council Decision of 27 November 2001 (OJ L 314, 30.11.2001, p. 1).

Except in the two cases below based on Article 299(2) of the Treaty, the management arrangements provide for no particular exceptions to the system for the whole of the cooperation objective of the reform:

- In the case of ERDF assistance to non-member countries, as far as the implementation of the projects is concerned, the national authorities of the Member States concerned will be financially responsible for implementation and compliance with the Treaty and acts adopted pursuant thereto and with Community policies and measures, including in particular those concerning the competition rules, the award of public contracts and the protection and improvement of the environment.
- There should also be provision for limited Community assistance under the ERDF to allow operating aid to be financed. This would apply on a case-by-case basis only to start-up aid for transport services between the outermost regions and neighbouring non-member countries. Such aid would be strictly monitored to avoid distorting competition with non-Community carriers on the lines affected and provoking a reaction from the non-member countries concerned.

The priorities for the European territorial cooperation objective will require the following three guidelines to be particularly taken into account:

- Facilitating exchanges as regards transport, services and the information and communications technologies. There should be better coordination with existing agreements and programmes.
- Facilitating exchanges of persons: to be effective, cooperation should be based on the easier movement of nationals of neighbouring non-member countries whose papers are in order. This type of exchange is essential to facilitate the economic integration of the outermost regions into their area and to enable their neighbours to secure maximum advantage for their development from this cooperation.
- These exchanges will also have to take account of the fight against illegal immigration. The general measures which the Commission is already contemplating under the justice and home affairs policy and for the territories covered by the Schengen Agreement – a European Agency to improve the management of operational cooperation, a programme for technical and financial assistance to non-member countries as regards asylum and immigration⁵ and the launch of preparatory measures for 2004 and 2005 for integrated return programmes – will be required to take particular account of the specific needs of the outermost regions in these fields. Account would also have to be taken in programming cooperation with the ACP countries in the Caribbean and the Indian Ocean at national and regional level of migratory flows in accordance with the spirit of Article 13(4) of the Cotonou Agreement.
- Exchanges of experience as regards regional integration: for the best use to be made of the trade aspect of this action plan (see above), cooperation should also be based on exchanges of experience as regards regional integration and support for economic cooperation and trade between the outermost regions and their neighbours. The aim is to support and anticipate the establishment of economic partnerships between ACP countries because the outermost

⁵ Regulation (EC) No 491/2004 of the European Parliament and of the Council of 10 March 2004 establishing a programme for technical and financial assistance to third countries in the areas of migration and asylum (AENEAS). OJ L 80, 18.3.2004, p. 1.

regions have every interest in monitoring and perhaps associating themselves with the processes of regional integration which are taking place in their geographical areas.

2.3.2. *Trade and customs policy measures*

Trade policy may serve to improve the integration of the outermost regions into their regional economy, both in terms of goods and services and in other trade-related fields (intellectual property rights, health and plant-health measures, etc.). A distinction should be made between agreements with the ACP countries and other Union agreements and measures.

- (1) **ACP:** The Cotonou Agreement already makes provision for the conclusion of ACP-EU economic partnership agreements (EPA) which, by the end of 2007, will increase economic and trade cooperation, including free-trade areas between the ACP countries (grouped in trading blocs) and the European Union, which will be compatible with WTO rules. The main interest of the EU in these agreements is to step up the economic integration of the ACP countries in order to promote their sustainable development. It is vital for the outermost regions to be associated with this.

This means that account should be taken of their specific interests in the negotiation of the ACP-EU EPAs. This will require the prior and exact identification of the interests of each of the outermost regions in regional trade flows, having regard to economic complementarity between these regions and the ACP countries. To that end, the Commission will invite the regions and Member States to notify it of the sectors and types of trade they consider important for the outermost regions. The Commission will assess these notifications in the exercise of its powers. The same approach could be followed for trade in services and trade-related fields in order to identify the specific interests of the outermost regions.

This new context of stronger trade relations with their neighbours should also allow the French overseas departments and the Canary Islands to begin considering how to coordinate on trade and customs instruments and tax instruments such as dock dues and the ‘Arbitrio sobre las Importaciones y Entregas de Mercancías en las Islas Canarias’.

- (2) **Other agreements and measures:** With regard to the Union’s new preferential agreements with other non-member countries, the Commission will carry out an analysis of the impact of these agreements on the economy of the outermost regions. It will draw the relevant conclusions as to the measures which these regions could take to seize opportunities to promote their economic and commercial activities and meet the challenges of adjustment and the other questions stemming from trade measures and agreements.

In this context, the Commission is also willing to consider the reduction, even elimination, of common customs tariff duties in order to allow the supply of non-agricultural raw materials to promote production in the outermost regions. Furthermore, in duly justified circumstances, the Commission is also willing to consider applications for the temporary suspension of tariff duties in those same sectors. In the case of fisheries products, any such measure would be approved only for products intended for the local market. In order to contribute to regional integration, it is necessary to verify if raw materials for which suspension of tariffs are requested, are not available in the geographical area concerned.

3. IMPLEMENTATION OF THE DEVELOPMENT STRATEGY IN THE OTHER COMMUNITY POLICIES

The instruments used under the other Community policies help implement the development strategy for the outermost regions and provide a consistent complement to the ‘wider neighbourhood’ action plan.

3.1. Measures concerning competitiveness and growth

The outermost regions suffer from extra production costs because of on-going handicaps which individually and in combination seriously hinder the development of certain sectors. These additional costs impact on most of the sectors of the local economy producing goods and services, resulting in very poor diversification, an economy which is weak in job-creation and a higher degree of dependence than in the rest of the Union. The Council has noted these economic handicaps, particularly when it adopted the specific taxation arrangements for the Canary Islands and the French overseas departments: the ‘Arbitrio sobre las Importaciones y Entregas de Mercancías en las Islas Canarias’ in 2001 and dock dues in 2004.

- **The development of human resources is the key to economic and social cohesion.** Human resources are vital for economic development and competitiveness in the knowledge society and so a considerable effort is needed in this area. The outermost regions are requested to monitor at local level the special features and trends of their labour markets and draw up a strategy in a regional employment plan. So far, these regions have not availed themselves of the innovative measures financed by the European Social Fund and the Commission would strongly encourage them to do so in the future.
- **Public services** have a key role in achieving the Union’s objectives. The existence of a network of public services is of vital importance for social cohesion. The availability of efficient services in the outermost regions is of the utmost importance for the establishment of productive activities as regards both the firms which use them and the workers employed there.

One feature of these regions very distant from mainland Europe and isolated in the geographical area where they are located is that they suffer from the small size of their markets, particularly the lack of any real competition between economic operators, whether public or private. Market forces alone are not enough to secure an optimal distribution of resources in these territories for the benefit of society as a whole. It would be helpful to have a study providing accurate case-by-case information on how such forces operate in the outermost regions.

The operation in the outermost regions of sectors such as transport services, telecommunications (both fixed and mobile) and electricity and gas will be considered in depth by a working party established to make appropriate suggestions.

- **Innovation, the information society and research and technological development:** the Commission will ensure that account is taken of the specific situation of the outermost regions in achieving the objectives of the Lisbon strategy. The reforms begun must enable these regions remote from mainland Europe to improve their economic performance, participate in stimulating growth, create jobs and avoid the risks of exclusion.

Firms in the outermost regions must overcome their isolation and cope better with the pressures exercised on the markets by adopting a policy of successful innovation in the form

of inventions in the broadest sense, incorporating into their own production processes ideas from other sectors of activity and redesigning their existing products and services so as to adapt supply to demand from new and hitherto unexploited markets.

The Commission invites the outermost regions to submit a specific programme for an ‘Innovative measures’ network including other European regions suffering from problems similar to those which affect them (the islands, small regions, tourist areas, etc.) or using innovative approaches which could be transposed to the outermost regions (access to the internet by high-speed or satellite connections, etc.). The Commission will therefore part-finance specific programmes for the establishment and work of networks covering at least five regions in at least five Member States.

The Commission will ensure that in 2003-05 the outermost regions do not suffer from discriminatory practices with regard to the new information and communications technologies, and in particular controls on tariffs and the prices of telecommunications services; it will encourage price reductions through increased competition. A short-term study will be carried out on obstacles to access to telecommunications services in these regions. At the same time, the Commission will continue to lay down guidelines to improve the effectiveness of the telecommunications Directive in the outermost regions, expand access to broad-band networks and eliminate tariff discrimination.

The *Guidelines on criteria and modalities of implementation of Structural Funds in support of electronic communications* of 28 July 2003⁶ should allow the development of initiatives based on the provision of broad-band in the outermost regions and the development of services at affordable prices there. On the same lines, one of the ‘Quick-start’ projects under the European initiative for growth⁷ deals with the European coverage of remote and rural regions. This project is eligible under the Structural Funds in 2000-06.

To achieve the Lisbon objectives and thoroughly integrate the outermost regions into the European Research Area, a substantial increase in research and technological development (RDT) activities in the fields of particular interest to them would be desirable. The framework programme for research and technological offers the outermost regions a variety of ways of increasing their RDT capacity, principally by participating in projects or activities to coordinate research and innovation programmes with national and regional plans (the ERA-NET scheme, open to the regions) and in measures for research infrastructure. The current level of participation in these activities and projects by the outermost regions could be substantially increased by the introduction of appropriate information and promotion measures.

Although there are useful sources of information (the CORDIS site⁸ for example) accessible to all the bodies which wish to participate in the framework programme, information work in the area of RDT should be improved to meet the specific needs of the outermost regions.

Analyses and forward studies in the field of research and innovation and in connection with the socio-economic data on development should result in monitoring systems with indicators and an observatory of changes in such data in these seven regions to encourage trade and the dissemination of good practice. They would be carried out by a group of intra-regional experts from the outermost regions in coordination with international experts following the

⁶ SEC (2003) 895.

⁷ COM (2003) 690 final.

⁸ <http://www.cordis.lu>

example of the Mutual Learning Platform and should be established by the Commission for its approaches in the regional aspect of research.

If efforts can be concentrated through the regional specialisation of research, it will be easier for the research groups in the outermost regions to step up their efforts to participate in and respond more actively to calls under the framework programme.

The outermost regions are also invited to make full use of the additional part-financing available under the Structural Funds for projects part-financed by the 6th framework programme⁹. For bodies which have received part-financing under the 6th framework programme to obtain extra part-financing from the Structural Funds, they must apply to the authorities managing one of the Structural Funds programmes. If these programmes do not include measures allowing the projects in question to be financed, the managing authorities may request an amendment to the programmes following the procedures laid down for the management of the Structural Funds.

- **The environment:** the Commission will systematically encourage specific applications from the outermost regions designed to improve the environment using all the instruments available, including the 6th Programme of Community action for the environment which allows account to be taken of the desire to preserve the environment of the outermost regions.

3.2. Action on the constraints on the outermost regions

3.2.1. Access

Offsetting the impact of problems affecting access by the outermost regions to the Community is one of its main priorities. In general, use of the existing instruments in the field of air and sea transport (public service obligations, social and regional aid) is vigorously encouraged. The links concerned are those between the outermost regions and mainland Europe (in both directions), between the outermost regions themselves and within those regions.

In all cases, the Commission will pay attention to the competition conditions generated by the system introduced. The aid granted may not be used to bolster the dominant position of transport operators.

The Commission recommendations in this field are as follows:

- The procedure for introducing public service obligations could be made more flexible, particularly to obtain an extension of the concession regarding obligations to provide air services.
- The Commission is willing to consider any suggestions by the outermost regions to make short sea journeys between them and mainland Europe more viable.
- As regards local transport, the introduction of alternative public transport systems and better integration between the various existing modes of public transport part-financed at Community level could reduce the serious problems of congestion which exist.

⁹ The possibility of receiving additional part-financing is restricted to bodies in *regions whose development is lagging behind* (Objective 1) or those receiving *transitional support under Objective 1* – Decision 1513/2002/EC of 27 June 2002 on the sixth framework programme, OJ L 232, 29.8.2002, Annex III.

- The Commission Regulation on *de minimis* aids will be amended to extend its scope to firms in the transport sector (all modes of transport will be covered, including river transport, except for aid for the purchase of vehicles by road hauliers).
- In the case of State aid for sea transport, the Commission recently authorised operating aid to introduce short-distance services between ports in the European Union¹⁰. Such start-up aid, limited to the first three years of service, may not exceed 30% of the total cost of the new services introduced. It is also planned to simplify the rules (*de minimis* arrangements) on the grant of public service contracts for services to small islands generating traffic of less than 100 000 passengers per year. Such simplification would entail exemption from notifications and calls for tenders in respect of purely local transport.
- As part of the revision of the guidelines on State aids for regional purposes, it is proposed to authorise compensation for the extra costs entailed in the transport of goods within the Union market and not simply, as now, within the national frontiers of the country concerned if a Member State suggests such arrangements for one of the outermost regions. The calculation of the extra costs will be based on the transport costs incurred between an outermost region and the country to which it belongs, without the goods necessarily moving from the region to that country before reaching their destination in one of the Member States.

3.2.2. *State aid*

To ensure that the development strategy for the outermost regions is effective and coherent, the special situation of these regions must also be taken into account when the guidelines on State aids for regional purposes are revised. Accordingly, the Commission intends to propose that:

- the outermost regions eligible under the ‘convergence’ objective should receive special treatment and be eligible under Article 87(3)(a) of the Treaty;
- the outermost regions eligible under the ‘convergence’ objective but which, under the cohesion policy, will suffer from the ‘statistical exclusion effect’ or which will not be covered by the new ‘convergence’ objective, will benefit from a specific transitional State aid scheme setting limits to aid which will be comparable at first with those laid down under Article 87(3)(a). They will then be gradually reduced;
- the Commission also intends to grant the outermost regions an increase of 10 percentage points in the intensity of regional aid for initial investment which it has laid down for regions eligible for a derogation under Article 87(3)(a) and (c) in a similar socio-economic position.

In the case of operating aid, the principle of non-degressivity and of non-limitation in time for all the outermost regions will be maintained, whatever the purpose of the aid (environment, research and development, etc.), without prejudice to further adjustments which the Commission could consider. The provisions to ensure that the aid granted is proportionate to the handicaps to be offset will also be retained.

In procedural terms, a draft Commission regulation will specify the formalities concerning the obligations to notify and monitor State aid.

¹⁰ OJ C 13, 17.1.2004, p. 3.

3.2.3. *Traditional production in agriculture and fisheries*

Agricultural production in the outermost regions is extremely precarious because of the natural and economic factors affecting production. It still constitutes a substantial part of the local economy, particularly in terms of jobs, and also helps support the local agri-food industry, which accounts for the bulk of industrial production in these regions.

The guidelines for agriculture may be summarised as follows:

- Under the future Rural Development Fund, the Commission will ensure that the Community effort as regards the regional allocation of financial resources and the intensity of aid takes account of the specific handicaps of the outermost regions.
- In the case of bananas, the Commission has already launched an exercise to evaluate the market organisation and report to the Council and the European Parliament before the end of 2004. This will consider possible improvements to the aid mechanisms for Community producers. As regards the external aspect of the market organisation, at the current stage of reflection on its reform, the Commission intends to institute an appropriate level of tariffs on the basis of the latest available information.
- In its reform of the market organisation for sugar, the Commission will ensure differentiated treatment for the outermost regions based on their specific characteristics.
- As regards Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 (on the POSEI measures in the agricultural sector) and following the 2003 reform of the common agricultural policy, there is still a need to ensure the stability of the resources allocated to maintaining support for the outermost regions and, as far as possible, to decentralise decision taking and simplify the management arrangements.

In the fisheries sector, the Commission considers it particularly important that the common fisheries policy take account of the special features of the outermost regions. Consistency between the internal and external aspects of the CFP is also a constant concern. The other guidelines may be summarised as follows:

- Under the future Financial Instrument for Fisheries Guidance, the Commission will ensure that the Community effort after 2006 under the common fisheries policy (in terms of the regional allocation of financial resources and the intensity of aid) takes account of the specific handicaps of the outermost regions and of the needs identified.
- The establishment of Regional Advisory Councils should provide a forum where the outermost regions can participate actively in discussions on the sustainable exploitation of fisheries resources in these parts of the oceans. A similar body should be set up for the outermost regions, particularly the most isolated (French Guyana and Réunion) in their local maritime zone, which is close to that of non-member countries.
- The guidelines for examining State aids in the fisheries and aquaculture sector will be revised in 2004. On that occasion, particular attention will be paid to continuing the favourable treatment which the outermost regions currently enjoy.

4. TOWARDS AN INSTRUMENT FOR THE SYSTEMATIC EVALUATION OF THE HANDICAPS OF THE OUTERMOST REGIONS AND COMMUNITY MEASURES

The Commission already possesses many facts and precise quantified data on the extra costs and constraints affecting the outermost regions when Community policies are implemented. However, all these data need to be consolidated into a global and horizontal multisectoral system for evaluating the handicaps of the outermost regions and the Community measures, particularly the forthcoming specific programme to take into account constraints. On that occasion, the Commission will ensure that the compensation for additional costs provided by the various instruments complies with the rules on the cumulation of State aids.

The Commission also intends to further analyse the factors affecting the competitiveness of the outermost regions.

It will do so jointly with the national and regional authorities, which will require the regular collection of data on the regions in question. This will necessitate the networking of the statistical institutes concerned.

This analysis could also result in an adjustment of existing programmes in the various sectors such as agriculture and fisheries and the assessment of measures concerning competition, taxation and regional policy.

5. CONCLUSIONS

The European Union must deal with one of the biggest challenges in its history: an enlargement which requires fundamental institutional reforms, a reaffirmation of its fundamental values and thorough consideration of the mechanisms to ensure its economic, social and territorial cohesion.

To guarantee equal opportunities for all its regions and all its citizens and to promote growth it must introduce and operate relevant and effective mechanisms.

This is the background against which these regions must not only preserve the development which they have achieved, mainly thanks to Community measures, but also engage in a strategy of adjusting to both the specific situation of Europe and their own.

These recommendations from the Commission look across the board at the main questions affecting the development and integration of the outermost regions. They are grouped around three pillars of analysis and measures: access by the outermost regions, their competitiveness and cooperation with the other regions of Europe and their integration into their area.

On this basis, the Commission will develop for the outermost regions the measures described in this communication. This strategy will be implemented gradually in the light of the various calendars for the policies concerned by the measures to be taken. Besides the proposals for measures under the various Community policies, two new initiatives will be proposed: a specific programme to take into account extra costs and an action plan for the 'wider neighbourhood'. As part of the future rules on the cohesion policy, the Commission will put forward appropriate legislative measures to establish these two initiatives. As can be seen from the assessment in the Commission's report detailing the measures, it has already proposed to the Council a variety of measures and has continued the action programme which it described in its March 2000 report. It must now continue that work in line with the Lisbon and Göteborg process so that the outermost regions can achieve their full potential.