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Annex to the

Communication from the Commission

**on a stronger partnership strengthened for the outermost regions:
assessment and prospects**

Communication of the Commission COM (2004) 343 of 26 May 2004

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1. INTRODUCTION

1.1. Background and purpose

Following implementation of the specific guidance programmes for remoteness and insularity (POSEI) in 1989 and 1991, specific measures have been adopted for the three groups of outermost regions (the French overseas departments, the Canary Islands, Azores and Madeira) based on a recognition of their special features and designed to promote their socio-economic development and so assisting their convergence with the other regions of the European Community and their integration with the rest of the European Union¹.

The structural policies and measures to support traditional production in agriculture and fisheries were the main features of the range of measures adopted for the outermost regions. However, for several years, and particularly since the Amsterdam European Council included a provision specifically devoted to the outermost regions in the Treaty on the European Community, Article 299(2), the horizontal dimension, taking account of the outermost regions in all Community policies, has gradually expanded.

This process has been regularly stressed and encouraged by the memoranda which the outermost regions and the three Member States concerned have regularly sent to the European institutions², most recently to the European Commission on 2 June 2003, and by the partnership relations which the Commission has established with these regions. In their six-monthly conclusions and resolutions, the European Councils³ and the European Parliament⁴ have also regularly placed the need to implement a real strategy for the outermost regions high on their list of priorities. That invitation has also been supported by the Economic and Social Committee and the Committee of the Regions⁵.

¹ Council Regulation (EEC) No 3763/91 of 16 December 1991 introducing specific measures in respect of certain agricultural products for the benefit of the French overseas departments (OJ L 356, 24.12.1991). and Council Regulations (EEC) No 1600/92 of 15 June 1992 concerning specific measures for the Azores and Madeira relating to certain agricultural products and Council Regulation (EEC) No 1601/92 of 15 June 1992 concerning specific measures for the Canary Islands with regard to certain agricultural products (OJ L 173, 27.6.1992).

² Joint memorandum from the outermost regions, 5 March 1999, Memoranda from the Spanish government of November 1999, the Portuguese government of November 1999, and the French government of 10 December 1999, and joint memorandum from Spain, France, Portugal and from the outermost regions of 2 June 2003.

³ Paragraph 38 of the conclusions of the Cologne European Council of 4 June 1999, paragraph 59 of the conclusions of the Lisbon European Council of 24 March 2000, paragraph 53 of the conclusions of the Feira European Council of 20 June 2000, paragraph 58 of the conclusions of the Seville European Council of 20 and 21 June 2002.

⁴ Resolution of the European Parliament of 24 April 1997 on development problems in the outermost regions of the European Union (OJ C 150, 19.5.1997, p.62) and Resolution of the European Parliament of 25 October 2000 on the Commission report on measures to implement Article 299(2) to the outermost regions of the European Union. OJ C 197, 12.7.2002, p.197.

⁵ Opinion of the Committee of the Regions of 13 December 2000 on the problems of the outermost regions in connection with the report on the implementation of Article 299(2). OJ C 144, 16.5.2001, p.11.

Opinion of the Economic and Social Committee of 29 and 30 May 2002 on the outermost regions of the EU and implementation of Article 299. CES 682/2002

Two Commission reports, of 14 March 2000 and 19 December 2002⁶, assessed the whole range of measures adopted for the outermost regions and the prospects for their greater convergence and integration.

However, in view of the enlargement of the European Union and following the invitation issued by the Seville European Council in June 2002, are now needed guidelines for a future strategy for the outermost regions in an enlarged Union are now needed. We have to build on the substantial results already achieved, take them further and adjust them to retain the objective of the convergence of these regions while developing their strengths and incorporating the initiatives for them into the new priorities which the European Union is now setting itself. That is the goal of the Communication adopted by the Commission on the 26th May 2004 (COM (2004) 343) which is completed by the current report by introducing the assessment and the prospects regarding the outermost regions.

1.2. The mandate of the Seville European Council and the memorandum of 2 June 2003

Paragraph 58 of the conclusions of the Seville European Council of 21 and 22 June 2002 invited the Council and the Commission to press ahead with the implementation of Article 299(2) of the EC Treaty and to adopt suitable measures to take account of the special needs of the outermost regions, in particular transport policy and the reform of regional policy. That European Council also asked the Commission to present a new report setting out a global and coherent approach to the special characteristics of the situation in the outermost regions and ways of addressing them⁷.

The mandate of the European Council stressed the place of the outermost regions in the reform of regional policy and the importance of transport as regards the key topic of access by them.

The memorandum which France, Spain, Portugal and the seven outermost regions sent to the Commission on 2 June 2003 supported the strategy for the development of these regions adopted hitherto and asked for it to be extended. It noted the unique geographical and economic circumstances of the outermost regions and insisted on the need to continue that recognition using a legal basis in primary law contained in the future Constitution of the Union. This acknowledgement of a special status enshrined in the Treaty is based on the principles of equality and proportionality which allow differing treatment to take account of the distinct situation in these regions so that citizens living there can enjoy the same opportunities as those in the Union as a whole and so that Community action may be modulated. It calls for coherent and effective action by making proposals regarding the policies on economic and social cohesion, agricultural and fisheries, competition and state aid, taxation and customs, enterprise policy, the environment, energy, research, transport, the new information and communications technologies and regional cooperation. This memorandum,

⁶ COM (2000) 147 final of 14.3.2000 and COM (2002) 723 final of 19.12.2002.

⁷ The European Council invites the Council and the Commission to press ahead with implementation of Article 299(2) of the Treaty, which recognises the specific nature of the outermost regions and to submit suitable proposals for their special needs to be taken into account through the various common policies, in particular transport policy, in the reform of certain policies, in particular regional policy. In this connection, the European Council notes that the Commission intends to submit a new report on those regions, built on a global and coherent approach to the special characteristics of their situation and to ways of addressing them. European Council of 21 and 22 June 2002. SN 200/02

along with the many contacts between the Commission, the three Member States and the outermost regions has given much food for thought and provided the basis for very valuable discussions.

1.3. Structure and content of the report

This report is in two parts: an assessment of the situation after 2000 (which is both the Commission's last summary report on the situation and the start of the current programming period of the Structural Funds) and the content of the strategy for the future.

The assessment describes the challenges which will have to be met in this period of crucial importance for the future of the Union and the regions and contains recent data on socio-economic trends in the outermost regions. It also describes the work of the structural instruments and of the different Community policies over the last three years. This part is divided into chapters, one on each of the policies concerned: regional and cohesion policy, competition, agriculture, fisheries, enterprise policy, transport, energy, research, the information society, taxation and customs, the environment, international trade and justice and home affairs.

The assessment looks at the weaknesses in the measures adopted hitherto in the light both of current expectations and of the gaps which remain to be filled and the instruments which should be introduced to develop a new strategy for the outermost regions.

The part devoted to prospects for the future marks a clear break with the presentation of the Commission's previous reports on the outermost regions. Rather than tackling the description of the future measures by dividing them by Community policy, the future prospects set out a strategy based on an across the board approach to future actions and normative and operational instruments to be introduced to achieve coherence. This part seeks to follow not only the spirit of the Lisbon and Göteborg process but also the thrust of the future cohesion policy: territorial as well as social and economic cohesion, development of the growth objectives, competitiveness and a knowledge-based society and a better integration of the outermost regions into their regional areas by improved mechanisms for regional and transnational cooperation on economic, social and cultural matters.

Future actions must provide a specific response to the special features of the outermost regions: reducing their problems of access, improving local competitiveness and making them more attractive, reducing additional costs on the local economy, assuring job-creation and developing human resources, promoting innovation, the information society and the appropriate development of public services, environmental initiatives based both on the regions' constraints and their assets, strengthening local regional integration and continuing the effort to include the needs of the outermost regions in the Community policies on agriculture and fisheries in view of the continuing importance of these traditional productions in their economies.

This part looks not only at the many recommendations contained in the memorandum of 2 June 2003 from the three Member States and the seven outermost regions but also forms a complement to the third report on economic and social cohesion⁸.

⁸ COM (2004) 107 of 18 February 2004.

The measures announced in this report will be implemented simultaneously or over time in agreement with their own schedules; they already constitute a commitment to implementation on the part of the Commission.

2. BACKGROUND TO EUROPEAN POLICY ON THE OUTERMOST REGIONS

2.1. Remoteness: the concept and the legal basis for EU action

Article 299(2) of the EC Treaty introduces the concept of remoteness into the primary law of the European Union. It invites the Council, acting on a proposal from the Commission and after consulting the European Parliament, to adopt specific measures for the outermost regions. This provision confirms the principle of the applicability of Community law in these regions and encourages respect for the integrity and coherence of Community law when it is implemented⁹.

2.2. The current situation in the outermost regions: challenges and opportunities

2.2.1. A summary of socio-economic developments in the outermost regions at 31 December 2003

From the Community point of view, a general presentation of the economy of the outermost regions must start from the handicaps the permanence and combination of which severely restrain their economic development: remoteness, insularity, small size, difficult topography and climate and economic dependence on a few products. Economic analysis allows these factors to be grouped under the headings of access, size and territorial form. In the case of the outermost regions, these factors take extreme forms and result in problems of economic dependence and lack of diversification of activities, which leaves them still further exposed to unforeseen events.

One of the features which all these regions share is the economic importance (in terms of both employment and production) of the so-called “traditional” sectors, such as agriculture and fisheries and the relatively slight importance of the industrial sectors, apart from water and energy. This importance of traditional sectors is particularly marked in the French outermost

⁹ The provisions of this Treaty shall apply to the French overseas departments, the Azores, Madeira and the Canary Islands.

However, taking account of the structural social and economic situation of the French overseas departments, the Azores, Madeira and the Canary Islands, which is compounded by their remoteness, insularity, small size, difficult topography and climate, economic dependence on a few products, the permanence and combination of which severely restrain their development, the Council, acting by a qualified majority on a proposal from the Commission and after consulting the European Parliament, shall adopt specific measures aimed, in particular, at laying down the conditions of application of the present Treaty to those regions, including common policies.

The Council shall, when adopting the relevant measures referred to in the second subparagraph, shall take into account areas such as customs and trade policies, fiscal policy, free zones, agriculture and fisheries policies, conditions for supply of raw materials and essential consumer goods, State aids and conditions of access to Structural Funds and to horizontal Community programmes.

The Council shall adopt the measures referred to in the second subparagraph taking into account the special characteristics and constraints of the outermost regions without undermining the integrity and the coherence of the Community legal order, including the internal market and common policies. OJ C 325, 24.12.2002, p.149.

regions and the Azores, although in this last region, the industrial production is also important in terms of employment.

Industrial production is concentrated in a very small number of sectors: the agri-food industry and that dealing with primary sector inputs. It should also be noted that these sectors of industry use fairly traditional technology and sell the bulk of their production on the local market (apart from some industries which export their products, principally rum in the case of the French overseas departments, tobacco in the case of the Canary Islands and milk in the case of the Azores).

However, the importance of sectoral developments in all these regions should not be underestimated, although it is more obvious in the Canary Islands, Madeira and Azores than in the French overseas departments. In all cases, these sectoral changes in both production and employment have resulted in substantial growth in the services sector of the economy in the outermost regions to the detriment of agriculture. This transition has had an impact on local societies, which have not undergone the same prior process of industrialisation as the developed economies of the European mainland.

In general, the outermost regions suffer from a lack of skilled labour and a level of education below the average in the Union of Fifteen.

In recent years, their economies have developed in different ways. While real convergence has made genuine progress in the Canary Islands and Madeira and increased somewhat in Martinique, the remainder of the outermost regions still have levels of per capita GDP which place them among the least advanced in the EU-15.

The difference between the rate of unemployment in the Canary Islands and that in the rest of the EU has fallen considerably: from 24% in 1991 it registered a sharp fall to 11% in 2002. Convergence in terms of per capita GDP has also been substantial so that the Canary Islands are now above the threshold of 75% of the Community average (78% of EU-15 in 2000): the reduction in differentials has not been greater because of population growth supported by a high level of immigration. Progress in Madeira is broadly similar to that in the Canary Islands: per capita GDP there was already close to the 75% threshold (almost 74% in 2000). However, unemployment is still well below the Community average, at under 3% in 2002. Martinique has also achieved some relative convergence with the EU as a whole, although to a lesser extent than the Canary Islands and Madeira: per capita GDP was almost 68% in 2000 and the unemployment rate is still relatively high at over 23%.

By contrast, the other regions have not achieved such a significant real convergence. Their level of development is still very close to half the Community average and unemployment is still very high (between 25% and 30% in Guadeloupe, French Guiana and Réunion) except in the Azores, where it is similar to that in Madeira.

It is difficult to explain in a few words the factors which lead to differences in the development of the economies of the outermost regions. One important factor could be the differing seriousness of the handicaps with which they have to contend: isolation and small size are considerably more important in the case of the French regions and, up to a point, the Azores. The differing development of each economy compared with the international, European and national economic cycles (the last of which also differs among the three countries concerned) should also be noted. Finally, the size of the sectors of the economy which are competitive and geared towards the international market in the Canary Islands and

Madeira, such as tourism and other international services, goes a long way to explaining their dynamism.

In the case of Madeira, the relative economic diversification enjoyed by the free zone and the tourist sector has helped stimulate job-creation, although growth in per capita GDP can also be explained by improved labour productivity, which, however, is still below the Community average and is the main factor explaining the difference in real convergence. The situation in the Azores as regards job-creation and labour productivity is similar to that in Madeira, although on a smaller scale. However, the evident per capita GDP increases are not as great and apparent labour productivity remains below the Community average because of the weight of the agricultural sector in the economy of the island.

The combination of tourism and building and public works is the main engine of economic growth on the Canary Islands, supported in general terms by substantial job-creation over the last ten years. However, apparent labour productivity has not grown significantly, even falling in recent years despite the efforts of the local economy to provide capital for public investment and a tax system which is particularly attractive to private investment. It is questionable whether this growth can be sustained in future in view of the limits on natural resources and the worrying trend of labour productivity.

The economies of the French overseas departments as a whole exhibit vigorous growth in the demand for labour, alongside a rate of job-creation which has not, however, been able to reduce the unemployment rate (which was very high in French Guiana and Réunion in the '80s). Despite attempts at economic diversification, supported by injections of national and Community public funds, their economies remain firmly anchored to the so-called "traditional" sectors. They are highly dependent on public transfers, although in some cases this has fallen. This is mainly the result of a large public sector, non-active segments of the population and unemployment.

Even though all the outermost regions retain very close links with the countries they belong to, the degree of economic dependence of the French overseas departments is greater because they have difficulties in exploiting their comparative advantages, particularly in the tourist sector. They find it hard to finance their needs for consumption and investment independently and so remain dependent on national and Community public transfers which very often serve as matching funds to finance their needs.

Conversely, although the trade balance is just as unfavourable in the Canary Islands, Madeira and, up to a point, in the Azores and capital transfers just as large, the dominance of market service activities (principally tourism and financial services) and the relative importance of the dairy industry in the Azores enables a large part of consumption and investment needs to be met at local level.

2.2.2. The double challenge of integrating the outermost regions into both the Union's Internal Market and their geographical environment in the context of EU enlargement and economic globalisation.

The integration of the outermost regions into the rest of the European Union underlies the objective of Article 299(2) of the EC Treaty. Recognition of their handicaps, particularly their extreme remoteness and isolation, and the invitation to the European institutions to adopt specific measures for them promote their development as an integral part of the Union, despite their remoteness.

Although the measures taken for them have proved very successful, there are still constraints which prevent development and their integration into the single market. Difficulties of access are still a problem, as are handicaps to the competitiveness of their firms faced with the opportunities of the single market. In addition, some fundamental mechanisms such as freedom of movement and the liberalisation of public services do not generate all the effects expected in these regions or are not fully applicable as such because of their special situation. Although trade between these regions and the rest of the Union has grown in recent years, it is still true that it is mainly with the Member State to which the region belongs.

It is easy to explain this finding but the aim of integrating the outermost regions with the enlarged Union as a whole¹⁰ must be continued and intensified in order to translate into practice the principle of equal opportunities to which they are entitled and which cannot be interpreted restrictively. It would be a paradox if, in an increasingly global economy, the outermost regions could not contemplate their development in an open fashion, turned towards the whole of the Union to which they belong. Their membership of the European Union provides them, like the rest of the Union, with an opportunity to be exploited to the full. That is the aim which underlies the instruments already adopted and those still to be implemented.

However, while their development must be supported by integration into the European Union, the need to promote their integration into their geographical area should not be overlooked.

In general, the considerable value which Europe adds to measures for cooperation, the exchange of experience and good practice and the role played by the Community Initiative programmes are broadly recognised. Improved instruments for transnational, cross-border and interregional cooperation and assistance on the Union's external frontiers are the aspects most often mentioned. These are still more relevant to regions which are on external frontiers as distant as those where the outermost regions are located.

But this approach assumes going beyond national boundaries – in the case of the outermost regions, it assumes going beyond the frontiers of the Union. With regard to international or customs trade relations, the sharing of natural resources, socio-economic or environmental cooperation, communications infrastructure or the future of traditional productions in competition with their neighbours, the control of migratory flows or cooperation to combat different types of illicit trafficking, the outermost regions are obliged to look at their development in partnership with the countries and regions near to them. The European Union is not indifferent to that obligation and many of the guidelines and measures suggested in this report reflect this need.

3. ASSESSMENT AND EVALUATION

3.1. Assessment of the work of the EU since March 2000.

3.1.1. The work of the instruments of cohesion policy

Since the end of the '80s, the outermost regions have benefited substantially under the instruments of cohesion policy.

¹⁰ On 10 February 2004 the Commission adopted a Communication to the Council and the European Parliament on the financial perspectives of the enlarged Union 2007-2013. COM (2004) final 101.

This policy has sought to help devise a coherent strategy for economic development which mitigates the impact of those so-called natural factors on the capacity for growth and economic diversification of these regions. Their economies are highly dependant on a small number of economic activities and experience serious difficulties in creating new jobs and competitive activities. Helping their economies catch up has continued with the allocation of enormous economic resources from the Structural Funds, loans from the European Investment Bank and, in the cases of Madeira, the Azores and the Canary Islands, assistance from the Cohesion Fund.

To improve the fundamental conditions of the local economies, one of the major priorities of the cohesion policy has been to improve local factors of production, in both quantitative and qualitative terms. Community assistance through partnership with the national, regional and local authorities has mainly entailed improving the conditions under which firms are capitalised, increasing the capacity of workers to raise their productivity and employability, increasing the competitiveness of small and medium-sized firms, encouraging the growth of the local economic fabric and improving infrastructure. In addition, cohesion policy has played a vital role in expanding the capacities of these regions in research and innovation. Here the innovative actions part-financed under the European Regional Development Fund (ERDF) are of strategic importance in raising their long-term growth capacity.

Cohesion policy has also concentrated on the problems of access from the outermost regions to the continental market and, of course, internal access. The continental market has benefited from the removal of barriers to trade in goods, services and the factors of production within Europe so that the tendency of economic activities to concentrate in the central regions has increased. However, the isolation factor is important as regards the decisions to be taken on the location of economic activities: because of their geographical position, the outermost regions have profited little. The allocation of resources to the construction of infrastructure to connect the outermost regions with the European market, and with each other, has been one of the key priorities for cohesion policy in the various programming periods.

During the current programming period and thanks to the Interreg Community Initiative, regional policy has been able to launch cooperation projects in the geographical area close to these regions and between the outermost regions themselves so that they can enjoy bigger markets.

At the same time, the Member States have taken a variety of steps to enable the outermost regions to progress towards economic, social and territorial convergence.

3.1.1.1. Structural Funds: implementing programmes

a) The regulatory background, programming and funding

Since 1989, the outermost regions have always enjoyed 'Objective 1' status and so have secured substantial funding under the programmes for development and structural adjustment in the periods 1989-93, 1994-99 and 2000-06.

In 1994-99, funding under the various instruments permitted improvements in infrastructure, principally concerning health and the social sector, energy, the environment and transport. Substantial investments were made during that period to raise the competitiveness of local production and positive results were secured as regards vocational training and integration into the labour market. By contrast, the Community programmes seem to have more limited

impact on the location of productive activities in these regions, which sought to promote a more locally-generated type of development.

In 2000-06, the financial effort was considerably higher than in the previous period. All the single programming documents (SPDs) for the overseas departments and the regional operational programmes (OPs) for the Canary Islands, Madeira and Azores for 2000-06 were adopted during 2000. In total, the amounts under the Structural Funds (€6 774 million) and national matching funds in the regional programmes (SPDs and OPs) represent an injection of over €13 billion into the economies of these regions.

The table in Annex III gives the main data on Community assistance and the public national funds and private investment mobilised. In 2000-06, assistance from the Structural Funds to these regions under the regional programmes for Objective 1 amounted to about €2 000 per person in the four French overseas departments, €2 900 per person in Madeira, €3 600 per person in the Azores and €1 100 per person in the Canary Islands.

Together, these resources are substantial in terms of regional GDP and the regional investment effort. In terms of GDP in 2000, the average allocation from the Structural Funds under the regional programmes represents a transfer of resources of 2% for the French overseas departments, 4% for the Portuguese regions and 1% for the Canary Islands. In terms of the investment effort and compared with the total figures for gross fixed-capital formation in 1997, in the Portuguese regions and the French overseas departments, private and public resources mobilised together by the Funds through the regional programmes amounted to about one third of the total regional investment effort. The figure for the Canary Islands is almost 20%.

To the resources allocated under the regional OPs for the Canary Islands, Madeira and the Azores should be added those allocated under the horizontal or multiregional programmes for all the Objective 1 regions of Spain and Portugal. The Community support frameworks for Spain and Portugal include €2 743 million for Canary Islands over the whole programming period, €841 million for Madeira and €994 million for the Azores (excluding the performance reserve).

These amounts (which include those allocated under the regional OPs as stated above) show estimated total financial efforts of €1 624 per person in the Canary Islands, €3 442 per person in Madeira and €4 163 per person in the Azores. It should be noted that the average allocation for all the Objective 1 regions of Europe is €1 500 per person.

In the case of the Canary Islands, the most remarkable achievement of the multiregional OPs is the Gran Telescopio Canarias, supported by the ERDF and the ESF (Research, Development and Innovation OP). The side-effects expected for the Canary Islands are considerable: a boost to the economic and social fabric, technological advances, capital investments and job creation. Under the Improving competitiveness and development of the productive fabric OP, the Canary Islands are supporting the development of firms in the new technologies sector in the hopes of promoting sectoral diversification.

The regions of Madeira and the Azores benefit from the sectoral programmes which cover all the Objective 1 territory of Portugal. These include the Economy OP (at the end of June 2003 3% of the public expenditure approved by that OP, some €92 million, concerned projects in the Azores and some 2% of public expenditure adopted under the programme went to investment aid in Madeira), the Science and Technology OP and the Information Society OP.

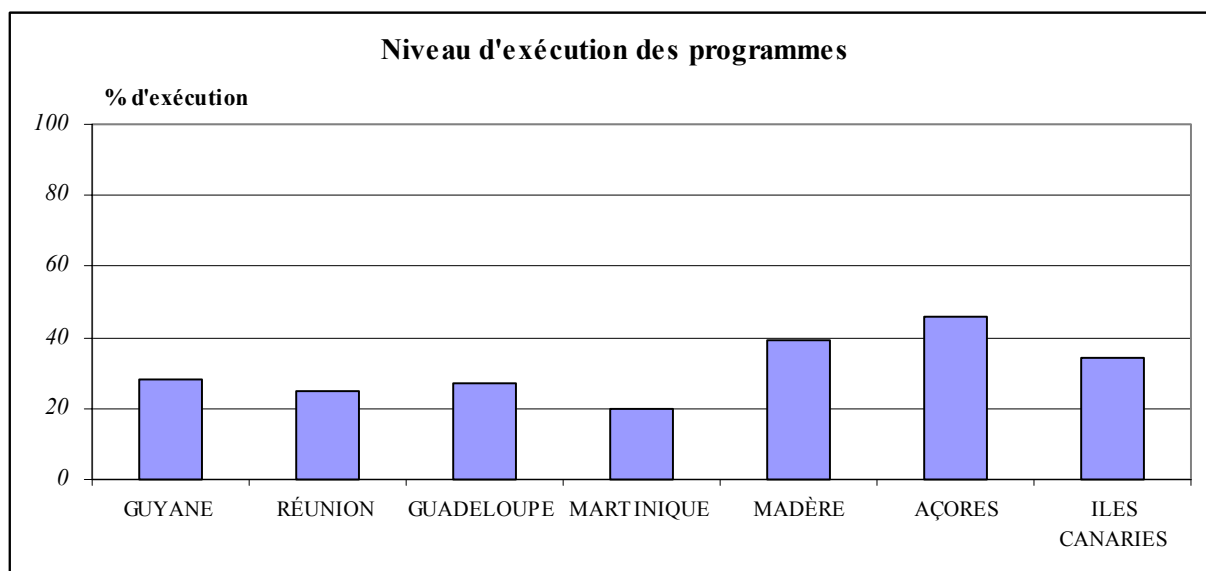
Every outermost region finances a very large number of highly diverse measures. These reflect the priorities in the programming documents and the development choices made in the partnership at regional level.

To improve the conditions under which the Structural Funds are implemented in the outermost regions, the Council has adopted a number of regulations on structural measures (including exceptions on structural aid for agriculture and fisheries) to help those regions. The table in Annex V lists the horizontal and sectoral derogations.

Following the informal Council held in Namur in July 2001, the Commission began work on the simplification and clarification of the procedures to manage the Structural Funds. These also apply to the implementation of the programmes in the outermost regions, particularly the provisions for amending the programmes and for accounting for expenditure by the final beneficiaries¹¹.

b) Level of implementation of programmes and brief analysis of the sectoral impact

The table below shows the overall level of multifund implementation by region (amounts certified and paid as a proportion of total programming for 2000-06; situation at 31 December 2003)¹².



The mid-term evaluation may provide some indication of the capacity of the local economies to absorb funding and of the impact of the first programmed assistance. The preliminary general conclusions are:

- The measures to increase the accumulation of public capital demonstrate a substantial effort as regards finance and management, particularly in transport infrastructure. The absorption of funding by this type of measure is generally above

¹¹ Communication from the Commission on the simplification, clarification, coordination and flexible management of the structural policies 2000-06, C(2003) 1255-1 of 25 April 2003.

¹² These figures do not include the 7% advance paid to the regions by the Community at the beginning of the 2000-06 programming period (see Article 32(2) of Council Regulation (EC) No 1260/1999 laying down general provisions on the Structural Funds. OJ L 161, 26.6.1999).

average in each of the programming instruments, which makes the impact on the local economies more visible. Isolated problems remain as regards certain major projects in the French overseas departments, particularly Martinique and Réunion.

- This effort has triggered a genuine process of catching up in terms of public investment, which is at a similar level to that of the capital stocks in the mainland regions. There are still problems nevertheless in some regions (particularly the French overseas departments) and sectors (energy and public transport in the Canary Islands) which must be looked at in conjunction with the various needs of these regions as compared with those on the mainland.
- In general, measures to improve the local economic fabric have proved less successful as regards both the absorption of funding and the impact on the local economy, where they support diversification into innovative activities or improve the competitiveness of local firms.
- Programming has generally produced good results as regards training, the integration of human resources into the labour market and their adaptation to changing economic conditions. The regions have an adequate number of innovative actions in this sector.
- In agriculture, measures under the EAGGF Guidance Section are supplemented by specific measures financed by the EAGGF Guarantee Section under the instruments such as POSEI or the Rural Development Plan.
- The fisheries sector has had some successes (see Chapter 3.1.9.2 on fisheries) and considerable difficulties due to the general scarcity of fish stocks, isolation and insularity, the structure of the local fleet and reduced activity because of the non-renewal of fisheries agreements with non-member countries (the most significant instance is that of Morocco, which has affected the fleet and all fisheries-related activity in the Canary Islands). Despite clear needs, higher rates of Community assistance and the other derogations granted, there have been severe delays in several outermost regions in implementing programming in 2000-06, particularly as regards the FIG and port infrastructure.
- The work of the Structural Funds on the environment has led to the construction of infrastructure and significant improvements in the management of waste, water resources and energy. Despite these efforts, needs and objectives which cannot be attained with financial support from the Structural Funds still remain.
- Finally, the administrative capacity for the management of the Structural Funds still needs to be improved in certain specific cases in the outermost regions, particularly some of the French overseas departments, where programme implementation is more obviously lagging behind. This is the result of a lack of resources, particularly sufficient staff, for programme management. Particularly careful attention must be paid to this point when the new programming framework is considered.

3.1.1.2. Cohesion Fund

This financial instrument has benefited the Portuguese and Spanish outermost regions.

In the Azores, the Cohesion Fund is financing a group of projects for the treatment of solid urban waste amounting to €17.5 million, to which it contributed €14.9 million in 2000. Two other projects, for port infrastructure, were adopted recently: one concerns improvements to the port of S. Roque on the island of Pico and other will provide assistance to the port of Praia da Vitória on the island of Terceira. Investment in these two projects will total €34.5 million, to which the Cohesion Fund will contribute €28.9 million.

The Cohesion Fund is financing four large projects on Madeira:

- The second phase of Madeira airport, to which it granted €159 million in July 1997.
- The two phases of the system for the treatment and exploitation of waste on the islands of Madeira and Porto Santo, to which it has contributed a total of €76 million.
- The first phase of a water management project on Madeira, for which it took a financing decision for €29 million in December 2001.
- A project for the extension and construction of port infrastructure at Caniçal was adopted recently. Investment will total €73.5 million, of which the Fund will contribute €42.6 million.

For the Canary Islands, in 2002 the Commission adopted the project to develop the port of L'Estaca on the island of El Hierro by upgrading and extending existing facilities to improve the movement of people and goods. The Community is providing part-finance worth €23 million. A project to develop the port of La Luz on Las Palmas de Gran Canaria is currently being considered. Community assistance for this project would amount to over €66 million. Since these two projects are at an early stage, it is still too soon to measure their impact.

In 2000-06 seven projects were adopted for water resources and environmental management on the Canary Islands with Community part-financing of over €95 million. To this should be added almost €98 million allocated to completion of seven other projects adopted in 1993-99 which are still in progress. The vast bulk of these projects are concerned with the provision of waste-water treatment plants and desalinisation units.

3.1.1.3. Loans from the European Investment Bank

Under Council Regulation (EC) No 1260/1999, the European Investment Bank is to cooperate with the Structural Funds and the other existing financial instruments to achieve the objectives set out in Articles 158 and 160 of the Treaty to promote the development and structural adjustment of the regions whose development is lagging behind.

EIB loans have stimulated development in the outermost regions, particularly as regards infrastructure for transport, energy, water supply, health and telecommunications. All the projects for which the EIB granted finance between 2000 and the end of 2003 are listed in the table in Annex VI.

The data reflect a greater effort compared with 1994-99, particularly in the Portuguese regions and the Canary Islands. In general, infrastructure there is financed under the Structural Funds (non-repayable aid) rather than through EIB loans.

3.1.1.4. Competition: state aid

The Commission would point out that the concept of remoteness was introduced into the field of competition in 2000 in a number of Community arrangements for considering state aids:

- (1) The amendment of the guidelines on state aids for regional purposes¹³ in 2000 allows operating aid which is neither progressively reduced nor limited in time to be granted in the outermost regions eligible under the derogation to Article 87(3)(a) and (c) of the EC Treaty. The rules on assessing the compatibility of such aid with the common market are more favourable than those applicable in regions not regarded as ‘outermost’ or thinly populated regions. However, the rules continue to impose severe limitations concerning compliance with the Union’s WTO commitments. In addition, operating aid intended to promote exports¹⁴ between Member States is excluded. Similarly, additional transport costs means “the additional costs involved in moving goods within the national frontiers of the country concerned. Such aid may in way constitute export aid or measures having an effect equivalent to quantitative restrictions on imports within the meaning of Article 30 of the Treaty”.
- (2) Adjustments to the guidelines on state aid in the agriculture sector¹⁵ have been planned to enable the Commission to examine individually proposals to grant state aid to meet the needs of the outermost regions, provided the measures concerned are compatible with the rural development programmes. Similarly, by derogation from the general ban on operating aid, the Commission may consider on a case-by-case basis, proposals to grant operating aid in this sector in the outermost regions. Furthermore, Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001¹⁶ provide, in respect of the agricultural products in Annex I to the EC Treaty, which are covered by Articles 87 to 89 of that Treaty, the possibility of authorising operating aid intended to offset the specific constraints on agricultural production in the French overseas departments, the Azores, Madeira and the Canary Islands, arising from isolation, insularity and remoteness in the sectors of the production, processing and marketing of these products.
- (3) The guidelines for considering state aid in the fisheries and aquaculture sector¹⁷ should also be mentioned. They allow the individual examination of aid to meet the needs of the outermost regions.

¹³ Amendments to the guidelines on national regional aid (text with EEA relevance) (OJ C 258, 9.9.2000, p. 5).

¹⁴ “Export aid” means any aid directly related to quantities exported, the establishment and operation of a distribution network or current expenditure relating to exporting. It does not include items such as the costs of participating in fairs and the studies and advice required for the introduction on a new geographical market of a new or existing product.

¹⁵ OJ C 28, 1.2.2000 p. 2.

¹⁶ Council Regulation (EC) No 1452/2001 of 28 June 2001 introducing specific measures for certain agricultural products for the French overseas departments, amending Directive 72/462/EEC and repealing Regulations (EEC) No 525/77 and (EEC) No 3763/91 (Poseidom).

Council Regulation (EC) No 1453/2001 of 28 June 2001 introducing specific measures for certain agricultural products for the Azores and Madeira and repealing Regulation (EEC) No 1600/92 (Poseima). Council Regulation (EC) No 1454/2001 of 28 June 2001 introducing specific measures for certain agricultural products for the Canary Islands and repealing Regulation (EEC) No 1601/92 (Poseican). OJ L 198, 21.7.2001.

¹⁷ OJ C 19, 20.1.2001 p. 7.

In 2000-06, most of the aid schemes notified concerning the outermost regions were approved by the Commission following a preliminary examination terminating in the adoption of a decision to raise no objections, without need to open the formal examination procedure. The list of aid schemes approved by the Commission appears in Annex II to this report. It should be noted when it considered operating aid the Commission had problems in determining the real extent of the alleged additional costs. Checks on the level of aid, which must be proportional to the handicaps to be offset, seek first and foremost to avoid authorising any overcompensation, particularly through the cumulation of a number of aid schemes.

As regards procedure and in general, exemptions from the notification of aid have been defined in several regulations¹⁸ in order to facilitate and speed up the implementation of aid provisions, without thereby weakening the Commission's traditional control over state the aids.

3.1.2. Taxation

The decisions on the specific programmes for isolation and insularity and the Council regulations on the implementation of these programmes have taken account of the special nature of the outermost regions as regards taxation. As in the case of the other special measures, the general aim is to permit their economic and social development by offsetting the handicaps arising from remoteness. That objective has been pursued by a variety of indirect taxation measures adapted to the regions, each of which has its own traditional arrangements for indirect taxation. In the French overseas departments the legal basis for indirect taxation was the former Article 227(2) of the Treaty. In the Canary Islands and in Madeira and the Azores the legal basis for this taxation was respectively the Acts of Accession of Spain and Portugal to the European Communities.

The Canary Islands and the French overseas departments have escaped the process of harmonisation of indirect taxation throughout the Community because they are excluded from the scope of the Sixth VAT Directive. However, at national level they apply a scheme similar to the Community scheme but with reduced rates.

Madeira and the Azores apply the Community scheme but are authorised to apply rates lower than those on the mainland.

As described in previous Commission reports on this subject, these regions apply specific indirect taxes¹⁹. The existence of differentiated tax schemes in the outermost regions

¹⁸ Council Regulation (EC) No 994/98 of 7 May 1999 (OJ L142, 14.5.1998).
Commission Regulation (EC) No 68/2001 of 12 January 2001 on the application of Articles 87 and 88 of the EC Treaty to training aid (OJ L 10, 13.1.2001), amended by Commission Regulation (EC) No 363/2004 of 25 February 2004 (OJ L 63, 28.2.2004).
Commission Regulation (EC) No 69/2001 of 12 January 2001 on the application of Articles 87 and 88 of the EC Treaty to *de minimis* aid (OJ L 10, 13.1.2001).
Commission Regulation (EC) No 70/2001 of 12 January 2001 on the application of Articles 87 and 88 of the EC Treaty to State aid to small and medium-sized enterprises (OJ L 10, 13.1.2001), amended by Commission Regulation (EC) No 364/2004 of 25 February 2004 as regards the extension of its scope to include aid for research and development (OJ L 63, 28.2.2004).
Commission Regulation (EC) No 2204/2002 of 12 December 2002 on the application of Articles 87 and 88 of the EC Treaty to State aid for employment (OJ L 337, 13.12.2002).

¹⁹ "Arbitrio a la producción e importación" (APIM) up to 31 December 2001 "Arbitro sobre las Importaciones y Entregas de Mercancías en las Islas Canarias" (AIEM) from 1 January 2002 in the Canary Islands and the "dock dues" tax in the French overseas departments.

providing total or partial exemptions from tax for local production has hitherto been regarded as an instrument contributing to their economic development. Under Article 299(2) of the EC Treaty, these specific measures are adopted by decisions of the Council taken by a qualified majority on a proposal from the Commission and after consulting the European Parliament.

However, under that provision and as required by judgments of the European Court of Justice, these differentiated tax schemes must be necessary, proportional and precisely determined. They must also respect the coherence of Community law and the internal market.

Accordingly, on 20 June 2002 the Council took a decision²⁰ authorising the Spanish authorities to allow total exemptions from or reductions in the local AIEM tax for a limited list of products manufactured locally and set out in the Annex to the Decision²¹ until 31 December 2011. That decision is based on the identification of a series of handicaps affecting local productive firms and the need to adopt a specific measure providing exemptions for local products to encourage productive industrial activity to diversify the Canary Islands' GDP, which is based primarily on tourism.

Exemptions from or reductions in tax for local production were therefore authorised but may not lead to differentials exceeding 5% or 15% depending on the product (25% for tobacco).

A report on the implementation of this decision, which applies for 10 years from 1 January 2002, must be made by 31 December 2005; it may include new proposals.

In the case of the French overseas departments, Article 2(3) of Council Decision 89/688/EEC on dock dues in the French overseas departments states that, in view of the particular constraints on those departments, partial or total exemptions from the tax may be authorised for local production for a period not exceeding ten years from the date of its introduction.

That period expired on 31 December 2002 but, on the basis of a request by the French authorities to continue applying the dock dues scheme, which, however, requires further examination to identify the products concerned and differences in taxation authorised, the Council decided on 10 December 2002 to extend the scheme to 31 December 2003²².

A further request from the French authorities on 14 April 2003 led the Commission to make a new proposal on the subject²³. It noted that a series of handicaps which raised the cost price of products manufactured locally compared with those from the rest of the European Union or non-member countries was continuing. The lack of measures to offset the impact of these handicaps meant that, because products manufactured locally were uncompetitive, the survival of local productive firms was threatened, which would worsen an already particularly difficult employment situation. It therefore seemed necessary to propose a new Community framework in taxation terms for this particular scheme and so the tax differentials authorised were evaluated with regard to the size of the handicaps on industrial production in these departments. The scope of the proposed measure comprises a list of sensitive products, the

²⁰ Council Decision 2002/546/EC of 20 June 2002 on the AIEM tax applicable in the Canary Islands. OJ L 179, 9.7.2002, p. 22.

²¹ This replaces the scheme provided for in Council Regulation (EEC) No 1911/91 of 26 June 1991 on the APIM (tax on production and imports) extended by Council Regulation (EC) No 1105/2001 of 30 May 2001, which expired on 31 December 2001.

²² Council Decision 2002/973/EC of 10 December 2002 amending Decision 89/688/EEC concerning the dock dues in the French overseas departments (OJ L 337, 13.12.2002, p. 83).

²³ COM (2003) 792 final.

level of taxation on which must be adjusted so that the difference between taxation and the dock dues can offset the handicaps borne. There are three 3 categories, 10%, 20% and 30%²⁴ and a ‘*de minimis*’ clause for firms with an annual turnover of less than €550 000.

The uses to which the tax must be put and the allocation of the revenue from dock dues confirm the aims of support by the socio-economic development of the French overseas departments already enshrined in the 1989 decision.

The duration of the scheme is ten years and the proposed system will be assessed after five years. That assessment will take account of the general impact of the instrument and its contribution to local economic activity.

The European Parliament adopted a favourable opinion on this proposal on 15 January 2004 and the Council adopted it on 10 February²⁵. Under the decision, the new arrangements for dock dues in Articles 1 to 4 will apply from 1 August 2004. To avoid a legal gap, Council Decision 89/688/EEC will continue to apply until 31 July 2004.

Two decisions on excise duties concern the outermost regions:

- (1) Council Decision 2002/167/EC²⁶ authorising Portugal to apply a reduction in the rate of excise duty in the Autonomous region of Madeira, to rum and liqueurs produced and consumed there, and in the Autonomous region of the Azores, to liqueurs and eaux-de-vie produced and consumed there. Under that Decision:
 - (a) Portugal is authorised to apply in the Autonomous region of Madeira, to rum and liqueurs produced and consumed there, and in the Autonomous region of the Azores, to liqueurs and eaux-de-vie produced and consumed there, a rate of excise duty lower than the rate of excise duty but not less than 75% of the normal national rate of excise duty on alcohol;
 - (b) authorisation is granted for a period of 7 years from 1 January 2002. An interim report determining whether the reasons which justified granting a reduced rate of excise duty still persist must be made no later than the end of December 2005.
- (2) Council Decision 2002/166/EC²⁷ authorising France to extend application of a reduced rate of excise duty on “traditional” rum produced in its overseas departments. Under that decision:

²⁴ It should, however, be noted that consistency with Community law means that differential taxation cannot be applied to agricultural products intended for processing or to be used as agricultural inputs and which receive aid under Articles 2 and 3 of Regulation (EC) No 1402/2001, and in particular the specific supply arrangements, so that the impact of the grants or exemptions from customs duties approved is not cancelled out by the dock dues tax.

²⁵ OJ L 52, 21.2.2004 p. 64.

²⁶ 2002/167/EC: Council Decision of 18 February 2002 authorising Portugal to apply a reduced rate of excise duty in the autonomous region of Madeira on locally produced and consumed rum and liqueurs and in the autonomous region of the Azores on locally produced and consumed liqueurs and eaux-de-vie. (OJ L 55, 26.2.2002 p 36)

²⁷ Council Decision of 18 February 2002 authorising France to extend the application of a reduced rate of excise duty on "traditional" rum produced in its overseas departments (OJ L 55, 26.2.2002 p. 33). State Aid N 179/2002, 17.7.2002.

- (a) a rate of excise duty not more than 50% lower than the normal national rate of excise duty on alcohol may be applied in metropolitan France to “traditional” rum produced in the overseas departments;
- (b) the reduction in excise duty is limited to an annual quota of 90 000 hl of pure alcohol;
- (c) authorisation is granted for a period of 7 years from 1 January 2003. An interim report determining whether the reasons which justified granting a reduced rate of excise duty still persist must be made no later than the end of December 2006.

These Council decisions were taken without prejudice to the possible application of Articles 87 and 88 of the EC Treaty.

3.1.3. *Transport*

In general, transport policy is still of the utmost importance to the outermost regions, which suffer from a series of handicaps which increase their access problems: distance from the European mainland, insularity (“double” in the case of some of them), isolation and, in the specific case of French Guiana, being surrounded by the Amazonian forest. This means that the common transport policy must provide an effective means of meeting the major challenges in order to benefit the outermost regions.

Particular mention should be made of the limited developments concerning Community guidelines for the trans-European transport network (TEN-T). Since the adoption of Decision 1346/2001/EC²⁸ amending the guidelines adopted in 1996, the ports in the outermost regions have been recognised as of common interest and integrated into the trans-European network. This makes them automatically eligible for financing under the TEN budget and the Cohesion Fund.

The Commission recently adopted the Marco Polo²⁹ programme under which Community financial assistance is granted to improve the environmental performance of the goods transport system. This is a programme to promote modal transport, not a regional policy instrument. It has €75 million for the period 2003-06 and allows the outermost regions to participate in three types of measure, modal transfer measures, measures with catalytic actions and the measures to build “shared knowledge” (e.g. the improvement of port procedures). However, the limited budget of the programme and the principle of subsidiarity mean that purely national routes are excluded from its scope. Only routes which involve at least two Member States are eligible, which reduces the extent to which the outermost regions can avail themselves of it.

²⁸ Decision No 1346/2001/EC of the European Parliament and of the Council of 22 May 2001, amending Decision No 1692/96/EC as regards seaports, inland ports and intermodal terminals as well as project No 8 in Annex III (OJ L 185, 6.7.2001 p. 1).
Corrigendum to Decision No 1346/2001/EC of the European Parliament and of the Council of 22 May 2001, amending Decision No 1692/96/EC as regards seaports, inland ports and intermodal terminals as well as project No 8 in Annex III (OJ L 185, 6.7.2001)
OJ L 288, 1.11.2001 p. 53.

²⁹ Regulation (EC) No 1382/2003 of 22 July 2003 (OJ L 196, 2.8.2003, p. 1).

The rules on state aid allow account to be taken of the transport needs of the outermost regions, particularly through aid of a social nature (Article 87(2)(a) of the EC Treaty) and aid for regional purposes (Article 87(3)(a) and (c) of the EC Treaty).

It should be noted in particular that the Commission has adopted a favourable approach to aid for the purchase or replacement of aircraft in the outermost regions as regional aid, provided such aid was to offset handicaps recognised under Article 299(2) EC which hinder the development of air services operated from those territories. Accordingly, in 2003 the Commission approved a series of individual aid schemes for the purchase of aircraft equipment under the French scheme³⁰ providing tax relief for investment overseas:

- on 2 April 2003, aid to *Caraïbes Air Transport* (CAT)³¹ for the purchase of an ATR-type regional aircraft for the tax year 2002,
- on 10 December 2003, aid to *Air Caraïbes* (formerly CAT)³² for the purchase of a *Cessna Caravan* type regional aircraft for the tax year 2003,
- on 10 December 2003, aid to *Air Austral*³³ for the purchase of equipment to modernise and charter two Boeing B777-200s for the tax year 2003.

In all these cases, the Commission found that the aid was compatible with the common market for the following reasons:

- the regional handicaps experienced by the outermost regions and specifically recognised by the EC Treaty have a severe negative impact on the operating costs of an airline providing services from those territories;
- all or virtually all the jobs concerned by the investment are located on the territory of an outermost region;
- the anti-competitive effects of the aid on the Community market are limited;
- the benefit of the aid will remain with the outermost region concerned for at least five years;
- the aid is not disproportionate since the beneficiaries will bear almost two thirds of the cost of the investment.

The public service obligations mechanism (PSO) laid down by the third package on the liberalisation of air transport (Regulation (EC) No 2408/92)³⁴ was designed mainly to meet the specific needs of the outermost regions.

³⁰ Case N 672/2000 – Decision of 28 November 2001 – France – Tax assistance for overseas investment. See http://europa.eu.int/comm/secretariat_general/sgb/state_aids

³¹ Case N 520/2002 – France – Overseas investment programme for 2002 – Compagnie Caraïbes Air Transport. See http://europa.eu.int/comm/secretariat_general/sgb/state_aids

³² Case N 427/2003 – France – Overseas investment programme for 2003 – Compagnie Caraïbes Air Transport. See http://europa.eu.int/comm/secretariat_general/sgb/state_aids

³³ Case N 474/2003 – France – Overseas investment programme for 2003 – Compagnie Air Austral. See http://europa.eu.int/comm/secretariat_general/sgb/state_aids

³⁴ Council Regulation (EEC) No 2408/92 of 23 July 1992 on access for Community air carriers to intra-Community air routes (OJ L 240, 28.8.1992).

All the outermost regions have made considerable use of this mechanism (the list of PSOs in force for air transport may be found in Annex VII). However, in most cases, the Member States have done no more than impose obligations without financial compensation (except in the cases of French Guiana and the Azores). Use of this procedure has meant that a minimum framework could be laid down by imposing operating criteria considered essential for services to the regions concerned. This option may be explained by the financial burden of the excessively restrictive criteria which would be entailed by the passage to the second phase and the payment of financial compensation, which is the responsibility of the Member State. Only Portugal has introduced PSOs with compensation to the mainland.

It is also interesting to note that the Member States have made very little use of the possibility of imposing PSOs between themselves. The PSOs for the outermost regions are always national in scope and very rarely designed to promote links between the outermost regions (apart from the Azores and Madeira, which are both Portuguese). There are none concerned with links between the outermost regions and the other Member States.

3.1.4. Energy

Exploitation of the potential for renewable sources of energy and the installation of energy transport networks in the outermost regions offers economic security and energy efficiency. It contributes to the sustainable development policy.

Developments concerning the Community guidelines for the trans-European energy network should be mentioned here. On 26 June 2003 Parliament and the Council adopted a Decision³⁵ amending Decision 1254/96/EC³⁶ laying down a series of guidelines for trans-European energy networks.

The Decision introduced new Community guidelines for the energy network (TEN-E) which define the development of gas and electricity networks in these regions, promoting the diversification of sources of energy and the use of renewable energy and, if appropriate, the interconnection of these networks with the trans-European gas and electricity networks among the basic criteria for Community action. Annex III to these guidelines lists projects of common interest for the outermost regions. This integration will make projects in the outermost regions eligible for TEN finance, mainly to part-finance studies and other preparatory measures for the development phase of these projects³⁷.

Mention should also be made of the Decision of the European Parliament and of the Council adopting a multiannual programme for action in the field of energy – the “Intelligent-Energy Europe” (2003-06) programme. This decision, adopted on 26 June 2003³⁸, includes financial support for sustainable development in the field of energy by making a balanced contribution to the achievement of general objectives relating to the security of energy supply,

³⁵ Decision No 1229/2003/EC of the European Parliament and of the Council of 26 June 2003 laying down a series of guidelines for trans-European energy networks (OJ L 176, 15.7.2003 p. 11).

³⁶ Decision No 1254/96/EC of the European Parliament and of the Council of 5 June 1996 laying down a series of guidelines for trans-European energy networks (OJ L 161, 29.6.1996 p. 147).

³⁷ Regulation (EC) No 1655/1999 of the European Parliament and of the Council of 19 July 1999 laying down general rules for the granting of Community financial aid in the field of trans-European networks (OJ L 197, 29.7.1999 p. 1).

³⁸ Decision No 1230/2003/EC of the European Parliament and of the Council of 26 June 2003 adopting a multiannual programme for action in the field of energy: "Intelligent Energy - Europe" (2003 - 06) (OJ L 176, 15.7.2003 p. 29).

competitiveness and the protection of the environment. Total funding for 2000-06 amounts to €200 million.

This multiannual programme is structured in four specific fields:

1. “Save”, which concerns the improvement of energy efficiency and the rational use of energy;
2. “Altener”, which concerns the promotion of new and renewable energy sources;
3. “Steer”, which concerns support for initiatives relating to all energy aspects of transport and the diversification of fuels;
4. “Coopener”, which concerns support for initiatives relating to the promotion of renewable energy sources and energy efficiency in the developing countries, in particular in the framework of the Community cooperation with developing countries in Africa, Asia, Latin America and the Pacific.

A call for proposals³⁹ for actions under the “Intelligent-Energy Europe” programme lays down a series of priority measures for 2003 which meet the current needs of the Community’s energy policy.

The decision encourages the outermost regions to participate in the programme’s key measures, initiatives which combine a number of specific fields such as those mentioned above and/or covering certain Community priorities (e.g. sustainable development in the outermost regions).

3.1.5. Research, innovation and the information society

The sixth framework programme for research, technological development and demonstration activities, contributing to the creation of the European Research Area and to innovation for the period 2002 to 2006⁴⁰ was adopted on 27 June 2002. With funding of €16 270 million, the sixth framework programme will contribute to the promotion of scientific and technical excellence and to the coordination of research at European level. The special needs of the outermost regions are recognised in recital No 14, which states “The participation of the outermost regions in Community RTD actions through appropriate mechanisms adapted to their particular situation should be encouraged.” This wording is also to be found in the Council decision of 30 September 2002 adopting a specific programme for research, technological development and demonstration: ‘structuring the European Research Area’⁴¹ and in Regulation No 2321/2002 of the European Parliament and of the Council of 16 December 2002 concerning the rules for the participation of undertakings, research centres and universities in, and for the dissemination of research results⁴². The Commission considers it particularly important that these adjustments should have a concrete impact, while preserving the criterion of excellence but the capacities of the outermost regions to respond effectively to what is available under the framework programme, despite the constraints

³⁹ OJ C 315, 24.12. 2003, p. 33.

⁴⁰ Decision No 1513/2002/EC of the European Parliament and of the Council of 27 June 2002 (OJ L 232 29.8.2002 p. 1).

⁴¹ Recital 10, OJ L 294, 29.10.2002 p. 44.

⁴² Recital 9, OJ L 355, 30.12.2002 p. 23.

resulting from their environment and their distance from the decision-making centres in their national capitals, should not be underestimated.

The Commission has also completed a study⁴³ on research potential in the outermost regions with the aim of using an inventory of existing resources to identify the measures to be used to allow the outermost regions to participate better in the European Research Area and to open up research carried out in those regions.

The Commission has already given a favourable response in the three fields covered by the study:

- (1) The sixth framework programme increased opportunities for the mobility of research workers and retains the possibility of refining the priorities as regards, for example, the participating regions. These opportunities are also available to the overseas countries and territories, which will help them offset the lack of research workers and universities and reduce the consequent imbalances from which they suffer, provided this does not encourage the departure of those on the spot to research centres which are more attractive and to regions which are technologically more advanced.
- (2) Projects to promote cooperation and the coordination of research activities and innovation (ERA-NET), a new feature of the sixth framework programme, are open to participation by at least three countries, which should encourage participation by the outermost regions and their integration into the European Research Area.
- (3) To offset the deficit in recognition and communication from which the outermost regions suffer, the importance of regional aspects and interregional exchanges should be increased, not only by promoting ERA-NET projects there but also, and more important, by facilitating access by these regions to new programmes or pilot measures, such as “knowledge regions”, which was initiated on an experimental basis by the European Parliament and launched by DG Research in August 2003. The new computer portal for research and technological development (RTD) in the regions⁴⁴ will have a direct link with the study on RTD in the outermost regions and the database for the research centres and institutes there.

Apart from the research budget and the Structural Funds, the pilot projects known as “knowledge regions” are experiments in providing support for measures at regional level in the field of technological development and cooperation between universities and research centres to encourage and promote the integration of the regions of Europe. These measures, intended to increase the commitment of the regions to the creation of the European Research Area, share the aim of the Lisbon European Council and the desire to achieve the objectives set for 2010 by the Barcelona European Council (expenditure on R&D set at 3% of the Union’s GDP, with two thirds met by the private sector). The main aim of this measure is to stress the central role of knowledge in regional development and the importance attached to active participation in the future of their regions by those engaged there. A further aim is the desire to increase cooperation between the regions of Europe and the need to identify models and good practice to be transferred from one to another. The outermost regions have taken the

⁴³ The Lengrand study is available at: <http://www.erup.net>

⁴⁴ <http://www.cordis.lu/era/regions.htm>

opportunity to participate in these pilot projects, mainly in respect of a research institution on the Canary Islands which has succeeded in coordinating one of the 14 projects selected in 2003 and participating as a member in another networked project.

The “Integrated regional technology initiatives” offer opportunities for interregional cooperation in three fields:

- (1) regional prospects and technological audit based on the knowledge economy and society;
- (2) university work to promote regional development based on academic dissemination in the private sector engaged in technology;
- (2) initiatives for the technologically and economically advanced regions to help those whose development is lagging behind.

The “Support activities” strand sought to raise the awareness of firms and regional institutions about the driving role of knowledge in territorial development through conferences, seminars, etc. The first call for tenders was issued in August 2003 and resulted in some 50 applications in which the partners had to come from three different Member States. The current selection has resulted in some twelve pilot projects involving partners from the outermost regions. The Canary Islands is even acting as a project coordinator.

The progress of the information society and telecommunications is of the utmost importance for the development of the outermost regions, just like ports and airports, because the infrastructure which supports them helps offset geographical isolation and allows vital applications to be completed. A number of initiatives have been taken in this sector:

- The regulatory package on telecommunications which the Commission adopted in March 2002⁴⁵ must be implemented by the national authorities and fully applied in the outermost regions.
- The Commission has carried out a study⁴⁶ on the impact of the information society and telecommunications on the outermost regions which contains a series of recommendations to the regions, the Member States and the Commission. The initiative in applying these recommendations lies mainly with the outermost regions, particularly as regards the regional programmes of the Structural Funds (including the programmes for innovative actions).
- The Commission adopted guidelines on the criteria and arrangements for implementing the Structural Funds as regards electronic communications⁴⁷ on 28 July 2003 to specify the conditions of eligibility of electronic communications infrastructure (installations and equipment) and deal with questions relating to second generation mobile telephony.

⁴⁵ COM (2002) 263 final – COM (2002) 425 final and COM (2002) 317 final

⁴⁶ <http://www.erup.net>

⁴⁷ European Commission working paper – SEC (2003) 895

- By decision of 17 November 2003⁴⁸, the European Parliament and the Council adopted a multiannual programme (2003-05) worth €21 million to monitor the eEurope 2005 action plan, the dissemination of good practice and improving the security of networks and information (Modinis).
- A multiannual programme (2004-06) worth €44 million was adopted by Decision of the European Parliament and the Council of 5 December 2004 to effectively integrate the ICT into education and training systems in Europe ('on-line learning')⁴⁹. The programme aims to improve the quality and accessibility of these systems, mainly by promoting digital culture, the virtual European campus and electronic twinning between educational establishments.

The Structural Funds part-finance innovative actions which constitute a good illustration of the measures taken by the outermost regions in the fields of research, innovation and the new information and communications technologies. The main aim of the innovative actions is to help the regions find new approaches to:

- develop the skills required for the new economic activities,
- introduce more dynamism and business spirit,
- ensure that the new knowledge society includes all Union citizens, irrespective of their region or social situation of origin.

This appears to correspond well to the expectations of the outermost regions in particular.

It is very encouraging to note that from the first year of the initiative (2001) Réunion, the Canary Islands and Madeira showed great interest in the innovative actions and secured part-financing for their respective programmes:

- (1) Réunion chose to focus its regional programme of innovative actions on qualifications and matching the skills of the population to the requirements of firms in the new information and communications technologies sector to simulate the local economy. Réunion declared an interest in the possibility of transferring to colleges the results of the pilot projects constructed around the networking of high schools engaged in the programme and deploying these projects via the SPD. In addition, the dissemination of good practice will begin before the end of the programme and be directed to the other outermost regions and neighbouring islands. The programme is remarkable for the quality of its approach, its management and the use made of its results.
- (2) The Canary Islands built their programme around a regional strategy to integrate the archipelago into the information society (population, firms, new economic activities). The activities launched so far concern mainly the public access points (Gomera Digital) and the creation of a technological platform (Innova portal, Digital resources centre) and a rural services centre.

⁴⁸ OJ L 336, 23.12.2003, p. 1.

⁴⁹ OJ L 345, 31.12.2003, p. 9.

- (3) Madeira concentrated its innovative activities on defining a regional strategy and pilot projects in the fields of RTD and endogenous and sustainable development. In general, this programme has interesting aspects and could even serve as an example because of the use it makes of a large network of firms, in phase with many research laboratories (local and outside the region), the Business Information Centre (BIC) and all the local administrations.

In May 2002 Guadeloupe and the Azores submitted programmes of innovative actions and obtained part-financing from the ERDF:

- (1) The programme in Guadeloupe deals with experiments on a platform for electronic commerce destined for very small firms in the region by offering regional marketplace services and a virtual local shop window.
- (2) The Azores chose to develop local public/private partnerships on the topic of sustainable development in their programme by looking at the development of renewable sources of energy and by disseminating the new information technologies in the most isolated areas and communities in the region, principally to develop sustainable tourism there.

The budget allocated to regional programmes of innovative actions approved by the Commission appears in Annex VIII to this report.

3.1.6. International environment

One of the constant concerns in the Community's work for the outermost regions has been their integration into their regional context. The Community has also shown increasing interest in the impact which both the international agreements concluded by the Union and the phenomenon of the globalisation of the world economy could have on their economies.

In this global context, it should be noted that the outermost regions are situated close to non-member countries linked to the European Union by preferential agreements (e.g. the ACP countries, Morocco, Mexico, South Africa) or enjoying autonomous preferential arrangements (the overseas countries and territories, the countries concerned by the General System of Preferences or the least advanced countries). At the same time, for the three outermost regions in the Caribbean, the negotiations being conducted by the United States on the creation of the Free Trade Area of the Americas (FTAA) are likely to alter the economic landscape in the western hemisphere. Although the outermost regions form part, by definition, of the free-trade areas of which the EC is a member, they will remain outside the FTAA. Here the impact of the partnership agreement between the ACP countries and the EU signed in Cotonou in June 2000⁵⁰ should be stressed. That agreement represents a new generation compared with the series of Lomé Conventions which governed ACP-EC relations between 1975 and 2000. From 1 March 2000, the Lomé trade arrangements were expanded for a transitional period until 1 January 2008. The Lomé declarations on access by the ACP countries to the markets of the outermost regions and the regional cooperation in which they are involved were continued and annexed to the Cotonou agreement.

⁵⁰ OJ L 317, 15.12.2000, p. 355.

To improve the economic integration of the outermost regions into their geographical environment, the Community has continued the exceptions concerning application of the Community customs policy in these regions in order to promote their integration into the international economy, including the areas geographically close to them. These exceptions have taken the form of temporary measures linked to final integration into the Community customs union or measures not restricted in time.

More recently, the outermost regions have received financial support under the Interreg Initiative to improve economic cooperation between the outermost regions themselves and with neighbouring non-member countries. In the case of the overseas departments, regional cooperation through the Interreg Initiative has been supported in the single programming document (SPD). These initiatives show the extent of the support provided by the regional policy to improve the development of basic economic conditions in these regions (the Regis II Community Initiative programme for 1994-99 included an interregional cooperation strand which was insufficiently exploited).

Finally, the aspects relating to the control of illegal immigration and the normalisation of flows of people between the outermost regions and neighbouring countries are very sensitive for these regions, located in a geographical and demographical area under great pressure.

3.1.6.1. Customs

All the outermost regions have formed an integral part of the customs territory of the Community since the date of accession of their respective countries to the Community, apart from the Canary Islands, which was not so integrated until 1991. On the basis of the programmes of specific options for isolation and insularity, measures derogating from the general customs rules have been adopted for some of them.

These derogations comprise principally:

- exemption from customs duties for certain agricultural products originating in non-member countries or the temporary suspension of customs duties on certain fisheries products. These measures facilitated supplies regarded as essential for both human needs and those of animals;
- non-application of the economic conditions normally required for inward processing operations carried out in duty-free areas of these regions to encourage the development of small firms and the productive sector as a whole. That measure applies in the duty-free areas on Madeira and Las Palmas de Gran Canaria;
- temporary suspension of CCT⁵¹ duties on certain goods intended for equipment or processing within the free zones on the Azores and Madeira. This favourable tariff treatment, which is subject to certain conditions and applies in the Madeira free zone, is designed to encourage the start-up of industrial activities in these zones and the permanent establishment of industries to process materials from elsewhere (other than agricultural products or those obtained by processing such products), imported free of customs duty and intended for the Community market;

⁵¹ Common customs tariff.

- specific tariff measures for certain sensitive industrial products imported into the Canary Islands, comprising the temporary suspension of autonomous CCT duties to take account of the special problems of certain sectors of the economy of this region. At first, these measures allowed modulation of the gradual introduction of the CCT over a transitional period which came to an end on 31 December 2000 for most products by attenuating its effects (apart from a small number of goods for final consumption for which suspension terminated on 31 December 2006). Secondly, these measures allowed the industrial sector to become more competitive through full suspension of import duties on capital goods and raw materials for processing for ten years from 1 January 2002;
- finally, measures derogating from the commercial policy in the Canary Islands involving non-application of quantitative restrictions on the import of certain textile and clothing products, provided they were intended exclusively for the local market, and a temporary derogation from antidumping measures for certain industrial products.

3.1.6.2. Regional cooperation

The outermost regions are eligible under strands B (transnational cooperation) and C (interregional cooperation) of the Interreg Community Initiative. In 2000-06 they are benefiting from three transnational cooperation programmes, the ‘Caribbean area’, ‘Indian Ocean’ and ‘Azores-Madeira-Canary Islands’ programmes. They are also eligible under four programmes in strand C (interregional cooperation), more specifically the ‘South’ Interreg III C programme provided that the leader is located in one of these regions. The aim of the Interreg programmes is to promote integration into the regional geo-economic area, e.g. the Caribbean in the case of Martinique, Guadeloupe and French Guiana and the Indian Ocean/southern Africa in the case of Réunion.

The ‘Caribbean area’, ‘Indian Ocean’ and ‘Azores-Madeira-Canary Islands’ programmes supplement the regional cooperation measures under the regional SPDs. The ERDF contribution to these three programmes amounts to €162 million for 2000-06 and will result in finance totalling €200.9 million.

- The ‘Indian Ocean – Réunion’ Interreg III programme has total eligible finance of €5.9 million, of which €5 million is from the ERDF. Its purpose is the economic, social and territorial integration of Réunion into the Indian Ocean/southern Africa area.
- The ‘Caribbean area’ Interreg III programme has total eligible finance of €24 million, of which €12 million is from the ERDF. Its purpose is the economic and social integration of the three French Atlantic overseas departments into the Caribbean area, which extends from Florida, to the northern regions of Latin America, including Central America and the Caribbean islands, to promote sustainable, harmonious and balanced development there.
- The ‘Azores – Madeira – Canary Islands’ Interreg III programme has total eligible finance of €171 million, of which €145 million is from the ERDF. Its purpose is the economic, social and territorial integration of the three Atlantic regions with each other and into their geographical area.

For the first time, consideration has been given to coordination between the ERDF and the European Development Fund (EDF) to finance joint measures with the ACP countries or neighbouring overseas departments. This is particularly the case with the 'Caribbean area' programme, for which cooperation with the CARIFORUM, the body managing the EDF regional programme for the Caribbean, is in place. This finance is part of the EDF's regional programme for the Caribbean. This opportunity is also open in respect of the other programmes, 'Indian Ocean' and 'Azores-Madeira-Canary Islands', particularly as regards the Cape Verde islands and the Indian Ocean countries.

These Interreg III programmes offer an integrated cooperation framework involving all the outermost regions in each area.

The Interreg III programmes use an integrated approach: all the measures eligible under the Structural Funds are eligible here and are financed by the ERDF in accordance with the rules applicable to the outermost regions under the Structural Funds.

3.1.6.3. Immigration

Because of their particular location in regions whose development is lagging behind, the outermost regions have to cope with the constantly growing problem of illegal immigration⁵². They have inadequate administrative resources at regional and national level to carry out the checks, interceptions and reception or detention work to repatriate these immigrants.

Accompanying the increase in the number of illegal immigrants is the problem of the illegal immigration of unaccompanied minors, particularly in the Canary Islands where the government has announced that it can no longer meet its obligations regarding the detention of such minors in special centres and has asked for financial aid from the Spanish government.

Fighting illegal immigration is one of the main objectives of the Union's policy on justice and home affairs. The Commission supports the Union's commitment to provide greater protection at its external frontiers and to combat this phenomenon.

Under Article 63(3) of the EC Treaty, the Council adopts measures concerning policy on the immigration of third country nationals in the following areas: conditions of entry and residence, and standards on procedures for the issue by the Member States of long-term visas and residence permits, including those for the purpose of family reunion, and illegal immigration and illegal residence, including repatriation of illegal residents. The Commission

⁵² Recent statistics on the Canary Islands and French Guiana are illuminating. There is considerable illegal immigration into the Canary Islands archipelago from North Africa, particularly Morocco. The islands of Fuerteventura and Lanzarote are the closest to Africa and the most exposed. According to the Spanish Interior Ministry, between 1 January and 15 October 2003, 6 875 immigrants arrived illegally by boat in the Canary Islands, compared with 7 657 illegal immigrants intercepted in 2002. There is also considerable illegal immigration into southern Spain (71 212 repatriations in 2003), some of which comes from the Canary Islands. Of the French outermost regions and apart from the Antilles, French Guiana is subject to the greatest migratory pressure. Figures from the Overseas Ministry show that, of a population in French Guiana estimated at 157 300 in 2000, 18 674 (almost 12% of the population) were foreigners legally resident and 30 000 to 35 000 (20% to 25% of the population) were in an irregular situation. With frontiers with Suriname and Brazil and very close to South American countries with development problems, French Guiana appears to many nationals of those countries as an area of freedom and wealth. Hence there are large numbers of immigrants from, in decreasing order, Brazil, Suriname, Guiana, Haiti, the Dominican Republic, Peru, China and Colombia.

and the Council have adopted a series of measures and action plans on this matter and are also trying to maintain a dialogue and cooperation with the countries from which the immigrants originate.

The Council approved an action Plan on combating illegal immigration and trafficking in human beings in the European Union on 28 February 2002 to manage migratory flows and combat illegal immigration⁵³.

Likewise, on the basis of the Commission's communication⁵⁴ to the Council and Parliament of 7 May 2002 'Towards integrated management of the external borders of the Member States of the European Union', the Council has adopted a plan for the integrated management of the external borders.

At an earlier stage, the Commission's work on cooperation and the negotiation of readmission agreements with the country of origin or transit of illegal immigration should be noted. In June 2002 the Seville Council concluded that an integrated, global and balanced approach to attack the basic causes of illegal immigration should remain the Union's constant long-term objective⁵⁵. To that end, the European Council noted that the intensification of economic cooperation, the development of trade, development aid and the prevention of conflicts were all ways of promoting economic prosperity in the countries concerned and so reducing the causes of migratory movements.

The Council also adopted conclusions on the measures required to prevent and combat illegal immigration and trafficking in human beings by sea⁵⁶. Here a number of pilot projects and joint operations involving the cooperation of several Member States in improving checks at sea frontiers are in progress. An example is the operation 'Ulysses' part-financed with the ARGO programme⁵⁷.

Other general measures are planned for the future and are described in the second part of this report, on future prospects.

The Schengen Convention makes a distinction as regards its scope. Article 138 of the Convention expressly limits its application to the European territory of France, so excluding the overseas departments. There is no such clause for Spain, so the Canary Islands are an integral part of the 'Schengen' territory. It should also be noted that the EC-ACP partnership agreement of 23 June 2000, the Cotonou Agreement, which came into force on 1 April 2003, includes a reciprocal obligation on the parties regarding repatriation and the reintegration of nationals in an illegal situation. The Commission considers this obligation sufficient so that further bilateral agreements on implementation between the Member States and the ACP countries are not required. However, it has been found that the ACP countries do not cooperate satisfactorily in implementing this obligation so the negotiation of bilateral readmission agreements cannot be excluded.

The approach to the illegal nature of immigration should not however mean that the need to ensure that the free movement of nationals of neighbouring countries whose papers are in

⁵³ OJ C 142, 14.6.2002.

⁵⁴ COM (2002) 233 final.

⁵⁵ COM (2002) 233 final. SN200/02.

⁵⁶ Justice and Home Affairs Council of 27/28 November 2003, p. 15.

⁵⁷ Council Decision 2002/463/EC of 13 June 2002. OJ L 161, 19.6.2002 p. 11.

order is unhindered is overlooked. That type of exchange is required to facilitate the economic integration of the outermost regions into their area and reduce their dependence on the country to which they belong. Hence measures must be taken to promote neighbourly relations, both in economic and social terms and as regards measures to cooperate on frontier checks.

The Commission therefore intends to submit a specific action plan to promote neighbourly relations between the outermost regions and their surrounding area. It will include a specific strand on measures concerning exchanges of persons and immigration. The Commission is planning not just specific financial support for general cooperation among all the Member States concerned by immigration and checks at external frontiers but also an extension of the regional and transnational cooperation programmes which apply specifically to the outermost regions to be included in this wider neighbourhood action plan under which the outermost regions would be eligible for projects concerning immigration. These measures are dealt with in the second part of this report on future prospects.

3.1.7. Environment

Both the nature and the intensity of the specific threats to which the outermost regions are exposed are greater than those which affect the European mainland. The internal balance of these regions is regularly disturbed by earthquakes, cyclones, landslides and volcanic activity.

Tourism is a major sector of the economy for the outermost regions but has to have regard to the fragile nature of the ecosystems and to biodiversity. Tourism depends on the sustainability and protection of natural assets.

The Göteborg European Council on 15 and 16 June 2001 laid down a strategy for sustainable development based on the principle of a coordinated examination of the economic, social and environmental consequences of all the policies taken into account when decisions are taken. Accordingly, the measures taken include combating climate change, a policy for ecologically viable transport, limiting risks to public health, the more responsible management of natural resources and the integration of the environment into the Community policies. This means that environmental concerns are omnipresent and must be reflected in all Community policies.

The work of the Structural Funds has been decisive in the outermost regions, which have made substantial efforts to provide themselves with infrastructure in the field of the environment, particularly the management of waste and water resources and of energy. Despite these efforts, needs remain and it will be impossible to achieve objectives without financial support from the Structural Funds. During negotiations on the regional programmes, concerns focussed mainly on the need to part-finance environmental infrastructure and ensure the promotion of a policy of sustainable development which would respect natural resources, ecosystems and biodiversity.

Investments in water, waste, energy and nature conservation, including the sites proposed and designated under the Natura 2000 network (except in the French overseas departments where the 'Habitats' Directive does not apply) are also included in the regional programmes.

The 'LIFE' financial instrument applies only in the areas covered by the 'Habitats' and 'Birds' Directives (Canary Islands, Azores and Madeira). In 1993-2002 LIFE made a financial contribution of €568 380.

3.1.8. Enterprise policy

In general, the European Union encourages business spirit to create jobs, improve competitiveness and increase economic growth. The small and medium-sized firms (SMEs) dimension is reflected in most of the Community's policies and financial instruments. It is of particular importance in the outermost regions, whose economic fabric consists primarily of small and very small firms.

The Structural Funds are the main financial instruments through which the European Union provides financial support to firms. A number of projects included in programming for 2000-06 are in progress.

With support from the Commission's Gate2Growth⁵⁸ initiative, in 2002 the European Venture Capital Association (EVCA) drew up the 'Tool Kits for education in business spirit'.

Mention should also be made of other measures of particular interest to SMEs: the Euro Info Centres⁵⁹ network. A Euro Info Centre, which is a full member of the network, is available to firms in all seven outermost regions of the European Union. Because of their considerable distance from mainland Europe, these regions may provide a bridgehead for Europe in developing its trade relations with neighbouring countries. The Euro Info Centres help promote this development and may also facilitate access by firms in mainland Europe to these distant regions and their resources or, conversely, constitute platforms for introducing firms located there to the mainland.

These seven centres offer the firms in their region information services and assistance on European matters, particularly in compiling files for participating in Community programmes, looking for partners in Europe, helping with internationalisation and watching briefs on information (Community legislation, rules on public contracts, etc.)

The Euro Info Centres network will support the introduction and promotion of the measures proposed by the European institutions to help the outermost regions

3.1.9. EU measures for agriculture and fisheries

3.1.9.1. Agriculture and the agrifood industry

Agricultural production in the outermost regions is extremely fragile because of the natural and economic factors which affect it. It still represents a large part of the local economy, particularly in terms of jobs, and so also encourages support for the local agrifood industry, which accounts for the bulk of industrial production in these regions.

The main features of agricultural production in the outermost regions are:

- In all the outermost regions, the utilised agricultural area is a very small proportion of total area. In most regions, pressure on land is a direct result of the process of urbanisation of rural areas, very often as a result of population growth above the

⁵⁸ A detailed description of the Commission's measures may be found in the report *Creating an entrepreneurial Europe: The activities of the European Union for small and medium-sized enterprises* SEC (2003)58 of 21 January 2003 which supplements the Commission report of 13 February 2003 on the implementation of the European Charter for small enterprises, COM (2003) 21 final/2.

⁵⁹ www.europa.eu.int/comm/enterprise/networks/eic/eic.html

European average in an inevitably limited area. On the Canary Islands, Madeira, Martinique and Guadeloupe there is strong competition for land (and water) with tourism.

- In most of the outermost regions, agricultural production is sharply split between production for exports, which secures the best resources as regards technology, water and the microclimate, and supplying local markets, which is less innovative and located in the most difficult areas. This split also reflects a very clear difference in the level of productivity of the ‘land’ and ‘labour’ factors of production, the capitalisation of holdings, their physical and economic average size and the organisation of production and marketing.
- Production suffers from poor diversification of crops, both in terms of the value of production and the area actually cultivated. In Martinique, Guadeloupe and Réunion, production of sugar cane and/or bananas accounts for over three quarters of the cultivated agricultural area in all these departments, over half of final agricultural production and about one third of the number of holdings. In French Guiana, rice production is predominant, accounting for 40% of the utilised agricultural area. On the Canary Islands, five crops, tomatoes, bananas, vines, potatoes and live flowers and plants account for over 75% of the cultivated agricultural area and of the value of crop production. On the archipelagos of Madeira and the Azores too, production is highly concentrated. On the Azores, production concerns mainly cattle raising (animal production accounts for over 75% of final agricultural production), mainly for milk and meat. The main crops are fodder, vines, potatoes and beet. On Madeira, the most important crops are vines, bananas, pineapples, sugar cane, potatoes and flowers. In all cases, except the Azores, stock raising is very limited, both in terms of agricultural production as a whole and in terms of local consumption.
- Furthermore, the small size of holdings is a feature common to all seven outermost regions: in the French overseas departments, over 80% of holdings are under 5 ha. On the Canary Islands, this figure is 90%. The average size of holdings on Madeira and des Azores is 0.3 ha and 6.9 ha respectively. Low productivity means that the economic size of holdings is inevitably very low. The result is a fragmentation of supply which overall is still poorly coordinated at the level of processing and marketing. There is also a lack of close links between local agricultural production and the agrifood industry on the spot.
- Besides the small size of agricultural holdings, there are problems created by isolation, the size of local markets, their fragmentary nature, climatic conditions which are sometimes difficult for agricultural production and a higher level of natural risks, which considerably reduce the competitiveness of agriculture in these compared with other competing production. While production intended for export (mainly, tropical and sub-tropical agriculture) has to compete with production in countries in the regional market (the ACP countries, the Mediterranean basin, etc.) which too sell to mainland Europe, sometimes with very favourable conditions of access and lower costs, production for the local market suffers from competition from imports from mainland Europe. Finally, local agriculture is heavily dependant on the outside world both for the supply of inputs (fertilisers, seeds, packaging, etc.) and to sell its products, while being very isolated from the sources of supply and markets.

The Community has always taken account of the special situation of agriculture in the outermost regions and has sought to support the development of this sector there. Since 1991 in the case of the overseas departments and since 1992 in the case of Madeira, Azores and the Canary Islands, the Community has adopted specific programmes⁶⁰ to support agriculture in these regions comprising a series of measures to complement those in the market organisations, specifically for crops in these regions. This aid facilitates the supply of agricultural products and other inputs and special derogations to promote the development of agriculture in the outermost regions. The Community's financial effort to support these measures has been substantial (see tables in Annex IX).

In general, these programmes are well suited to the needs of the outermost regions⁶¹. They are considered important for the economic development of agriculture there, innovative and adapted to specific local features. Overall, they have overcome certain constraints regarding production costs. They have complemented support under the CAP to improve local production in terms of quality or quantity.

The difficulties encountered in implementing agricultural measures and the requests made to the Commission by the national authorities have necessitated certain adjustments. In 2001 the Council adopted Regulations (EC) Nos 1452/2001, 1453/2001, 1454/2001, 1455/2001 and 1447/2001⁶² implementing the process of reforming the regulations on support for agriculture in the outermost regions, by updating the measures in the agricultural aspects of the POSEI.

The Commission completed implementation of this reform at the end of 2002 and early in 2003⁶³. In particular, it adopted a regulation on crop products⁶⁴ which consolidates in a single text all the implementing provisions in force. By doing so, the Commission intends to make its work for these products in the outermost regions more transparent and structured.

As for the specific supply arrangements, on 20 January 2003 the Commission adopted Regulation (EC) No 98/2003 establishing the supply balances and Community aid for the

⁶⁰ Council Regulation (EEC) No 3763/91 (OJ L 356, 24.12.1991). Council Regulations (EEC) Nos 1600/92 and 1601/92 (OJ L 173, 27.6.1992).

⁶¹ For a fuller analysis, see COM (2000) 790 final.

⁶² Council Regulation (EC) No 1452/2001 of 28 June 2001 introducing specific measures for certain agricultural products for the French overseas departments, amending Directive 72/462/EEC and repealing Regulations (EEC) No 525/77 and (EEC) No 3763/91 (Poseidom) (OJ L 198, 21.7.2001 p. 11).

Council Regulation (EC) No 1453/2001 of 28 June 2001 introducing specific measures for certain agricultural products for the Azores and Madeira and repealing Regulation (EEC) No 1600/92 (Poseima) (OJ L 198, 21.7.2001 p. 26).

Council Regulation (EC) No 1454/2001 of 28 June 2001 introducing specific measures for certain agricultural products for the Canary Islands and repealing Regulation (EEC) No 1601/92 (Poseican)(OJ L 198, 21.7.2001 p. 45).

Council Regulation (EC) No 1455/2001 of 28 June 2001 amending Regulation (EC) No 1254/1999 on the common organisation of the market in beef and veal (OJ L 198, 21.7.2001 p. 58).

Council Regulation (EC) No 1447/2001 of 28 June 2001 amending Regulation (EC) No 1260/1999 laying down general provisions on the Structural Funds (OJ L 198, 21.7.2001 p. 1).

⁶³ COM (2003) 23 final of 21 January 2003.

⁶⁴ Commission Regulation (EC) No 43/2003 of 23 December 2002 laying down detailed rules for applying Council Regulations (EC) No 1452/2001, (EC) No 1453/2001 and (EC) No 1454/2001 as regards aid for the local production of crop products in the outermost regions of the European Union (OJ L 7, 11.1.2003, p. 25)

supply of certain essential products for human consumption, for processing and as agricultural inputs and for the supply of live animals and eggs to the outermost regions.⁶⁵

That regulation represented a significant advance in the reform of the agricultural strand of POSEI by taking account of the insularity and remoteness affecting products intended for processing and agricultural inputs. It also improved harmonisation of the criteria for calculating aid. It has now been replaced by Regulation (EC) No 14/2004⁶⁶.

However, the arrangements currently in force still seek both to ensure stability in the resources allocated to the outermost regions and to decentralise decision-taking as far as possible and simplify management arrangements.

In January 2003, the Commission also presented a package of draft regulations representing a reform of the common agricultural policy. Thorough examination of this package led to the Council's adopting a number of regulations. Several adjustments were made to the horizontal Regulation, (EC) No 1782/2003⁶⁷ establishing common and general rules for the reform to take account of the specific needs of the outermost regions.

First of all, the Community considers that the fragility of the agricultural economies of the outermost regions and the additional costs which agriculture in those regions must bear justify exempting those sectors from the system modulating aid. Then the Member States may decide that it is not necessary to apply the direct payments scheme to the outermost regions, particularly in the beef/veal, sheepmeat and goatmeat sectors. If those regions wish to be excluded, a decentralised aid scheme will be applied: the Member States will submit a support programme to be approved and financed by the Commission up to an amount equal to all the premiums paid in the past to farmers in those sectors. If the outermost regions took advantage of this opportunity, a flexible legal framework well adapted to the specific features of each could be introduced.

Regulation (EC) No 1783/2003 on support for rural development⁶⁸ introduced new supporting measures for the common agricultural policy. These will be financed by the EAGGF Guarantee Section and concern principally encouragement for farmers to participate in Community or national quality schemes (protection of geographical indications or designations of origin, certificates of specific character, organic production etc.). Participation in such schemes can engender further constraints, introduction of which can impose costs on farmers.

It is also planned to grant producer groups support for consumer information and the promotion of products covered by quality schemes supported by the Member States under their rural development plans. Measures of this type are of interest to the outermost regions, which can provide support as part of their development of local products. It is now up to the

⁶⁵ Commission Regulation (EC) No 98/2003 of 20 January 2003 establishing the supply balances and Community aid for the supply of certain essential products for human consumption, for processing and as agricultural inputs and for the supply of live animals and eggs to the outermost regions under Council Regulations (EC) No 1452/2001, (EC) No 1453/2001 and (EC) No 1454/2001 (OJ L 14, 21.1.2003, p. 32).

⁶⁶ OJ L 3, 7.1.2004, p. 6.

⁶⁷ OJ L 270, 21.10.2003.

⁶⁸ Council Regulation (EC) No 1783/2003 of 29 September 2003 amending Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) (OJ L 270, 21.10.2003 p. 70).

Member States concerned to give these regions the opportunity to make their products eligible for these measures. There is still a question as regards agricultural products not listed in Annex I to the Treaty and for which similar support is required in these regions.

Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 raise the maximum rate of Community assistance to 85% of the total eligible cost in all duly justified exceptional cases in the outermost regions.

Other aspects of reforms of market organisations which concern the outermost regions include:

- (1) Milk: the temporary exemption for the Azores under the general production quotas scheme under the market organisation has been extended on a tapering basis until 2004/05 (73 000 tonnes for 2003/04 and 61 500 tonnes for 2004/05). From that date, Council Regulation (EC) No 1788/2003⁶⁹ allows an extra reference quantity of 50 000 tonnes to be allocated to producers in the Azores. The Commission recently made a new proposal⁷⁰ granting permanent exemption from the levy system under Regulation (EC) No 1788/2003 for the equivalent of 23 000 tonnes.
- (2) Rice: the intervention price for rice will be reduced by 50% to €150/tonne from 1 September 2004 and limited to 75 000 tonnes a year. Income support up to the maximum eligible areas at a rate of €177/tonne is planned. The system of penalties where areas are exceeded becomes proportional. The proposed decoupling of €102/tonne will not be compulsory in the outermost regions (i.e., in practice, French Guiana). The Council approved a mandate to renegotiate the import arrangements in the light of the ‘Everything but Arms’ initiative⁷¹.
- (3) Sugar: the new basic regulation adopted by the Council in 2001⁷² continued the scheme for five years, in addition to the special measures in force under the POSEI regulations. The guarantees for production and prices continued by the sugar market organisation also support the production of beet and cane in the outermost regions. With regard to the market organisation, the Commission has presented a working paper⁷³ on guidelines for the reform of the sector which take account of the special situation of the outermost regions. On the basis of that working paper, the Commission sent the Council and Parliament a communication with options for reform which suggests that production conditions which are different from those on the mainland should give rise to differentiated treatment for the outermost regions as part of the reform of the instruments to support the regional economy.
- (4) Bananas: the market organisation established in 1993 introduced a series of measures to support Community producers, the largest of which in financial terms was compensatory aid for marketing.

⁶⁹ OJ L 270, 21.10.2003 p. 123.

⁷⁰ COM (2003) 617 final of 15 October 2003

⁷¹ Awaiting completion

⁷² Council Regulation (EC) No 1260/2001 of 19 June 2001 on the common organisation of the markets in the sugar sector (OJ L 178, 30.6.2001).

⁷³ “Reforming the European Union’s sugar policy– Summary of the impact assessment work” SEC (2003) 1022, 23.9.2003.

The outermost regions benefited particularly from these measures, since they account for 99.7% of all bananas produced in the Community. Efforts by all involved in the sector and financial support from the CAP has meant that Community banana production has grown substantially since 1993 in terms of both quantity and quality. In general, the financial support provided both by the prices obtained on the market and the various forms of Community support has proved a useful instrument for Community producers allowing banana production to grow from under than 600 000 tonnes in 1994 to almost 800 000 tonnes in 2002.

3.1.9.2. Fisheries

Under the Common Fisheries Policy (CFP), the exploitation of fisheries resources is intended to guarantee the long-term viability of this sector. The sustainability of fisheries activities under this common policy also takes account of the impact of fisheries on the marine environment, the balance between the economic viability of fisheries enterprises and the state of stocks and the social conditions for fisheries activities. These objectives apply throughout the Community, including the outermost regions, where the resources in their waters have to be protected effectively and over the long-term in view of the socio-economic dependency of their populations who live from activities related to fisheries and aquaculture.

Besides the problems of the sector in general, fisheries in the outermost regions also suffer from other handicaps similar to those already described in the case of agriculture and the impact of high costs of exploiting production because of the burdens of isolation from the market and insularity. In addition, the fisheries sector suffers from a relative scarcity of resources because, except for French Guiana, the regions have no continental shelf.

Since 1992, the Community has followed a constant policy of appropriate support for fisheries in the outermost regions. This has taken the form of a series of measures covering the various aspects of the common fisheries policy:

- the common organisation of markets for fisheries products, by granting facilities for supply and/or the disposal of products, and financing improvements to meet Community health standards;
- a specific policy for disposing of products through the introduction of a special promotion plan and the grant of compensation for the additional costs entailed by isolation from the European market;
- scientific research, through studies, the construction of an oceanographic research vessel and the establishment of centres to transfer aquaculture technology;
- the conservation and sustainable management of local resources or shared stocks (major pelagic species) through programmes for the exploitation of fisheries resources, objectives for fisheries effort and appropriate fleet sizes and the financing of boxes and other protection areas;
- structural policy, through higher rates of assistance for productive investment in this sector (Regulation (EC) No 1451/2001), the fixing of specific objectives for six of the outermost regions under MAGP IV to allow managed growth, the adoption of a scheme providing higher aid to producer organisations and introduction of an aquaculture plan.

All these measures apply throughout the sector. The reform of the CFP has not called into question any of the provisions adopted under the measures for the outermost regions; rather in May 2003 the Commission proposed a derogation from the measures applicable to the Community fleet as a whole. The scheme will allow modest growth in fleets in the outermost regions and hence continuing investment supported where appropriate by public aid, while ensuring that fisheries in these regions remain viable.

The partnership must continue to play a very important role in this regard. Only an on-going dialogue between the Member States, the regions concerned and the Community institutions will enable specific situations to be identified and solutions which meet local needs to emerge.

In the light of the changes which have occurred as a result of the provisions in the Acts of Accession of Spain and Portugal governing access to certain zones and resources, on 4 November 2003 the Council adopted Regulation (EC) No 1954/2003⁷⁴ on the management of the fishing effort in Atlantic waters to guarantee the stability of the fishing effort recently deployed by vessels from the Member States. Achievement of that objective requires the preparation of lists of vessels authorised to work in the fisheries concerned, the setting of maximum fishing efforts for demersal fisheries, the exercise of fishing activities reserved for vessels registered in ports in the Azores, Madeira and the Canary Islands in waters up to 100 sea miles from their baselines and changes to the arrangements for monitoring fishing effort. A declaration by the Commission and the Council annexed to the Council agreement states that the provisions of the Regulation concerning the outermost regions do not prejudice measures which may be adopted at a later date for the French overseas departments. The Commission intends to make a proposal on this subject in 2004. Once the arrangements are complete, the outermost regions will have a protection zone for their fisheries with first rights of access.

Further specific assistance to the outermost regions concerns the scheme of national public aid in the fisheries and aquaculture sector. The new guidelines for consideration of such aid⁷⁵ came into force at the beginning of 2001 and contain express reference to the outermost regions, stating that aid intended to meet the needs of those regions will be considered on an individual basis in the light of Article 299(2) of the EC Treaty and the compatibility of the measures concerned with the objectives of the common fisheries policy. That approach allows consideration to be given to the special situations of these regions which require assistance from public authorities to provide support for the sector. There are similar specific measures in the field of structural policy (see 3.1.1.1).

The scheme of compensation for the additional costs entailed by isolation from the European market for the disposal of fisheries products is another of the specific measures in the CFP introduced by the Community to benefit some of the outermost regions (Azores, Madeira, Canary Islands, French Guiana and Réunion). The limited nature of the regional markets, which are often not very profitable, and the additional costs of transport to the European market place serious constraints on the profitability of basic investments and the sustainable exploitation of fisheries resources. The derogations in place since 1992 were extended on

⁷⁴ Council Regulation (EC) No 1954/2003 of 4 November 2003 on the management of the fishing effort relating to certain Community fishing areas and resources and modifying Regulation (EC) No 2847/93 and repealing Regulations (EC) No 685/95 and (EC) No 2027/95 (OJ L 289, 7.11.2003).

⁷⁵ OJ C 19, 20.1.2001 p. 7.

several occasions and have now been replaced by Regulation (EC) No 2328/2003⁷⁶. The Commission has made an assessment of the arrangements in 1998-2002⁷⁷ which finds that the compensatory arrangements have enabled those involved in the sector to continue their activity under acceptable conditions with a positive effect on the local socio-economic fabric. The maintenance of a profitable fisheries sector guarantees jobs in regions where alternative employment is limited. This adjustment to the CFP also contributes to the principle of economic and social cohesion. The fisheries products covered by this scheme account for a significant share of the exports of these island regions (Canary Islands, French Guiana, Azores and Réunion), which should therefore simulate the local development of production, processing and marketing activities.

The table in Annex X shows the size of the Community's financial effort for this provision, which could rise to €15 million a year.

In December 2003, the Council adopted Regulation (EC) No 2328/2003 which retains the principle of the existing compensatory mechanism and improves its implementation, chiefly as regards the species marketed, the quantities covered by the aid scheme and the systems of modulating the programme in line with the conclusions of the 1998/2002 evaluation report referred to above. Since 1992 these derogations have allowed uninterrupted Community financing to offset the additional costs of marketing fisheries products while introducing for the future a mechanism for possible modulation and guaranteeing overall funding. This will continue until 2006

As regards the international aspect of the common fisheries policy, on the recommendation of the International Commission for the Conservation of Atlantic Tunas (ICCAT), in 2000 the Community adopted catch limits on albacore and bigeye tuna from 2001 which were transposed into Community law by regulations fixing the allowable catches and quotas for those years⁷⁸. The ICCAT also included a flexibility clause for certain species under which under- or over-fishing could be carried over to a following year which should in particular help better consideration to be given to the special needs of tuna fisheries in the outermost regions. Hence, for the first time, in 2003 fishing for albacore and bigeye tuna, two species of particular importance to those regions, in the waters of the Azores, Madeira and the Canary Islands will receive support from this mechanism. It should also be noted that in December 2003 the Indian Ocean Tuna Commission adopted measures to guarantee the conservation and management of stocks of tropical tuna. These measures, which come into force in 2004, will affect the fleets registered in Réunion which will have to apply them to ensure the sustainable exploitation of tuna stocks in the Indian Ocean.

The challenges facing the fisheries sector:

The combined impact of aid for productive investment and aid to offset the additional costs resulting from remoteness so far provided have enabled some regions to develop the fisheries

⁷⁶ Council Regulation (EC) No 579/2002 of 25 March 2002 amending Regulation (EC) No 1587/98 introducing a scheme to compensate for the additional costs incurred in the marketing of certain fishery products from the Azores, Madeira, the Canary Islands and the French departments of Guiana and Réunion as a result of those regions' remoteness (OJ L 089, 5.4.2002 and OJ L 345, 31.12.2003).

⁷⁷ COM (2003) 574 final of 1 October 2003. Since this report was prepared under Article 6 of Regulation (EC) No 1587/98, it was sent to the European Parliament, the Council, the European Economic and Social Committee and to the Committee of the Regions.

⁷⁸ Council Regulation (EC) No 2287/2003 of 19 December 2003.

sector where resources were present. The derogations to promote the reasonable expansion of fleets and the extension of aid for additional costs mean that this can continue until 2006.

The aim for the future is now to identify better the sources of sustainable development in the fisheries sector in these regions having regard to the heavy constraints which threaten to restrict that development.

The first of these is the heavy dependence of the fleets in the outermost regions on coastal fish stocks. The serious problems of redeployment at world level of a large number of fleets in the fisheries of non-member countries or in international waters means that any hope of a rapid diversification of the activities of the fleets in the outermost regions which are in danger of overexploiting their own waters is an illusion. Only fisheries for large oceanic pelagic species of demersal stocks in southern waters offer any hope, provided that the Member States concerned continue to favour these regions compared with the rest of their fleet in Europe.

The second constraint is the capacity of the States or the Community to provide sufficient long-term finance to ensure the viability of local firms and the marketing of products whose production costs are higher than in neighbouring economies. Here the question of outlets for this production must be resolved in a broader context than merely the local or Community markets.

If these constraints can be overcome, there is a real chance of promoting the fishing industry in those of the outermost regions which have advantages over the fisheries zones or international trade channels. Such a development will, however, be long-lasting only with responsible management of fisheries resources and if the long term is not sacrificed to the short term.

The Commission will endeavour to use the measures implemented under the various aspects of the common fisheries policy in response to a recent resolution by the European Parliament⁷⁹ on the prospects for the development of fisheries in the outermost regions.

3.1.10. Conclusions and evaluation

The Commission report of 14 March 2000 on measures to implement Article 299(2) of the EC Treaty in the outermost regions of the European Union⁸⁰ set out a work programme for all the EU institutions which has expanded in recent years. The evaluation in this report demonstrates the importance of the work done by the regional authorities, the national authorities and all the Community institutions to help implement the strategy for the development of the outermost regions.

The Commission has made its proposals having regard to the interests of the regions, on the basis of reasoned requests by the Member States and its own technical analysis. When instruments have had to be adopted by the Council, other Community institutions such as the European Parliament, the European Economic and Social Committee and the Committee of the Regions have made an active contribution and also carried out analyses on the development strategy of the outermost regions. In this context, the resolution of the European Parliament on the Commission report on the measures to apply Article 299(2)⁸¹ and the

⁷⁹ European Parliament Resolution of 10 February 2004 (EP T5-0076/2004).

⁸⁰ COM (2000) 147 final.

⁸¹ A5-0285/2000.

opinions of the Committee of the Regions of 13 December 2000 on the problems of the outermost regions and the application of Article 299(2)⁸² and of the European Economic and Social Committee on the future strategy for the outermost regions of the European Union⁸³ should be mentioned.

The following elements of evaluation demonstrate that, while it is clear that much has been done, there are still outstanding points or shortcomings which will have to be dealt with when the future strategy for the outermost regions is drawn up.

3.1.10.1. Elements for the evaluation of measures adopted at sectoral level

First of all, there is a substantial difference between the development strategies devised for the seven outermost regions. It is true that the development problems which they face are similar but the differences in levels of economic development, the seriousness of the handicaps from which they suffer, social integration, economic and administrative structure and the initiatives taken as regards social and technological innovation justify variations in the guidelines for the strategies for economic and social development being followed. This variety may be observed in the Structural Funds programming documents, some of which concentrate rather on support for traditional sectors while others prefer more strategic and innovative sectors. There are also differences in the definition of the strategy for improving the labour market. The mid-term review being undertaken this year could be an occasion for improving the development strategy for the regions, depending on the results of the programming, the impact of the Structural Funds in developing the local economies and the general growth strategies, as set out at Lisbon.

It should also be noted that the structural derogations approved in 2001 which are mentioned in the assessment part of this report were not implemented as well as they might have been in certain regions. Similarly, the efficient use of the resources allocated during the current programming period demonstrates the need to support the efforts being made by the regions. As in the case of all the regions receiving assistance under the Structural Funds, the Commission watches carefully the results of implementation of the funding allocated to the outermost regions.

It also appears that some Community policies do not take adequate account of the special features of these regions. The fact that some Community instruments are ill-adapted is the result of their being designed for the Community as a whole, without considering the specific needs of the outermost regions. Three sectors illustrate this point to differing degrees: transport, the environment and the internal market.

The recasting of the guidelines on the trans-European transport networks (TEN-T) is part of an approach clearly centred on the network in continental Europe and with an eye to enlargement. The features of the network are the worrying extent to which overloading is increasing, persisting bottlenecks and inadequate links and interoperability. Each of the outermost regions shares these characteristics, all the more so because most of them are islands, which sometimes also suffer from “double” insularity. French Guiana faces a difficulty of a different type since it is surrounded by the Amazonian forest. Although the TEN-T was designed to improve the integration of the central and peripheral regions of the

⁸² Opinion of the Committee of the Regions on the outermost regions of the EU and implementation of Article 299(2), OJ C 144, 16.5.2001, p. 11.

⁸³ ECO/076 CES 682/2002

EU by improving high-capacity links to maintain the competitiveness of the European economy, the outermost regions remain isolated and remote in their local markets. Interconnection projects linking them with the continent have not been regarded as priorities for financing transport infrastructure under the Structural Funds. Accordingly, the TEN-T only solves problems of providing modern high-capacity infrastructure, but is not intended to make an adequate response to the problems of accessibility, particularly internal accessibility, the additional costs entailed by the geographical situation of the outermost regions, the impact of limited competition and the lack of intermodal competition in the remaining continental regions.

As regards sustainable development, the obligations related to the preservation of the environment have been incorporated into all Community policies in a spirit of synergy. Particularly through their regional programmes, the outermost regions have a substantial volume of appropriations to develop environmental infrastructure appropriate to help them preserve their ecosystem. As regards compliance with environmental concerns, it should be noted that some obligations remain disproportionate in view in particular of their isolation and small size. For example, some kinds of waste cannot be treated on the spot and have to be sent to treatment centres on the European mainland. This is a constant additional cost which the outermost regions have to bear.

A further example is the process of constructing the single market. In these isolated regions where physical barriers still exist, the inability to profit fully from economies of scale or external economies make the positive impact of the internal market very limited. This process has helped the economies of the central regions of the European Union by stimulating their competitiveness. Similarly, in the regulated sectors, particularly public services, their operation should be evaluated mainly from the view point of competition and the prices of these services because, as a result of the small markets in the outermost regions, *de facto* monopoly situations have arisen which reduce the competitiveness of the whole of the economy there and have generated inflation. It has also made retaining balancing systems for the uniform application of the tariffs used throughout the country more difficult. The conclusion is not that these attempts at liberalisation should be discontinued in the outermost regions – rather they should be supported through the national and Community instruments available for improving competition (particularly Articles 81 and 82 of the EC Treaty, the public service obligations and the other instruments of regulated liberalisation).

3.1.10.2. Overall evaluation of the compensation mechanisms and elements of methodology

The following qualitative conclusions may be drawn about the aid and compensation measures implemented hitherto:

- Lack of uniformity in sectoral coverage: most of the measures concerning compensation for additional costs are applicable exclusively to the sectors concerned by Annex I to the EC Treaty, agriculture or fisheries. This guideline also applies to the resources allocated to them and is consistent with the financial effort which the Community makes in the agriculture sector for the European Union as a whole. It is not however true of the other sectors of activity of the outermost regions which also have to bear additional costs because of difficulties of poor access or small market size.
- Lack of uniformity in taking account of additional costs: the various aid schemes treat cost imbalances and the additional costs of economic activity in the outermost

regions differently. In agriculture the additional costs of supplies of raw materials are covered, national and regional aid applies to the purchase of investment goods but in human resources compensation for additional costs as regards the supply of labour is virtually non-existent, apart from measures to improve skill levels.

- Lack of uniformity in the guidelines for aid: most Community aid helps reduce the impact of isolation by reducing the additional costs of transport between mainland Europe and the market in the outermost regions, but not in the other direction. Only a few aid schemes can be regarded as dealing with the problems of access for products from the outermost regions to mainland Europe (e.g. aid paid under annual contracts for certain agricultural products, aid for transport in the sugar industry in the overseas departments and the beef/veal sector in the Azores and the vast bulk of aid to compensate for the additional costs of disposing of fisheries products). The guidelines on aid for regional purposes however allow aid in both directions.
- These three factors, together with different rates of intensity, may create obstacles to the diversification of the economic fabric in the outermost regions.
- The relationship between the amount of aid granted and the level of the additional costs is not always easy to determine. However, recent changes to the rules have improved application of the principle of proportionality of aid. Under the specific supply arrangements, the Council regulations have introduced a basis for calculating the additional costs resulting from isolation and insularity to avoid aid falling short of that amount. In the programme for compensating for additional costs in fisheries, the amount of aid is calculated on the estimated additional costs while for other aid compensating for the additional costs of isolation or size, the amounts are on a flat-rate basis. There is no uniform system for evaluating additional costs which can be applied generally and no adequate mechanism to prevent the cumulation of aid, particularly Community and national aid.
- The weakness of effective competition in the markets of the outermost regions means that in most cases the aid does not reach the final beneficiary to an adequate extent.
- Consideration of regional integration is at present virtually ignored and omitted from available measures. This would limit the negative effects of the small size of markets, reduce the impact of the small size of both the industries and the firms and offset the effects of isolation and heavy dependency on markets in mainland Europe.
- Most of the measures which reduce the impact of isolation or offset additional costs correspond in fact to other very specific objectives, such as maintaining the share of Community supply or the economic promotion of local sectors (e.g. annual contracts, aid for the import of breeding animals or aid for the sugar cane sector).

The following aspects of the methodology of implementing the instruments at Community level should be noted:

- Lack of a consolidated methodology allowing a more precise evaluation of the handicaps and economic policy. This gap also appears at evaluation level because of the under-utilisation of the instruments of economic analysis which would allow the specific features of economic development in the outermost regions to be measured.

- Lack of structured data allowing an evaluation of handicaps and of the policies applied *ex-ante* and *ex-post*. Securing multisectoral data on local production and precise figures on external trade should allow work on evaluating handicaps and policies to progress. Instruments to collect regular data on local production, including the role of imports and the contribution of the factors of production, including labour, should be provided.
- The limited general application of the specific measures applicable in the outermost regions and their system of integration in the European Union. This limited general application, which is the result of the lack of methodology noted above, is damaging because there is a risk that the juxtaposition of measures engenders either under- or over-compensation for the actual handicaps.
- Gaps in the quantitative justifications for specific measures: due to the lack of methodology noted above, these gaps create difficulties in applying the principle of the proportionality of aid.

4. FUTURE MEASURES

4.1. Main priorities for measures for the outermost regions

The development strategy and fields of action to be defined for the outermost regions must take account of their specific features, particularly the handicaps of isolation, size, difficulties of relief and climate and the lack of economic diversification. Identifying these handicaps suggests three main priorities for the Community's future work for the outermost regions:

- (1) Stepping up cohesion to benefit the outermost regions. Cohesion policy in the broad sense, including territorial cohesion, is in fact a catalyst for dealing with the problem of poor access from these regions to the Community territory. The question of ability to access the central market is one of the key variables for the location of economic activity. It is of still greater importance as the elimination of barriers to trade and the mobility of the factors of production in the continental markets have grown with the creation of the internal market.
- (2) Improving the competitiveness of the local fabric through the creation and development of external economies which make the location of economic activity more attractive. Similarly, measures to improve the quality of the labour available are also a determining factor since they increase the productivity of the economy and restrain increases in the cost of this factor. This priority goes alongside the Community's efforts to become a more competitive economy. This means that improving the competitiveness of the local economy and exploiting local assets for the outermost regions form part of a joint effort within the Union.
- (3) Expanding the natural sphere of socio-economic and cultural influence of the outermost regions by reducing the institutional barriers which restrict trade with their geographical area since, although very distant from the European mainland, they are very close to the geographical markets of the Caribbean, America and Africa. This priority also concerns the efforts which need to be made in the field of regional (mainly between the outermost regions) and transnational cooperation.

4.1.1. *Economic, social and territorial cohesion*

Article 2 of the Treaty sets the Union the aim of promoting “economic and social progress and a high level of employment, and of achieving balanced and sustainable development through the creation of an area without internal frontiers, by promoting economic and social and establishing an economic and monetary union”⁸⁴.

While in principle, the aim of economic and social cohesion is reflected in a reduction in gaps in levels of economic development and improvements on the labour market, the question of territorial cohesion is more difficult. The balanced development of a territory implies equality between citizens of Europe wherever they live, particularly as regards access to services, infrastructure and knowledge. The concept of territorial cohesion supplements and supports, but also goes beyond, that of economic and social cohesion. As a policy objective, it must contribute to harmonious and balanced development by reducing existing disparities, helping the Union tackle forthcoming territorial imbalances and coordinating sectoral policies which impact on the territory with regional policy. The further aim is a better integration between European territories, which involves cooperation and networking between these territories. The data for an economic analysis which would take account of the phenomenon of territorial cohesion concern mainly the territorial distribution of economic activities, the causes of concentration and economic polarisation and the consequences for the fairness and efficiency of the economic system.⁸⁵

This raises the question of the place of the outermost regions. One of the problems of economic activity arises from poor access to the Community market, which goes along with

⁸⁴ Trends in economic, social and territorial cohesion recorded in the successive reports on cohesion adopted by the Commission. See the Third report on economic and social cohesion of 18 February 2003.

⁸⁵ In work on the impact of the “remoteness-size” factor on the location of economic activity, greater remoteness is very frequently seen as aggravating the handicap of small size. This characteristic applies also to small economies, of which the outermost economies normally form part, to the extent that transport costs and the other obstacles impede continuity between these economies. The concept of remoteness must therefore be considered as a whole, as the combined impact of size and accessibility. If the costs of access to markets are reduced, size is no longer a determining criterion, since continuity is guaranteed. The key term in the assessment of remoteness is the capacity of business to access the market. Work on the new economic geography mentions the positive effects of external economies and the negative effects of congestion, which are closely related to the agglomeration of economic activity. External economies have positive effects which are related not to the size of the firm but to the scale of the industry or sector. They are therefore linked to intra-sectoral relations between firms using the factors which require the same specialisation. These economies, like those of scale, promote concentration and the capacity to access the market. In these models the process of integration varies depending on the level of the costs of trade. One of the results of removing barriers to trade is greater economic polarisation. This polarisation may, however, create congestion which reduces or cancels out the positive impact of the external economies.

A number of factors explain these congestion costs. The lack of mobility of the labour factor means that its cost increases. Other factors of production may create congestion and disperse activity to other regions where the costs of these goods is relatively lower. Finally, the impact of pollution due to the concentration of economic activity and the risk of exhausting natural resources may constitute a special case of congestion costs.

From the point of view of the outermost economies, it is important to note that this represents a development opportunity. The factors which reduce the advantages of polarisation make activity in these regions more attractive. However, because of the handicaps of remoteness and isolation which deny them the benefits of economic polarisation, it is essential to resolve the problems of access if they are to take advantage of this opportunity.

small size, the sometimes fragmented nature of the islands of an archipelago, remoteness from the central regions, isolation and small size. Other natural handicaps, such as topography, the greater risk of natural disasters and the fragility of the local ecosystem should also be noted. The result of this situation is a very low level of real convergence compared with the situation in the central regions.

Although the gradual removal of trade barriers within the single market has generated economies of scale and external economies for most of the regions of Europe, the natural barriers to trade which continue to dog the outermost regions weaken the position of firms located there as compared with those in regions which enjoy full access to the Community market. Firms in the outermost regions continue to operate in a limited, fragmented and isolated local market which does not allow them to benefit to the same extent from economies of scale and external economies.

It should also be noted that the so-called POSEI decisions have already set three general objectives for the Community's specific measures for the outermost regions:

- (1) their realistic integration into the Community through an appropriate framework for the application of Community policies there;
- (2) their full participation in the dynamic of the internal market by making optimum use of existing Community rules and instruments;
- (3) assistance to help the outermost regions catch up in economic and social terms (principally by Community finance for measures in the specific programme).

The objective of the realistic integration of the outermost regions into the single market is still to be pursued, despite the efforts of the Member States and the Community. The Community effort must therefore be continued and strengthened, by identifying the main elements which will stimulate the economy of the outermost regions in preparation for their closer integration into the Community markets and the polarisation of economic activity in the central regions.

4.1.2. *A knowledge-based and competitive Europe*

The Lisbon European Council on 23 and 24 March 2000 launched a strategy for the economic and social renewal of the European Union. This new strategic objective for the decade to come was to boost employment, economic reform and social cohesion within an economy based on knowledge. The Union should "*become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.*"

To achieve this objective, a line of action was drawn up to:

- (1) prepare the transition to a competitive knowledge-based society and economy;
- (2) modernise the European social model by investing in human resources and combating social exclusion;
- (3) foster the conditions for sound economic growth and favourable prospects for growth.

In June 2001 the Göteborg European Council adopted a strategy for sustainable development and so added a third dimension, the environment, to the Lisbon process.

The general coordinated Lisbon approach is therefore synonymous with economic, social and environmental progress which will have to find an echo in the economies of the outermost regions. Technological progress and the quality of highly skilled labour will make a big contribution to productivity gains, and still more so in these regions. This requires the creation of the best possible conditions to allow electronic commerce to flourish by stimulating R&D and innovation and improving existing structures for education and training. Measures in the fields of electronic administration, digital medical and health services, electronic learning and electronic commerce should promote the development of new services and give a vital boost to investment in new networks. In addition, measures promoting broad-band access and offering greater computer security should help boost the provision of infrastructure.

The redirection of expenditure towards investment in physical and human capital and in knowledge will stimulate growth. The awareness of the Member States must be drawn to the need to provide extra funding for resources for priority projects (transport, broad-band, R&D, innovation). The legal and administrative frameworks will also require adjustment to take account of the needs of the private sector.

While the level of public equipment in the outermost regions is tending to catch up with that in the EU-15, work remains to be done on the development strategy for these regions to exploit their assets and enable them to achieve as much as possible.

Several approaches to this extremely vast subject can be explored as of now, including, for example, the concentration of efforts on the potentials for development which are the least exposed to the structural handicaps acknowledged by Article 299(2) of the Treaty. The location of the outermost regions is an undeniable advantage, making them the external and active frontiers of Europe so that they can become real strategic platforms for know-how in their areas. The dynamism of certain sectors, such as tourism and services, and the strength of the information society and innovative technologies are high value added activities which help boost the competitiveness of the economies of the outermost regions.

Although the measures to stimulate business spirit are a matter for the Member States, it is recognised that encouragement for business start-ups in the outermost regions must go hand-in-hand with their economic environment. If local economic conditions do not provide optimal stimulation for the business spirit, particularly because of complex administrative procedures or the lack of skilled labour, adjustments to help the outermost regions must be made, not only to improve access to the internal market and to the markets of neighbouring non-member countries but also to create favourable conditions for the development of local firms. Community rules on competition and state aid already allow multiple and varied guarantees to be offered to firms in the outermost regions.

However, a feature of the economic fabric of the outermost regions is that small firms are in a large majority. The European Charter on small firms⁸⁶ adopted by the Feira European Council on 19 and 20 June 2000 stresses the need to develop these small firms, which are the backbone of the European economy. They are an irreplaceable source of jobs and a nursery for business ideas which should therefore be encouraged in a socio-economic context where

⁸⁶ www.europa.eu.int/comm/enterprise_policy

the slightest change will weaken them. Firms in the outermost regions are at the centre of the process of competitiveness and growth and enter fully into the lines of action defined in the Charter: business education and training, less expensive and swifter registration, access to skills, better on-line access, exploitation of the single market and better legislation and rules. On this latter point, the Commission has already simplified the legislation governing competition to make compliance less of a burden on small firms.

It is however true that the competition rules on state aid impose criteria as regards notification of aid to small and medium-sized firms which are closely linked to the Community definition of them. The outermost regions have frequently drawn attention to the need to take account of the situation of those firms at local level, which, for reasons of economic survival, are supported by large industrial groups. Here it should be noted that state aid to this type of beneficiary is not forbidden under the Community plan, whose impact concerns only the intensity of the aid authorised (for the outermost regions which may enjoy derogations under Article 87(3)(a) of the EC Treaty, the maximum aid intensity is 65% for large firms and 80% for SMEs⁸⁷). The Commission's recommendation of 3 April 1996 on the definition of SMEs⁸⁸ regards the independence of firms as one of the basic criteria which define them (i.e. where a holding is less than 25% of capital or voting rights), since an SME which belongs to a large group has resources and support not available to its competitors of equivalent size.

The new Commission recommendation of 6 May 2003⁸⁹, which will come into force on 1 January 2005, increases the importance of retaining this 25% criterion to exclude from the definition groups of firms whose economic power would be greater than that of an SME. The only exception to this criterion is SMEs of which over 25% is owned by certain categories of investors described in Article 3(2) of the Annex to the recommendation, provided that these categories are not linked to the firm concerned, viz:

- (1) public holding companies, venture capital companies, individuals or groups of individuals who regularly undertake venture capital investment (*business angels*) investing their own funds in firms not quoted on the stock exchange provided that their total investment in a single firm does not exceed €1 250 000;
- (2) non-profit-making universities or research centres;
- (3) institutional investors, including regional development funds;
- (4) autonomous local authorities with an annual budget of less than €10 million and fewer than 5 000 inhabitants.

It should also be noted that aid to SMEs is exempt from notification under Commission Regulation (EC) No 70/2001 of 12 January 2001⁹⁰.

Dynamic population growth in some of the outermost regions may also constitute a genuine asset for these still fragile economies by promoting educational resources and improving the

⁸⁷ Without prejudice to the rates used in drawing up the regional aid maps by the Commission in liaison with the countries concerned (Spain, France and Portugal).

⁸⁸ 96/280/EC: Commission Recommendation of 3 April 1996 concerning the definition of small and medium-sized enterprises (Text with EEA relevance) (OJ L 107, 30.4.1996).

⁸⁹ OJ L 124, 20.5.2003.

⁹⁰ OJ L 10, 13.1.2001.

performance of training structures. The Structural Funds (particularly the ERDF and ESF) already make substantial contributions to this and these efforts must continue.

The outermost regions have considerable potential for achieving the Lisbon objective based chiefly on the knowledge society and economy. The aim is to catch up as regards education and ensure equality of opportunities in access to initial and on-going training for all, men and women. In addition, the priority given to learning the new information and communications technologies must be maintained along with increased investment in this high-tech sector where the constraints imposed by distance and isolation are much less.

Improving know-how among young people from the outermost regions offers real opportunities for the European mainland, where some regions are suffering from a shrinking population. The outermost regions could become a nursery of know-how in widely varying fields (the economy, education, culture, etc.) and advanced sectors such as research and technological development or the ICT. They could build on this asset by ensuring the mobility of workers among the regions of Europe. The European Union is providing substantial financial support to promote the mobility of those in search of work (through the ESF) or by awarding 'Marie Curie' scholarships to research workers under the VIth framework programme.

However, access to the information and communications technologies in these distant regions whose markets suffer from weak, or indeed no, competition is not encouraged. The guidelines must take account of the need to promote access by users in these regions to the information and communications technologies, mainly by ensuring an adequate quality of service provision and appropriate communications tariffs.

In the field of research and technological development, the outermost regions, because of their geographical location and their rich natural assets, contribute to the European Research Area. The action plan for research drawn up by the outermost regions and sent to the Commission on 2 June 2003 illustrates this perfectly. It states that these regions can become laboratories of excellence for experimentation, 'platforms for the dissemination of technologies', 'real scientific portals for the geographical areas where they are located.'

Analyses and forward studies on research and innovation, and in regard to the socio-economic data on development, should result in tables of indicators, and an observatory for the trend of these data in the seven outermost regions to encourage exchanges and the use of good practice as an example by a group of intra-regional experts from the outermost regions in coordination with international experts, like the Mutual Learning Platform which should be implemented by DG Research in its approaches in the regional aspect of research.

If efforts through regional specialisation in research can be concentrated, it will be easier to integrate the research groups in the outermost regions into the networks of excellence.

The rich biodiversity of the outermost regions is an asset which deserves to be preserved. These regions have remarkable natural assets where varied but fragile ecosystems meet. For example, the forests, the rivers and coral reefs provide a habitat for a multitude of animal and vegetable species some of which are rare, some in danger of extinction and some of which exist only in those territories (endemic species).

Biodiversity is important because it provides the raw materials society needs. The European Commission has adopted a series of action plans to incorporate the preservation of

biodiversity into Community policies such as agriculture, fisheries, the preservation of natural resources, economic cooperation and development aid. These plans are a vital instrument for finding sustainable solutions to maintaining biodiversity in these territories.

However, the question of how it is possible to reconcile the objectives and commitments on biodiversity repeated at Göteborg (i.e. checking the loss of biodiversity by 2010) with commitment to developing the outermost regions still remains relevant. The challenge is to promote a balanced development model which is compatible with the protection of their natural resources. Similarly, the outermost regions deserve particular attention as regards land use (where they need to keep a balance between economic and urban development, and the conservation of natural and cultural assets).

Problems related to the conservation of biodiversity are being monitored under the Convention on Biodiversity and the Commission is careful to ensure that the European Union makes an appropriate contribution and achieves the objectives set for 2010. The evaluation of progress on implementing the biodiversity strategy requires closer attention to integrating elements of biodiversity into Community policies, particularly in the outermost regions.

In view of the importance of these regions on a global scale, the Commission is willing both to support programmes to extend protected areas and to encourage these regions to take greater account of the integration of elements of biodiversity when they design their development projects.

4.1.3. Effective integration into the regional environment.

The outermost regions and neighbouring non-member countries are developing in a shared regional environment which can therefore encourage greater trade in goods and services between them. They have similar characteristics, particularly as regards the ecosystem, which means, for example, that in agriculture they grow the same crops. Their needs, however, differ substantially and so leave scope for trade.

However, the standard of living in the outermost regions cannot be compared with that in less developed neighbouring regions. This is often reflected in production costs which are higher than in those countries, which have much lower labour costs, particularly in tourism and agriculture. There is, in fact, effective competition between these regions as regards prices to the final consumer.

The Commission believes that the level of development achieved by the outermost regions can be exploited by promoting exchanges of experiences in key areas such as innovative technologies, the information society, agrifoodstuffs, training, research, energy and the preservation of the environment. Greater multisectoral specialisation will naturally result in the outermost regions securing a position in the dissemination of know-how which is likely to interest partners in neighbouring areas. Several initiatives have already been taken in this direction under Interreg Community Initiative programmes led by the outermost regions and the Commission is encouraging this approach.

It should also be noted that the population of the outermost regions is still too low to represent a critical mass in market terms enabling local firms to benefit from economies of scale.

The small size of the market is a major handicap which does nothing to improve outlets and so reduces the competitiveness of local firms. Economic operators naturally seek to expand

their outlets by targeting nearby markets. Some tropical products where the outermost regions enjoy substantial comparative advantages (compliance with European health and environmental standards) could provide a basis for an export-oriented economy. More targeted products in the field of services or using new information and communications technologies could also be aimed at profitable markets. It should also be noted that the specialisation of production engendered by trade has a positive effect on the economy as a whole through the improvements it generates in factor productivity and the health of the economies.

However, barriers to trade remain on both sides of the frontier. In an international environment heavily tilted towards liberalisation as the way of increasing prosperity, account needs to be taken of the social, economic and institutional environment of the regions concerned.

This makes regional trade one of the development priorities for the outermost regions.

4.2. The horizontal instruments of Community assistance to the outermost regions

Apart from financial assistance and adjustments to rules to help the outermost regions, Community action is based on three fundamental elements: the legal basis of the EC Treaty as regards the outermost regions, the principle of partnership and the system for evaluating handicaps and measures.

4.2.1. Article 299(2) EC: support for future measures applicable to the outermost regions

Article 299(2) EC gives explicit recognition for the first time to the specific economic and social structural situation of the outermost regions. The Treaty thereby confirms that these regions have to cope with specific conditions which seriously hinder their development.

It follows from this recognition of the specific needs of the outermost regions that improvements in their development must be regarded as a special objective of the Treaty, justifying appropriate measures adapted to them.

Their legal basis must be determined in the light of the aim and content of these measures.

4.2.2. Partnership

For several years relations with the outermost regions have been structured around partnership relations in the form of an annual Conference of Presidents of the outermost regions attended by representatives of the national governments and the Commission.

On several occasions these conferences have resulted in memoranda to the European institutions and at least in official joint declarations by the Presidents.

Besides these conferences, there are regular contacts, at least twice a year, sometimes more often, between the Commission's interdepartmental group on the outermost regions, which includes representatives of its Directorates-General and the Monitoring Committee of the Presidents of the outermost regions which include experts from those regions on matters of European policy.

Every year, a broad partnership forum gathers all the regional, national and European authorities concerned, including the European Parliament with socio-professional workers in

the outermost regions. Until 2001, this forum was mainly concerned with the French overseas departments but in 2003 it was expanded to include representatives of the other regions.

These partnership relations should certainly be pursued but the process could be improved.

First of all, representatives of the national authorities directly concerned should be regularly included in the meetings between the Commission and the Monitoring Committee for the outermost regions. Many questions very frequently, if not regularly, concern the overlapping competences of the European institutions, the Member States and the regional authorities. To promote efficiency and consistency, the work should include all the parties concerned.

Secondly, in view of the strategic importance of the programmes to be developed to improve the access and competitiveness of the outermost regions, the number of thematic and targeted forums involving socio-professional workers and non-governmental organisations should be increased. Topics such as the quantification of extra production costs, transport, the environment, transnational cooperation and so on could be considered. These contacts will be essential if progress is to be made on questions of direct concern to the socio-economic operators.

4.2.3. *A system for evaluating handicaps and the effectiveness of individual measures*

Evaluating the measures taken by the EU for the outermost regions has identified some points in the system of evaluation and exploitation of measures introduced for those regions, as described in paragraph 3 of this report.

One of the main instruments which should be introduced concerns application of a consistent system for evaluating handicaps and measures. This improvement should go along with the definition of implementing measures for the sustainable development strategy for these regions.

In general, it should be stressed that one of the bases of the evaluation process is that all the measures to be implemented should trickle down to the final beneficiary in accordance with Community rules on competition and the internal market, including those on public contracts. Care must also be taken that the maintenance of competition in the various field of economic activity remains the basic principle for effective structuring and operation of the markets in these regions.

The other criteria governing implementation of an appropriate evaluation system may be summarised as follows:

- (1) The use of appropriate instruments for economic analysis which allow evaluation of the guidelines and the priorities for the development strategy to be followed.
- (2) Construction of an appropriate system to identify and evaluate handicaps relating to the specific situation of the outermost regions and consolidation of a horizontal and coherent evaluation methodology.
- (3) Identification of an appropriate system to evaluate measures in terms of the objectives sought. This system should allow definition of the precise objectives of the individual measures and ensure consistency with the other applicable measures. Implementation of an evaluation system of this type does not remove the obligation to carry out systematic *ex-ante* evaluations of each individual proposal but

presupposes that the Commission has a general instrument for across-the-board assessment in liaison with the one resulting from the methodology on quantifying additional costs (see paragraph 4.3.2).

- (4) Development of a data collection work plan which is systematic and consistent with the whole evaluation model. The work plan should provide sufficient information at both the macro and the micro (multisectoral) level so that the measures applicable can be evaluated, *ex-ante* and *ex-post*.
- (5) Implementation of a system to inspect and evaluate application of the measures.

In this methodological programme, the Commission would have to intervene at the level of the choice of appropriate instruments for economic analysis by using contributions from the new economic geography, international trade theory and work on small vulnerable economies. It would also have to provide a horizontal and consistent methodology to evaluate handicaps and their impact, particularly additional costs. As regards the general system for evaluating measures, the Commission should contribute to the construction of evaluation models.

Apart from their participation in defining the above elements through the partnership, the role and contribution of the national and regional authorities should concentrate on implementing data collection programmes, particularly statistics, to determine the impact of the measures, using the indications drawn up in concertation with the Commission. Consideration could be given to using technical assistance from the Structural Funds to finance the networking of existing statistical institutes to secure up-to-date figures on all sectors of activity. It is also up to the national authorities to implement systems for the inspection and evaluation of the application of these measures.

4.3. Measures for the outermost regions

This chapter presents the field of horizontal measures which guide Community assistance to the outermost regions. The priority concerns access. The other horizontal fields cover measures to reduce the impact of constraints on the local economy, the federating topics of the Lisbon and Göteborg process and improving the integration of regional markets. The role of the cohesion policy in the sustainable development strategy for these regions, both in terms of the particular instruments for the outermost regions and assistance from the regional policy in the convergence objectives, regional competitiveness and employment and European territorial cooperation are also stressed. Finally, the measures in the fields of agriculture and fisheries which need to be developed are also covered.

4.3.1. Access

4.3.1.1. Guidelines for current measures and problems detected

The aim of improving access for persons and goods in the outermost regions may be found in several existing sectoral measures and the successive programming instruments of the Structural Funds.

This type of measure is highly visible in the agriculture sector (the specific supply arrangements are the largest financially but there are also the POSEI annual contracts, aid for the import of breeding animals, aid for the export of male bovine animals from the Azores and transport aid in the sugar cane sector in the French overseas departments). In the fisheries

sector, the programme to compensate for additional costs covers the transport costs to dispose of fisheries products. These measures are supplemented by specific provisions under the guidelines on state aid for regional purposes, which authorise public aid to offset the additional costs of transporting goods, and the special measures in the field of the trans-European transport networks and the Marco Polo programme.

The assessment of Community action has, however, demonstrated that these instruments are not horizontal (most measures apply only to the sectors concerned by Annex I to the Treaty), they cannot be transferred to the trade guidelines, there are difficulties in identifying and quantifying additional costs and problems arise from the limited competition in the markets concerned.

The next section describes the main proposals to reduce this deficiency in access. The analysis looks only at improving access by goods and people (markets for goods and workers). The conditions of access to the rest of the markets, particularly that in services, will be covered in the paragraph on improving regional competitiveness.

4.3.1.2. Points for a more global and general response

More vigorous Community action to reduce the impact of isolation takes the form of an increase in the resources deployed and the greater efficiency of existing instruments. The main points underlying a new horizontal strategy should be specified and accompanied by specific proposals on instruments in force and the financial resources.

The criteria on which this new guideline is based are:

- (1) Pursuing the objective of territorial cohesion to reduce the impact of isolation from the European mainland, the fragmentary nature of archipelagos, where regions are affected by “double” insularity, and difficult topography. This objective may find Community support under Article 299(2) of the EC Treaty, in the general framework of the economic, social and territorial cohesion of the Union and like the objectives pursued by the POSEI decisions (see paragraph 4.1.1).
- (2) Covering all local economic activities, with a more horizontal approach to measures, and avoiding an excessively sectoral approach.
- (3) Seeking greater competition in implementing measures. The measures should encourage competition on the markets concerned as regards both transport services and local economic activities. The instruments of the common transport policy should be used to reduce the effects of isolation while also promoting competition on the market and allowing aid to trickle down to final recipients (the consumer or economic operator).
- (4) Respecting proportionality between the handicap suffered by the activities located in the outermost regions and the intensity of the measures taken. To this end, an appropriate evaluation of the additional costs, as described in paragraph 4.2.3, is essential.
- (5) Eliminating restrictions which hinder the growth of the regional market.
- (6) Respecting the rules on competition, particularly those against the cumulation of aid, and public contracts.

The Community has a battery of instruments which should be used for this purpose.

For example, as far as the Community framework for public aid to transport is concerned, the Commission does not consider it necessary at this stage to lay down separate implementing rules for the outermost regions. The rules in force provide a satisfactory framework, allowing the various types of assistance to offset the handicaps of the outermost regions to be implemented through aid of a social nature, public service obligations or aid to transport under the state aid for regional purposes (see the recent authorisation decisions for Air Caraïbes and Air Austral⁹¹).

In addition, as regards operating aid in the transport sector, the Commission considers that there is already a legal instrument under the guidelines for state aid for regional purposes. Guidelines on state aid for maritime transport⁹² were also published recently, permitting aid to be granted to launch short-distance services between the Member States. This start-up aid, limited to the first three years of service, may be up to 30% of the total cost of the new services introduced. Finally, in the sectors under Annex I to the EC Treaty, the existing guidelines allow operating aid to overcome the specific constraints on these sectors in the outermost regions, particularly remoteness.

The Commission therefore encourages the Member States to make use of existing measures. For example, as regards passenger transport, a combination of public service obligations without financial compensation and aid of a social nature is increasingly contemplated. Air public service obligations without financial compensation ensure regular services appropriate to the isolated region, without restricting free competition on those services. At the same time, aid of a social nature, by subsidising ticket prices for certain categories of final consumer, makes journeys to the mainland cheaper and therefore more accessible (particularly in view of the great remoteness of the outermost regions, the lack of alternative modes of transport, the high cost of air transport on these links and incomes below the European average in these territories). However, to be effective, this combination presupposes the existence of a sufficiently attractive market for at least one transporter to find it commercially interesting to operate the route concerned under the conditions imposed by a public service obligation. Alternatively and in these cases (lack of competition), the possibility of granting a public service obligation with financial compensation, and so with exclusive rights, could allow links to be maintained under competition conditions determined following a call for tenders⁹³. It should be noted that the financial compensation to be paid to those operating these routes under a public service obligation should be granted in accordance with Council Regulations

⁹¹ State Aid N 520/2002, 2.4.2003 (C(2003) 964 final); State Aid N 427/2003, 16.12.2003 (C(2003) 4708 final) and State Aid N 474/2003, 16.12.2003 (C(2003) 4707 final).

⁹² Community guidelines on State aid to maritime transport (OJ C 13, 17.1.2004).

⁹³ The system should encourage competition 'for' the transport market if, because of size or other constraints affecting services, activity by a sufficient number of operators to guarantee effective competition is not allowed.

(EEC) Nos 2408/92 (air transport)⁹⁴ and 3577/92 (maritime transport)⁹⁵ and the guidelines on aid in the maritime and air transport sector⁹⁶.

In the case of freight transport too, the Commission considers the legal framework appropriate to the above conditions and criteria. The use of aid to offset additional transport costs under the guidelines on state aid for regional purposes, the sectoral guidelines for products under Annex I to the EC Treaty or, if appropriate, aid under the public service obligations which allows the real cost of goods transport to be reduced is perfectly valid.

Any option should be applied in the light of the level of actual competition identified in the transport markets concerned and with the aim of respecting the principle that aid should benefit the final users of services. Hence, where competition does not allow adequate conditions of quality, price and frequency for freight transport to be guaranteed, use of the system of public service obligations with financial compensation will be more indicated. At the same time, where market conditions allow scope for a sufficient number of operators to guarantee effective competition, aid to transport which falls under the guidelines on state aid for regional purposes or the sectoral guidelines are more appropriate for reducing the additional costs of freight transport. These two mechanisms are equally applicable to sea, air, land and river transport and can be applied to reduce the additional costs of transport in links between the outermost regions and between those regions and the rest of the EU, in both directions, while respecting the criteria laid down in the above guidelines and in the rules on the public service obligation, particularly the principle of proportionality with the additional costs to be offset in order to avoid over-compensation, and the principle of non-discrimination.

Within the framework of the guidelines and criteria set out above and in order to facilitate use of the existing instruments, the Commission will make proposals in the following fields:

- (1) The Commission will propose enlarging the scope of the *de minimis* rules on state aid to firms in the transport sector (all modes of transport would be covered, including river transport, apart from aid for the purchase of vehicles by road transport companies).
- (2) The Commission plans to introduce flexibility into the public service obligations, principally by extending the length of the concession in the case of aid transport. In the case of sea transport, it intends to introduce simplified rules (*de minimis* arrangements) for granting public service contracts for services to small islands carrying fewer than 100 000 passengers per year. This simplification would entail exemption from notification and calls for tender for purely local transport.
- (3) As regards the mechanisms to finance these instruments, the Commission will propose part-financing, under certain conditions, mechanisms to reduce extra freight costs through financial compensation linked to the public service obligation and/or

⁹⁴ Council Regulation (EEC) No 2408/92 of 23 July 1992 on access for Community air carriers to intra-Community air routes. OJ L 240, 24.8.1992, p. 8.

⁹⁵ Council Regulation (EEC) No 3577/92 of 7 December 1992 applying the principle of freedom to provide services to maritime transport within Member States (maritime cabotage). OJ L 364, 12.12.1992 p. 7.

⁹⁶ Application of Articles 92 and 93 of the EC Treaty and Article 61 of the EEA Agreement to state aid in the aviation sector. OJ C 350, 10.12.1994

aid to transport falling under the guidelines on state aid for regional purposes. The conditions governing Community financial assistance are set out in paragraph 4.4.2.

- (4) The Commission will also supervise the competition conditions generated by the price reduction mechanisms introduced. In particular, public service obligations should not be used to bolster the dominant position of transport operators. Among other vital questions, the Community will pay close attention to the length of public service obligation contracts and the conditions for transition between the contracts as regards fixed assets and the staff employed on the public service obligations.
- (5) As regards the adjusted application of the concept of ‘short sea shipping’ to the outermost regions, even though they are not explicitly mentioned in the current definition of short-distance maritime transport⁹⁷, that does not mean that they are excluded from initiatives to promote this mode of transport. For example, some sea transport services between the outermost regions and mainland Europe (e.g. from the Canary Islands) have been granted the status of short sea journeys.

The Commission would look favourably on projects for short-distance navigation between the outermost regions. However, such operations between outermost regions and neighbouring non-member countries could not be eligible under the current Community initiatives to promote short-distance maritime transport.

- (6) Efforts to improve local transport and communications infrastructure should be maintained and stepped up:
 - (a) Mobile assets: state aid to finance mobile transport assets may be authorised if the aid is for regional purposes and under certain conditions, provided it does not affect competition within the Community and has tangible effects in the region, particularly in terms of job-creation (see state aid N 520/2002-Caraïbes Air Transport).
 - (b) Trans-European transport network: the current Community guidelines for the development of the trans-European transport network (TEN-T) already cover the outermost regions. They have enabled finance to be granted from the TEN-T budget to certain projects such as air traffic management systems. On 6 November 2001 the Commission made a proposal for a Decision of the European Parliament and of the Council amending Decision 1692/96/EC on the Community guidelines for the development of the trans-European transport network. This proposal, which is now being discussed by Parliament and the Council, includes as priorities the development of infrastructure linking the outermost regions with the central regions of the Union. In view of the limited nature of the TEN budget, the High-Level Group on the trans-European network (the ‘Van Miert’ Group) recommended in its June 2003 report that this budget should be concentrated on a series of priority projects and horizontal topics covering the whole of the Union, including the management of maritime and air traffic. Accordingly, the revision which the Commission has prepared⁹⁸ stresses the priorities of the High-Level Group and guarantees that the projects

⁹⁷ Point 10 of Commission communication C(2004) 43 - Community guidelines on State aid to maritime transport (OJ C 13, 17.1.2004).

⁹⁸ COM(2003) 564, 1.10.2003.

of common interest concerning the outermost regions will remain eligible under the TEN-T budget. This status also allows them to be financed under the Structural Funds and the Cohesion Fund. In any event, the Commission intends to grant projects in the outermost regions, the maximum rate allowed for the Community finance for which they are eligible.

- (c) System of charging for infrastructure: the Commission's draft framework directive on charging for infrastructure has been postponed. The only plan is for an amendment to the 'Eurovignette' Directive, which concerns only road transport. The outermost regions fall outside the scope of this directive, and in case the toll system will remain optional.

- (7) As regards the local transport system, the Commission is open to any suggestions on how to reduce the effects of "double" insularity, administrative barriers, the lack of intermodal competition in public transport, congestion in the transport system and problems in internal links (difficult topography).

In the field of road transport, the Community has already taken account of the special features of the outermost regions by applying certain derogations which assist road transport (e.g. under the 'Eurovignette' Directive and Regulation (EEC) No 3820/85 on driving and rest time for drivers). The outermost regions have asked for a system of positive discrimination for road transport, like that for rail transport. However, it should be noted that the Community provisions favouring rail transport were justified by considerations of cutting congestion and reducing pollution and road accidents, which are essentially the result of road transport. In any case, such treatment could not be applied to road transport, even though it is now unavoidable in the outermost regions.

It should be noted that the problem of road transport congestion in the outermost regions results from the accumulation of structural causes: difficult topography, lack of a rail network, unattractive public transport services. Penalising road transport would not improve the operation of the transport system because there are no alternatives. However, the introduction of alternative systems of public transport combined with improved integration between the different existing modes could, through a more efficient supply policy, reduce the present serious congestion problems.

Finally, in the field of combined transport, the outermost regions are eligible under the Marco Polo programme, whose aim is to encourage intermodal transport. They are eligible for the three types of measure under the programme: modal transfer, catalytic measures and measures intended to share knowledge (e.g. improving port procedures). For example, a modal transfer measure involving the Azores, the original route for which (boat from the Azores to Lisbon, lorry from Lisbon to Antwerp) could be replaced by a direct link from the Azores to Antwerp, would be eligible for support under 'Marco Polo'. However, the limited budget for the programme and the principle of subsidiarity mean that purely national routes are outside the scope of the programme. Only routes involving at least two Member States are eligible.

- (8) The measures proposed in these fields must be compatible with the aim of expanding regional markets, both as regards the integration of the markets comprising groups of

the outermost regions and in terms of economic relations with neighbouring non-member countries. The outermost regions are assisted by measures which reduce their access problem but, on the other hand, granting these benefits cannot be used to prevent their economic development by enlarging their markets. One of the major problems of these regions and their economies is their small markets. Enlarging them into their nearby geographical area is a further way of reducing the effects of the size of markets and remoteness from the European mainland.

This new guideline will require a review of the existing support systems, particularly in the fields of agriculture and fisheries, since some of the existing support is intended to reduce the impact of remoteness in these two sectors (see paragraph 4.3.2).

The Commission still believes that compensation systems to improve access in these two sectors which are crucial for the economy of these regions, heavily hit by the additional costs of remoteness, should be retained (and perhaps extended). Nevertheless, for the reasons set out above, it wishes to adopt a more horizontal and competitive approach to application of the principle of territorial cohesion so that aid is applied to the whole of the economies of these regions (including other inputs required for the agricultural sector) and actually reaches the final beneficiary. This does not necessarily mean reducing the resources provided in these sectors but bringing them into line with the handicaps, respecting the criterion of proportionality with the extent of the additional costs identified and avoiding the cumulation of measures which could result in over-compensation.

4.3.2. Measures to reduce the impact of constraints on the local economy

Traditionally in the outermost regions, additional production costs have been generated by permanent handicaps which individually and together seriously hinder the development of certain sectors, so undermining both international and local competitiveness.

For the local economy, these additional costs have consequences for most of the sectors producing goods: very limited diversification, an economy which is weak in terms of job creation and heavy dependency on the outside world (particularly the European mainland).

Apart from the question of isolation, the main additional costs result from the impact of market size on the productive functions of firms (little economies of scale) and the lack of external economies in the productive sectors (lack of economies of agglomeration): lack of knowledge spillovers, poorly developed and specialised labour markets, lack of links between industries, etc.

The aim pursued at Community level is to promote the competitiveness of firms in improving the sectoral structure of the economy of the outermost regions, encourage better productive inter-relations, expand the physical capital of local firms and make the best use of the new technologies.

The adjustments to be considered should achieve the major objectives as defined in the POSEI decisions (see paragraph 4.1.1).

To reduce development handicaps and ensure territorial cohesion in the outermost regions will require mechanisms to take account of their specific additional costs which comply with the competition rules and the criteria to be laid down under the other Community policies

concerned. The permanent and combined handicaps as described in Article 299(2) of the EC Treaty engender additional costs because of the following constraints:

- the small size of markets;
- isolation from main markets;
- the lack of economies of scale in production and the need for firms to have large stocks;
- the shorter time to write off goods meaning that equipment requires higher safety standards or more frequent replacement (constraints of climate and difficult topography);
- the problems of oversized production instruments resulting from the technological organisation of production and distribution;
- the shortage of skilled labour because of the small size of the labour market and the difficulty of access to the labour market on the European mainland;
- the additional costs of energy supply for agricultural products for local consumption;
- shortage of access to high-speed connections and telecommunications networks and the additional costs of electronic communications services and unjustified tariff differences;
- the difficulty of organising the promotion of local products outside the region;
- constraints arising from compliance with environmental standards, etc.

By way of illustration, the Lengrand study in July 2002⁹⁹ “Mieux connaître la place de la recherche et développement technologique dans les régions ultrapériphériques de l’Europe et mieux les intégrer dans l’Espace Européen de la Recherche” highlighted several types of additional costs related to remoteness including those for the transport of hazardous products, preservation of the cold chain, imports of scientific equipment and the installation and maintenance of apparatus purchased. Other additional costs relating to isolation, climatic difficulties (cyclone damages, exceptionally high humidity), natural hazards (earthquakes and volcanic activity) further handicap the outermost regions in achieving an optimal level of performance.

Likewise, the study by the centre for economic studies of the Tomillo Foundation in 2001¹⁰⁰ on the costs of remoteness for the economy of the Canary Islands included an interesting approach to the methodology of identifying costs: definition of a series of factors which generate the costs of remoteness and their consequences for the local economy. This study basically argues that the costs of remoteness constitute a check not only on the development of the business fabric but also on the creation of new activities, and give rise to a general increase in prices to meet the additional costs (loss of competitiveness).

⁹⁹ <http://www.erup.net>

¹⁰⁰ “Los costes de ultraperiferia de la economía canaria”. Consejería de Economía y Hacienda.

In this general context, the question of how to evaluate these additional costs appropriately and take account of them throughout the outermost regions remains. It is part of the general system for evaluating handicaps and measures as advocated in paragraph 4.2.3 of this report.

The Commission therefore proposes to launch a collective study of the Community policies concerned by the problem of determining compensation for additional costs in the outermost regions, so as to assess precisely the nature of the costs of remoteness, define the additional costs imposed and study the impact of the different measures taken at Community level on their economies. This will also require clarification of the notion of costs and additional costs with maintenance of a certain consistency so that the additional costs can be offset correctly, i.e. in proportion to the handicaps to be relieved.

This study will provide an opportunity to review all the existing provisions and consider recommendations so that aid intended to compensate for additional costs actually reaches its final beneficiary or affects the selling price of the finished product. There is a question as to the effectiveness of the existing instruments and their actual impact on the productive sector and the local consumer.

The Commission also intends to devise a sectoral evaluation matrix for the additional costs by region, provided that this can be integrated into a general system for evaluating additional costs applicable to several common policies. This evaluation should be integrated into the forthcoming regional aid maps and be subject to a mid-term review to update the existing additional costs. This system will result in administrative simplification and greater legal certainty, while guaranteeing respect for the different features of these regions.

To harmonise this exercise and speed up the decision-taking process at Community level, there should be a horizontal analysis of all the existing instruments intended to compensate for additional costs. Naturally, a consequence of this analysis could be the adjustment of existing programmes in the various sectors such as agriculture, fisheries, taxation and regional policy.

The types of measures usually found include the introduction of public aid to compensate for the amounts and/or effects of additional costs and the erection of barriers to access to the regional market so that local production can receive a treatment similar to that accorded to imports. A number of Community, national and local instruments permit compensation for additional costs, principally those generated by isolation. The sectors receiving a substantial financial advantage are mainly agriculture and fisheries, through the programmes of specific options for isolation and insularity (POSEI). Some industrial sectors are also covered by various support instruments; the list of measures may be found in Annex I to this report.

- (1) As regards state aid, the Commission has recently begun consultations on amending the guidelines on state aid for regional purposes and intends to conclude these during the first half of 2005. It intends to continue according more favourable treatment to the outermost regions (see paragraph 4.4.4 of this report).

In procedural terms, a draft Commission regulation lays down the precise formalities regarding the obligations to notify and check state aid. This draft seeks to assist the Member States in drawing up aid notifications and the Commission in assessing them, principally by introducing new mandatory forms for notification and providing for simplified notification mechanisms for certain amendments to existing aid. This will speed up implementation of the relevant provisions at local level.

It is also desirable to continue the current procedure to demonstrate that the level of operating aid provided is proportional to the handicaps suffered. As stated earlier, the procedure for the individual notification of aid measures is currently under review with the aim of clarifying and simplifying it. As part of the exercise for notifying this type of aid, the Commission is retaining the obligation to define the conditions which guarantee that the nature and level of the aid is proportionate to the handicaps to be offset. Likewise, the obligations to specify the existence of additional costs and the method used to calculate their amount remain.

- (2) As regards taxation, consideration of the decisions to extend the decisions on the AIEM¹⁰¹ and dock dues¹⁰² required an assessment of the additional costs suffered by the regions concerned¹⁰³.
- (3) With specific regard to agriculture, production in the outermost regions is still in deficit and should therefore continue to benefit from support programmes for the various sectors particularly to cover a large part of local consumption. However, these programmes are still subject to a systematic multiannual evaluation and the budgetary framework of the financial perspective.
 - The Commission has already launched an exercise to evaluate the market organisation for bananas in preparation for a report to be presented to the Council and Parliament by the end of 2004. This will consider possible improvements to the mechanisms providing aid for Community producers. As regards the external aspect of the market organisation, at its current stage of considering this reform, the Commission intends to draw up an appropriate level of tariffs on the basis of the most recent information. The European Commission has proposed to the Council to open WTO negotiations¹⁰⁴.
 - As part of the reform of the market organisation in the sugar sector, the Commission has ensured differentiated treatment of the outermost regions on the basis of their specific characteristics¹⁰⁵.
 - As regards Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001 (the POSEI Regulations in the agricultural sector), following the reform of the common agricultural policy in 2003, stability of the resources allocated to

¹⁰¹ Council Decision of 20 June 2002 on the AIEM tax applicable in the Canary Islands (OJ L 179, 9.7.2002).

¹⁰² Council Decision of 10 February 2004 concerning the dock dues in the French overseas departments and extending the period of validity of Decision 89/688/EEC (OJ L 52, 20.2.2004).

¹⁰³ The handicaps considered in the context of the AIEM and dock dues arise from insularity, isolation, the small size of the market and dependency on a few products. A series of extra production costs arises from these factors and is related to: higher transport costs because of the fragmentation of the archipelago, the limited opportunity for economies of scale because of reduced export possibilities, dependency as regards raw materials and energy and the obligation to hold large stocks, the reduced availability of production equipment, the difficulty of acquiring specialist services and staff, higher environmental costs of waste disposal and the treatment of toxic waste, limited resources for business promotion, the constraints of the distribution networks and the limited opportunities for sub-contracting, the obligation to keep varied but shorter product ranges resulting in overcapacity and overstocking and, in general, a lower ability to participate in the phenomenon of the globalisation of the world economy reflected in the concentration and specialisation of production.

¹⁰⁴ COM(2004) 399 final, 2.6.2004

¹⁰⁵ COM(2004) 499 final, 14.7.2004

continue support to the outermost regions, the greatest possible decentralisation of decision taking and simplification of the management arrangements must be ensured.

- (4) The guidelines for the consideration of state aid in the fisheries and aquaculture sector will be revised in 2004. Particular attention will be paid to continuing the current favourable treatment granted to the outermost regions.

4.3.3. *Measures to increase employment, innovation, economic reform and sustainable development*

The concept of the single market in the European Union has been of great benefit to European firms which have been able to benefit from the advantages of market size and increased competition: their competitiveness has grown thanks to economies of scale and external economies and also because of the impact of the liberalisation of markets, particularly public services. The single market project, together with the economic stability of the nineties, itself a result of monetary union, is the most important supply-side economic policy instrument in the Europe of the eighties and nineties.

By contrast, in the outermost regions, local firms have been unable to benefit fully from the effects of the internal market: they are locked into their regional market and most public services are still excluded from the liberalisation process.

Reducing the impact of isolation and taking account of the other specific additional costs overcome the barrier of remote location but we need to go beyond this to create conditions which will strengthen the local fabric against the centripetal forces created by the market. The measures to be proposed should improve the operation of the labour market, increase the use of information technologies, promote the capacity for innovation and improve the operation of the local markets for public services.

As part of the process for evaluating the handicaps and measures set out in paragraph 4.2.3, the Commission will of course look specifically at the factors affecting the competitiveness of the economies of the outermost regions.

4.3.3.1. Employment, training and human capital

Human capital is a strategic resource for the overall development of Europe. National policies on education and training must be directed towards fully utilising the personality of each individual throughout his or her life and greater participation by citizens in social cohesion and economic development. The importance of investing in human capital is vital to make Europe more competitive, secure high rates of growth and employment and move towards a knowledge-based society.

In line with the Lisbon strategy, the active employment policies in the European Strategy for Employment (ESE)¹⁰⁶ and the shared goal of combating exclusion are key priorities for the Union.

The knowledge economy also implies that “human capital” is a key factor in sustainable development, which means that, in the regions whose development is lagging behind,

¹⁰⁶ COM (2003) 6 final.

investment in human resources must go hand in hand with investment in physical capital and infrastructure.

Accordingly, the European Social Fund (ESF) will give priority to assistance to develop skills (qualifications, combating dropping out of school, improving training facilities), vocational training and combating exclusion. The work of the ESF is also in line with the needs expressed by the regions in their Structural Funds programmes (SPDs/OPs) and under the ESE, for which it provides the bulk of the funding.

The ESF makes a substantial contribution to the outermost regions both with the other Structural Funds through the regional Objective 1 programmes and on its own through the Equal Community Initiative, which encourages transnational cooperation to promote new ways of combating discrimination and inequalities in employment. The ESF contributes to the policy of equal opportunities for men and women by incorporating this into measures and through specific measures. It also supports the local dimension to mobilise local people and involve them more closely in the European process to promote employment. During the 2000-06 programming period, ESF assistance to the seven outermost regions will amount to €1.3 billion.

Information currently available shows that the bulk of this has gone to the development of education and vocational training, social integration and specific positive measures for women on the labour market. Naturally, the objective of remedying inequalities between men and women is a priority which runs through all the Union's policies.

The specific features of employment and the trend thereof could be better monitored at local level if the other regions included them, as the Azores, Madeira and the Canary Islands already do, in a regional plan for employment. This is particularly important because, at a time of socio-economic restructuring resulting from globalisation, the mid-term review of the regional programmes seems the right moment to include a coherent strategy for life-long training focussed on anticipating change.

The European Employment Strategy, revised in 2003, acknowledges the need to continue developing the territorial dimension of employment policies at both regional and local level. To attack regional disparities in employment, the new guidelines recommend developing local potential for job creation and encourage the Member States to ensure that public aid to the regions whose development is lagging behind concentrates on investment in human and intellectual capital and the provision of appropriate infrastructure. Full use should be made to that end of the potential of the Cohesion Fund, the Structural Funds and the EIB (see guideline point 10).

More specifically, Community assistance could be supplemented by the following measures:

- While the outermost regions have expressed considerable interest in the new generation of innovative actions part-financed by the ERDF, they have not done so for ESF measures (pilot measures - Article 6). These innovative actions act as a laboratory of ideas, a place where those in the regions can experiment. The outermost regions have not yet made use of these actions financed by the ESF. In 2000-02 these actions were financed on two topics: the adjustment to the new economy under the social dialogue and local strategies for employment and innovation. The Commission strongly encourages these regions to make use of this possibility in the future.

- The Commission has just published a call for proposals¹⁰⁷ concerning joint measures under the Socrates¹⁰⁸, Leonardo da Vinci¹⁰⁹ and Youth programmes¹¹⁰, for which the outermost regions may apply. They concern in particular work on active citizenship to make schools more attractive, prevent early dropping-out and provide life-long guidance. On the final point, it should be noted that high-quality vocational guidance is of key importance for developing labour by raising the awareness of citizens of their potential and of the aid available to them.
- The Commission has adopted a regulation on state aid¹¹¹ which allows aid to be granted for job creation and the recruitment of disadvantaged workers without prior authorisation from the Commission (the principle of notification remains for the other categories of aid).

4.3.3.2. Innovation and the information society and RTD

In general, increasing innovation is one of the pillars of the Lisbon strategy to make European firms more competitive. The concept of innovation should be understood as meaning “the successful production, assimilation and exploitation of novelty in the economic and social spheres”¹¹². It places business at the heart of the process of innovation in terms not only of creating new markets at local level (e.g. developing on-line trading), but also conquering external markets. This requires firms in the outermost regions to break through their isolation and cope better with the pressures on the markets by adopting a policy of effective innovation in the form of inventions in the broad sense, incorporating into their own production processes an idea from another sector of activity and redesigning existing products and services so that supply meets demand from hitherto unexploited new markets.

The Commission will ensure that the particular situation of the outermost regions is taken into account in achieving the objectives of the Lisbon strategy. The reforms in progress should enable these regions far from the European mainland to improve their economic performance, participate in stimulating growth, create jobs and counter the risks of exclusion.

The outermost regions should benefit from the mid-term review of the programmes supported by the Structural Funds and the allocation of the performance reserve in 2004 to promote the objectives of the European initiative for growth.

¹⁰⁷ OJ C 288, 29.11.2003.

¹⁰⁸ The “Socrates” programme contributes to the promotion of a Europe of knowledge by developing the European dimension in the field of education and vocational training (OJ L 28, 3.2.2000).

¹⁰⁹ The “Leonardo da Vinci” programme contributes to the promotion of a Europe of knowledge by developing an area of cooperation in the field of education and vocational training. (OJ L 146, 11.6.1999).

¹¹⁰ The “Youth” programme contributes to the promotion of a Europe of knowledge by developing an area of cooperation in youth policy, based on informal education and training (OJ L 117, 18.5.2000).

¹¹¹ Commission Regulation (EC) No 2204/2002 of 12 December 2002.

¹¹² COM (2003) 112 final.

The Commission has established a number of networks to support firms¹¹³ in the process of improving their competitiveness, and these are present in all the outermost regions. They will gradually be brought closer together so that SMEs can rapidly find the network to which they can send their specific questions to get the most appropriate service. That is the aim of the “b2europe” initiative, which aims to improve the coherence and clarity of the services proposed by the various business support networks in Europe. This initiative links the resources of these networks through a series of instruments which will be in place in 2004. They include a shared website, a system with multiple entry points for firms and a system of ‘signposting’ questions among the networks.

Outermost regions	Existing networks in the outermost regions
Canary Islands	EIC, IRC, EUROCENTRO, EDC, Carrefour rural (rural forum), BIC, EURES
Guadeloupe, French Guiana, Martinique, Réunion	EIC
Azores	EIC, CDE, Carrefour rural
Madeira	EIC, Infopoint, BIC, CDE, EURES

One of the priorities under the new information and communications technologies, the “eEurope 2005” initiative¹¹⁴ includes measures concerning broad-band connexions with particular stress on access to broad-band in the disadvantaged regions.

¹¹³ **EIC** (Euro Info Centres): information, support and advice for SMEs on European matters.
IRC (Information Relay Centres): supporting businesses in innovative technology transfer.
BIC (Business Information Centres): support for the creation of innovative enterprises and for modernisation and innovation in existing enterprises.
NCP (National Contact Points): National contact points for the 6th Framework Research and Development Programme.
OPET (Organisations for the Promotion of Energy Technologies): promoting the findings of new technologies for renewable energy.
COOPECO-EUROCENTROS: network for cooperation and the promotion of investment by European business in Latin America – Canary Islands.
EURES (European Employment Services): the objective of the EURES network is to facilitate free movement of workers in the European Economic Area (the 15 Member States of European Union, plus Norway and Iceland) and Switzerland. The possibilities offered by EURES should be used more effectively in the outermost regions. Partners in the network include public employment services, unions and employer organisations.
Info Points: information for citizens, members of associations, young people, teachers and other professionals looking for general information.
EDC (European Documentation Centre): aims to help higher education and research institutes to promote and develop teaching and research on European integration, and to make European Union policies known to all European citizens.
“Carrefours ruraux” (Rural Forums): provide European information at the heart of rural communities and encourage meetings, discussions and actions through well-established regional bodies that have gained experience in rural development and information (Chambers of agriculture, rural foundations, etc.)

¹¹⁴ On the subject of broadband access in disadvantaged areas, the ‘e Europe 2005’ action plan states that “Member States, in co-operation with the Commission should support (...) deployment (of broadband networks) in less favoured areas, and where possible may use structural funds (...). Particular attention should be paid to outermost regions.”

Under the programming of the Structural Funds for 2000-06), the guidelines on criteria and modalities of implementation of Structural Funds in support of electronic communications of 28 July 2003¹¹⁵ should facilitate the development of initiatives based on the deployment of the broad-band in the outermost regions and the rapid development there of services at reasonable prices. To the same end, one of the ‘quickstart’ projects under the European initiative for growth¹¹⁶ deals with the European coverage of distant and rural regions. This project is of course eligible under the Structural Funds for 2000-06.

The particularly high costs of electronic communications in the outermost regions, together with problems of access to the broad-band, severely limit possibilities of access to the continental and interregional market, while not necessarily being related to distance. Furthermore, the considerable differences which exist, depending on the European country concerned, further distort competition between European firms for cooperation with the outermost regions. In its supervision of tariffs and prices for telecommunications services, the Commission will ensure that in 2003-05, the outermost regions do not suffer from discriminatory practices and will encourage price reductions through greater competition.

On constraints on access to telecommunications services from which the outermost regions suffer, a study to supplement the points made in the Lengrand study of 15 September 2001 on the impact of the information and communications technologies in the outermost regions will be launched shortly. The specification has been drawn up in close cooperation with the regions concerned and may include the technical aspects to be examined and the needs of those active in economic and social life and the closely related geopolitical aspects.

Stimulating competition in the outermost regions, mainly by removing obstacles to their development in the telecommunications sector is a matter for the Member States concerned through a supervisory committee. The Commission can give guidelines to these committees, particularly to improve the effectiveness of the ‘telecommunications’ directive in the outermost regions, to develop access to broad-band networks and to eliminate tariff discrimination.

There is no possibility of connecting the outermost regions to the European Research and Education network GEANT¹¹⁷. An organisation has access to this network through the appropriate *National Research and Education Networks* (NREN). The Commission therefore encourages the research centres in the outermost regions to make contact with their NREN¹¹⁸.

Under the Community policy on research and technological development, participation by the outermost regions in European projects is subject to the eligibility criteria set out in the 6th framework programme for research and development, and the quality criteria in the related evaluation guide. The criterion of excellence is still central to project selection. The outermost regions have many fields of excellence representing unique potential for research (the fields

¹¹⁵ SEC (2003) 895.

¹¹⁶ COM (2003) 690 final.

¹¹⁷ The main objective of GEANT is to establish a high-capacity and high-speed European communications network linking National Research and Education Networks (NREN) at European level.

¹¹⁸ Spain : REDIRIS: www.rediris.es
France : RENATER : www.renater.fr
Portugal : FCCN : www.fccn.pt

include biodiversity, energy, water, the quality of the specific environment, the management of natural resources, sciences and health and agronomy).

In September 2003, the Commission specified that the projects part-financed by the 6th framework programme for research and technological development may receive further part-financing from the Structural Funds to reduce the contribution from the body benefiting from the project. This opportunity is limited to bodies located in regions whose development is lagging behind (Objective 1) or those receiving transitional support under Objective 1. For the bodies which have received part-finance under the 6th framework programme to secure additional part-finance from the Structural Funds, they must apply to the managing authorities of one of the Structural Funds programmes. If these programmes contain no measures allowing finance for the projects in question, the managing authorities may request an amendment to the programmes in accordance with the procedures laid down for the management of the Structural Funds. Similarly, on the occasion of the mid-term review of the regional programmes, the development strategy should be redirected to place greater emphasis on programming for research.

The Commission encourages the outermost regions to cooperate with neighbouring non-member countries. It should be noted that the 6th framework programme makes provision for stepping up such cooperation to provide research workers with local support and for encouraging the networking of structures. This makes it possible to exploit the geostrategic conditions of the outermost regions for international cooperation in their area of influence (distance training and medicine, electronic commerce).

Research results should also be better disseminated to the outermost regions.

The Commission will ensure that account is taken of the situation of the outermost regions when the seventh framework programme is prepared.

Provision of a platform for cooperation and the exchange of experience among the outermost regions could also benefit from support through Community Initiative programmes like Interreg.

Information measures to meet the specific needs of the outermost regions should be encouraged. However, there are efficient sources of information (e.g. the Cordis site) which are accessible to all bodies which wish to participate in the programme. The Cordis site provides not only up-to-date information on future calls for proposals but also a list of eligibility criteria. Similarly, it facilitates the search for partners. The outermost regions could designate contact points to promote research activities.

To step up Community action in the field of the information society and research and technological development, the Commission has strongly encouraged two of the outermost regions (Martinique and French Guiana) to draw up a regional programme of innovative actions by 2005. Contacts with the regional authorities concerned to this end are now in progress. The other more advanced regions have the opportunity of presenting a second programme.

As part of the current mid-term review of the regional programmes of innovative actions (2000-06), monitoring of the transfer of results into the mainstream should be ensured.

Efforts to promote networking between the outermost regions and between them and the other regions of Europe should be continued. Exchanges of good practice, i.e. the better use of

existing thematic networks of innovative actions such as ERIK, IANIS and Sustainable Regions should be stressed.

The Commission is inviting the outermost regions to submit a specific programme for an 'Innovative actions' network including other regions of Europe with similar problems to their own (islands, small regions, tourist areas, etc.) or having innovative approaches which can be transposed there (high-speed or satellite Internet access, etc.). The Commission also part-finances specific programmes for the creation and work of networks involving at least five regions in at least five Member States.

It is also important to identify, and indeed exploit, synergies with the Interreg Community Initiative programmes led by the outermost regions on regional innovation topics, specifically technology, research and technological development and the information society.

4.3.3.3. The environment

The environment should be regarded as an asset rather than a constraint. In global terms, the natural habitats of the outermost regions are of the utmost importance for biodiversity with a wealth unknown in mainland Europe. The challenge is to ensure a balanced development of these regions while preserving this biological wealth. The development of renewable sources of energy is an effective way of fighting pollution and the greenhouse effect. The outermost regions enjoy very favourable natural conditions (geothermal resources, sunshine, regular winds) which can boost the development of this sector. The evaluation of progress in applying the strategy on biodiversity will need to include closer examination of the integration of elements of biodiversity into Community policies, particularly in the outermost regions.

The Commission encourages specific requests from the outermost regions to improve the environment in the light of the particular problems posed by the fragility of ecosystems and by geological and climatic features which increase the risks of natural disasters and for compliance with Community environmental standards and the additional costs that involves in view of the close links between the environment and the various aspects of socio-economic development.

The objectives and priorities of the sixth Community Environmental Action Programme¹¹⁹, including for example climate change, renewable sources of energy, the protection of biodiversity, the management of coastal areas and the prevention of hazards, the management of water resources and waste, enable account to be taken of the desire to preserve the environment of the outermost regions.

In its mid-term review of the regional programmes, the Commission will have regard to the results of the internal evaluations and to requests for increases or reductions in the funds for environmental measures.

¹¹⁹ Decision No 1600/2002/EC of the European Parliament and of the Council of 22 July 2002 laying down the Sixth Community Environment Action Programme.

4.3.3.4. Public services

Public services¹²⁰ play a key role in achieving the Union's objectives of sustaining the competitiveness of the European economy on world markets, contributing to a high level of consumer protection and confidence by offering greater choice, better quality and lower prices, and by increasing economic, social and territorial cohesion.

Since there is no Community harmonisation, the Member States are free to choose their own public services and to decide on their level of quality. The Commission's role has hitherto been limited to checking that there is no manifest abuse in selecting these services and that any financial compensation granted for their sound operation does not exceed what is required for their operation, particularly by introducing unfair practices on markets apart from public services.

The existence of a network of services of general interest is a key element in social cohesion. The availability of efficient services in the outermost regions is an essential pre-condition for the establishment of productive activities, because of the advantages to the firms which use them and to the workers employed in these regions.

A particular feature of these regions, very far from the European mainland and isolated in their geographical area, is that they suffer from the small size of their markets, particularly the lack of any real competition between economic actors, whether public or private. Market forces alone are not enough in these territories to ensure an optimal allocation of resources to the benefit of society. Often, the maintenance of services of general interest in the outermost regions is regarded as distinctly unprofitable by operators (even by the only operator at local level) and therefore require specific measures (direct subsidies or the granting of exclusive rights to operate a service with or without compensation). It may also bolster the dominant position of an existing firm on the market to the detriment of users (lack of balance in tariffs). The Commission monitors the financing of these services. Overcompensation measures are considered at Community level under the rules on state aid if they affect trade and competition within the Community.

As regards state aid and public services, the judgment of the Court of Justice in Case C-280/00 *Altmark Trans GmbH* confirmed the Court's view that public subsidies to firms explicitly bearing public service obligations to compensate them for the costs engendered by performing those obligations do not fall under Article 87(1) of the EC Treaty. Some conditions set out in that judgment must nevertheless be met:

- (1) The recipient undertaking is actually required to discharge public service obligations which have been clearly defined.
- (2) The parameters on the basis of which the compensation is calculated have been established beforehand in an objective and transparent manner to avoid their affording an economic advantage which could favour the beneficiary firm over competing firms.

¹²⁰ The term "public services" is not defined in the EU Treaty. It stems from Community practice and covers merchant and non-merchant services which the public authorities regard as of general interest. 'Services of general economic interest' means merchant services carrying out tasks of general interest and so made subject by the Member States to specific public service obligations. Prime examples are transport, energy and communications services.

- (3) The compensation does not exceed what is necessary to cover all or part of the costs incurred in discharging the public service obligations, taking into account the relevant receipts and a reasonable profit for discharging those obligations. Compliance with that condition is essential to ensure that the beneficiary firm receives no advantage which distorts or could distort competition by strengthening its competitive position.
- (4) Where the undertaking which is to discharge public service obligations is not chosen in a public procurement procedure, the level of compensation needed has been determined on the basis of an analysis of the costs which a typical undertaking, well run and adequately provided with means of transport so as to be able to meet the necessary public service requirements, would have incurred in discharging those obligations, taking into account the relevant receipts and a reasonable profit for discharging the obligations.

However, the fact that compensation is described as aid does not necessarily mean that that aid is automatically incompatible with the EC Treaty. This question arises in particular when a public service is not awarded by competition and it is not possible for the Member State to make a comparison with the costs of an average well run firm. In such a case, the amount of the compensation paid constitutes an aid. However, if that compensation does not exceed the real costs of the firm carrying out the public service, the compensation may prove necessary for the operation of the public service, and so the Commission may authorise it if it does not affect the development of trade in a way contrary to the Community interest.

The Court also noted on that occasion that there was no threshold or percentage below which it might be considered that trade between the Member States was not affected. The relatively small amount of aid or the relatively small size of the undertaking which received it did not as such exclude the possibility that trade between Member States might be affected. To determine whether that criterion was met, each case should be looked at individually, with particular regard to the structure of the market in question, particularly whether or not there was active competition, and the number of firms present.

Following that judgment, the Commission began to recast the regulatory framework governing compensation granted by the Member States to firms providing services considered to be in the general interest. The main two measures which were essential to guarantee a higher degree of legal certainty about the financial resources which the Member States could grant to those providing public services were:

- (1) A Commission decision exempting from the obligation of prior notification small-scale public finance for firms required to provide a public service. Financing public services provided by hospitals and social housing was also exempt from notification irrespective of the amount of the compensation. A similar exemption will also apply to compensation for sea transport to the islands covered by sectoral rules, if the traffic does not exceed 100 000 passengers per year.
- (2) A draft Commission framework for large-scale financing which is subject to a prior notification obligation. If a compensation scheme does not meet the criteria of the *Altmark* judgment, the Commission must check that the payments received do not over-compensate for the cost of supplying the public services. The framework sets out rules on how to calculate the costs entailed in supplying the public services and lays down rules on the allocation of costs between the public service and the service

open to competition. The aim is to ensure that there is no risk of public funds being used to distort competition at the level of competing activities.

On the basis of all these elements, a thorough analysis of the place of services of general economic interest in the outermost regions should be carried out. It would be helpful to have a prior diagnosis providing a precise and case-by-case description of how they operate in the outermost regions.

To that end, the Commission is proposing to set up a working party to examine the operation of the markets in the sectors of transport, telecommunications (fixed and mobile) and electricity and gas in the outermost regions. That working party should continue the approach it began in its Green Paper on services of general interest of 21 May 2003¹²¹.

4.3.4. *The wider neighbourhood action plan*

One of the main fields in which the Community is working for the future concerns strengthening economic, social and cultural ties between the outermost regions and their neighbours. The aim is to enlarge the natural area of socio-economic (including migration) and cultural influence of the outermost regions by reducing the barriers restricting exchanges with their geographical area since, although very distant from the European mainland, they are very close to the geographical markets of the Caribbean, America and Africa. That priority also concerns the efforts which must be made in the field of regional (including between the outermost regions) and transnational cooperation, and in international negotiations.

Most of the outermost regions are located in a particular geographical environment, far from the European mainland. Their remoteness is compounded by the particular constraints resulting from the small size of their markets, which prevents them from achieving economies of scale and external economies. It is therefore important to encourage their integration into the surrounding region to expand their distant markets and reduce the effects of remoteness from the European economy.

This effort to promote economic integration must be continued in the field of economic exchanges of both goods and services, and in trade-related fields (intellectual property, health measures, etc.), as well as economic cooperation and exchanges of a socio-cultural nature.

These needs for economic integration and cooperation are particularly pressing in the NICT sectors (high-speed connections and communications with neighbouring countries at a reasonable cost to promote cooperation and economic development), combating illegal immigration and the environment.

The wider neighbourhood action plan includes the following fields:

- (1) Trade, and customs measures to permit integration of the markets concerned in the sectors of goods and services and in trade-related fields (intellectual property, health and plant health measures, etc.) under the preferential agreements between the European Union and non-member countries close to the outermost regions.
- (2) Transnational and cross-border cooperation: this involves a wide range of measures including assistance under the objectives of the cohesion policy and adjustments to

¹²¹ COM (2003) 270 final.

bilateral agreements and other measures under international bodies in the fields of immigration, the environment, fisheries, transport and research, among others, to take account of the specific features of the outermost regions and the aim of integrating them economically with their neighbours.

This plan will need increased awareness among all concerned, including the Commission delegations in non-member countries, of the extent of the challenge facing the outermost regions and their neighbours.

4.3.4.1. Measures in the field of trade policy and customs

Trade policy may help improve the integration of the outermost regions into the regional economy both in the sectors of goods and services and in 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 provides for the conclusion of ACP-EU economic partnership agreements (EPAs) which, by 2007, will establish greater economic and trade cooperation, including free-trade areas among the ACP countries (grouped in trading blocs) and the European Union, which will be compatible with WTO rules. The Union's main interest in these agreements is to promote the process of economic integration of the ACP States to further their sustainable development. It is vital to associate the outermost regions with this process.

Consideration should therefore be given to taking account of the specific interests of the outermost regions in the negotiation of ACP-EU APEs. 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 ask 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 background of improved trade relations with their neighbours should lead the French outermost regions and the Canary Islands to consider also how to coordinate trade and customs instruments and taxation 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 regard, the Commission is willing to consider the reduction or even removal of common customs tariff duties to allow the supply of non-agricultural raw

materials to promote production in the outermost regions. In special and duly justified circumstances, it is willing to consider applications for the temporary suspension of duties in these fields. In the case of fisheries products, any temporary suspension of common customs tariff duties would concern goods for the local market. To contribute to regional integration, there would have to be checks that the raw materials for which suspensions were requested were not available in the geographical area concerned.

4.3.4.2. Measures in the field of cooperation

Trans-national cooperation has often proved disappointing because of the lack of coordination between the existing financial instruments: regional policy resources, the European Development Fund, MEDA, etc. Besides the problems of different management rules and programming systems, there is the imbalance between the intensities of financial support on the two sides of the border and different regional and national priorities which hinder the implementation of projects. The outermost regions have also experienced further difficulties because they do not form part of the cross-border cooperation strand of the Interreg Community Initiative.

The Commission is aware of this difficulty and is willing to propose stronger action to promote transnational and cross-border cooperation under the cooperation objective of regional policy. This stronger action is based on the inclusion of the outermost regions in the scope of cross-border cooperation, improved financial resources, the establishment of specific rules on eligibility (including the possibility of extending the territorial scope of the ERDF to neighbouring non-member countries) and greater resources to improve coordination between the various existing instruments.

The priorities for the “European territorial cooperation” Objective should stress taking account of the following three guidelines:

- Promoting exchanges related to transport, services and information and communications technologies. Here, coordination with existing agreements and programmes should be improved.
- Facilitating exchanges of people: to be effective cooperation should be based on easier movement of nationals of neighbouring non-member countries whose papers are in order. This type of exchange is required to promote the economic integration of the outermost regions into their area and to allow the neighbouring countries to make the best possible use of this cooperation for their development.
- Exchange of experience on regional integration: to make best use of the trade aspect of this action plan (see below), cooperation should also cover exchanges of experience on regional integration, support for economic cooperation and trade between the outermost regions and their neighbours. The aim is to support and anticipate the establishment of economic partnership agreements between ACP countries because the outermost regions have every interest in observing and perhaps participating in the process of regional integration taking place in their areas.

Paragraph 4.4 looks at specific measures under this Initiative.

The neighbourhood action plan for the outermost regions should also stress the need to establish specific instruments for immigration, transport and fisheries. In the other fields (particularly the environment and research) existing agreements and programmes should take account of the implementation of this initiative to ensure coordination with Community policy as a whole.

To deal with immigration, the Commission intends to establish a European Agency for the Management of Operational Cooperation at the External Borders¹²² to provide training, assess risks and, in certain circumstances, provide specific infrastructure for checks at external frontiers. Finance will be available for its operations from 2005.

In the spirit of Article 13(4) of the Cotonou Agreement, the Commission also intends to take account of migratory flows in national and regional programming for cooperation with the ACP States in the Caribbean and the Indian Ocean.

On 17 December 2003 the Council adopted a programme of technical and financial assistance for non-member countries as regards asylum and immigration.¹²³ With a budget of €250 million for 2004-08, it will enable those countries to excise better checks over migratory flows. For projects implemented in non-member countries the partners eligible for this support are the national and provincial authorities.

Combating illegal immigration must also be done through a credible policy of repatriating illegal immigrants to their country of origin. The Commission intends to launch for 2005 and 2006 preparatory measures for integrated return programmes which will not only provide financial support for the Member States which have to bear the costs of forced repatriation (the transport of immigrants to their region of origin) but also the costs of transit and reception and support for the reintegration of the immigrants repatriated. The limited financial resources and proposed implementing conditions make it difficult at the moment to see how this could be applied to the overseas departments.

The Commission expects the action plan for transport to allow the part-financing of start-up aid for services between the outermost regions and their neighbours under the cooperation instruments described in paragraph 4.4. However, the concept of start-up aid for air or sea services to non-member countries must be implemented with great care to avoid distorting competition with non-Community transport firms on these routes and provoking a reaction from the countries concerned. Today improved air services between the outermost regions and their neighbours may also result from the negotiation of specific regional agreements with those countries. However, since the Commission has no mandate for that purpose, it has no power to negotiate. It could support an approach allowing the Member States to take account of the specific needs of the outermost regions in their bilateral agreements and/or promoting regional agreements.

As regards the international aspects of the common fisheries policy, it should be noted that the Community's exclusive external competence in this sector is exercised within the framework of international commitments at bilateral (negotiation and conclusion of agreements with non-member countries) and multilateral level (representation of the Community in the

¹²² COM (2003) 687 final.

¹²³ Regulation (EC) No 491/2004 of the European Parliament and of the Council of 10 March 2004 establishing a programme for financial and technical assistance to third countries in the areas of migration and asylum (AENEAS) (OJ L 80, 18.3.2004, p. 1).

international organisations responsible for the fisheries sector. The Community is a contracting party to several international organisations and helps draw up recommendations to ensure the rational exploitation of resources falling outside exclusive economic zones).

Taking account of the needs and interests of the outermost regions in international negotiations which affect them directly is a very positive element of these negotiations.

As regards the international organisations in the sector, in December 2003 the Community under the Indian Ocean Tuna Commission adopted measures to ensure the conservation and management of tropical tuna stocks. These measures, which come into force in 2004, have an impact on the fleets registered in Réunion, which have to comply with these measures to ensure sustainable exploitation of tuna stocks in the Indian Ocean.

In its Communication on the calendar for implementing the reform of the common fisheries policy¹²⁴, the Commission advocated the establishment of Regional Advisory Councils for fisheries management to allow the parties concerned to participate to a greater extent in the preparation and implementation of this policy, including its regional and local aspects.

Provision for the establishment of these Regional Advisory Councils was made by Articles 31 and 32 of Council Regulation (EC) No 2371/2002 on conservation and sustainable exploitation of fisheries resources under the common fisheries policy (guarantee of an exploitation of live aquatic resources which creates the necessary conditions of sustainability in economic, environmental and social terms). On 15 October 2003 the Commission presented a proposal for a Council Decision on the establishment of the Regional Advisory Councils¹²⁵ which is of particular interest for the outermost regions. The proposal for a decision deals mainly with the definition of the areas to be covered, the basic structure of the Councils and their composition, operation and financing. Their establishment should provide a forum where the outermost regions can participate actively in discussions on the sustainable exploitation of fisheries resources in those parts of the oceans. A similar body should be set up for the outermost regions, particularly the most isolated (French Guiana and Réunion) in their local maritime zone, which is close to that of non-member countries.

4.4. The role of the policy on economic, social and territorial cohesion and the field of intervention of state aid

The role of the cohesion policy in the measures outlined above (weak effects of limited access, encouragement for the process of increasing local competitiveness and improving the integration of regional markets) remains crucial.

The challenges which the outermost regions have to meet concern primarily their genuine integration into the single Community market. The current situation as regards Community on these regions does not suggest that the shortcomings in this integration are being satisfactorily reduced. This means that a consistent and horizontal global strategy permitting the sustainable development of these regions and assuming that regional policy contains appropriate measures in key areas for their sustainable development over the next programming period must be considered.

¹²⁴ COM (2002) 181 final, 8.5.2002.

¹²⁵ COM (2003) 607 final.

The question is, therefore, how to define the way in which the cohesion policy instruments can help implement the strategy laid down by the Seville European Council in June 2002.

In any case, the legal basis for measures applicable to the outermost regions, Article 299(2) of the EC Treaty, allows specific conditions in all Community policies, including the cohesion policy, to be applied to them. It explicitly states that the Council may determine “conditions of access to structural funds” for the outermost regions as a result of their particular economic and social structural situation.

On a proposal from the Commission, the Council may determine particular conditions for applying the Structural Funds which take account of the consequences of the particular handicaps of the outermost regions: remoteness, insularity, small size, difficult topography and climate, economic dependence on a few products, the permanence and combination of which severely restrain their development.

The points which are relevant in determining the criteria for targeting the development strategy through cohesion policy instruments, applied in specific fashion depending on the particular handicaps of the outermost regions are:

- (1) Application of the cohesion policy in the outermost regions must comply with the reform process and the financial package for that policy over the next programming period.
- (2) The work of the cohesion policy must be integrated into all the fields of action of the strategy for sustainable development of the outermost regions. This means that the cohesion policy instruments must intervene both to reduce the effects of the handicaps listed in Article 299(2) of the EC Treaty and to improve the competitiveness of these isolated economies. The objective of the genuine integration of these economies into the Community’s internal market must be continued.
- (3) The intensity of support should take account of the different characteristics of each of the outermost regions in terms of its level of economic development and the intensity of the handicaps which affect it.
- (4) If assistance under the cohesion policy is to have an impact on reducing the handicaps of the outermost regions, the rules on eligibility for funding and the financial allocation must include mechanisms to take account of the additional costs, while complying with the competition rules and the criteria to be laid down in the field of the other Community policies concerned. Cohesion policy must, in particular, make a financial contribution to reducing the impact of poor access from these regions through various types of assistance. Similarly, the cohesion policy could make a financial contribution to limiting the impact of the other additional costs resulting from the size of markets, while respecting the principle of proportionality in force in the field of the policy on checks on state aid.
- (5) The cohesion policy must also achieve its traditional objectives of increasing external economies in the development of the outermost regions. The aid granted to promote the competitiveness of firms should be directed towards improving the sectoral structure of the economy of these regions, encouraging stronger links between local producers, increasing the physical capital of local firms and making better use of the

new technologies. All together, these measures should result in the conservation and improvement of the local productive fabric

- (6) Cohesion policy must also support the process of transnational and cross-border cooperation. This also presupposes improve coordination of the existing instruments to increase the potential for cooperation with non-member countries (particularly in terms of EDF assistance and the MEDA programme).
- (7) To ensure consistency with national aid, the cohesion policy guidelines must comply with the competition rules, particularly as regards state aid.

This means that the Community's work on the economic, social and territorial cohesion policy entails application of the general framework of the reform of regional policy, application of a specific programme to offset constraints and the participation in regional policy through a neighbourhood action plan. The last part of the argument concerns the coordination required between regional policy and that on state aid.

4.4.1. The general framework for the reform of the cohesion policy

On 18 February 2004 the Commission adopted the third report on economic and social cohesion. The conclusions of this report contain the Commission's proposals for a reformed cohesion policy after 2006. This includes the future status of the outermost regions¹²⁶.

It is intended that, under the reform of the cohesion policy¹²⁷, the outermost regions will be eligible for all the objectives, depending on their relative level of development.

At this stage it is premature to consider the future status of the seven outermost regions in the reformed cohesion policy. The eligibility of any of the regions of the Union for the objective will be known only when the financial perspective is adopted on the basis of the statistical per capita GDP data for the last three years available when the decision is taken. However, current development trends suggest that all the outermost regions should be eligible under the future cohesion policy, either under the 'Convergence' objective or the 'Regional competitiveness and employment' objective, and will benefit under the 'European territorial cooperation' objective.

Under the future rules on the cohesion policy, the Commission will propose maintaining an increase in the rate of assistance for the outermost regions. Specifically, the ceiling on assistance under the priorities 'Convergence' and 'Regional competitiveness and employment' will be increased to 85%. In the calculation methodology which it will present, the Commission will take account of the special features of the outermost regions in shaping its proposal as regards investment in revenue-generating infrastructure.

¹²⁶ Extracts from the conclusions of the Third report on cohesion 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."

¹²⁷ COM(2004) 492, 493, 494 et 495 final, 14.7.2004

It will also ensure that under the future Rural Development Fund¹²⁸ and the future Financial Instrument for Fisheries¹²⁹ Guidance the Community effort in terms of the regional allocation of financial resources and the intensity of aid takes account of the specific handicaps of the outermost regions. As regards measures on fisheries and aquaculture, the Commission will pay attention to the sustainable exploitation of local resources in these regions.

There is a need to improve administrative capacity to manage the Structural Funds, particularly in the overseas departments. A specific measure in this field under technical assistance should be considered to boost human and material resources allocated to management of the Funds.

4.4.2. *Application of a specific programme to compensate for additional costs.*

Alongside the general framework for application of the cohesion policy in the outermost regions, the Commission will propose the establishment of a specific programme to benefit all the outermost regions through financial contributions to reducing the impact of poor access from those regions as compared with the European mainland. The aim is to make business more competitive in order to improve the sectoral structure of their economies, encourage better productive interrelations, increase the physical capital of local firms and make better use of the new technologies.

This programme, financed by the ERDF, should concentrate on reducing the impact of the specific handicaps which affect the economy of the outermost regions as listed in Article 299(2) of the EC Treaty: remoteness, insularity, small size, difficult topography and climate and economic dependence on a few products. Without prejudice to the arrangements for application, which are still to be determined, the objectives of the programme will concentrate on the following three fields:

- (1) **Poor access because of remoteness, fragmentation and topography:** the aim will be to reduce the impact of the main constraint affecting these regions, remoteness, fragmentation and difficult topography, so improving their capacity for economic access, particularly to the Community market. Particular attention will be paid to freight transport, energy supplies and access to ICT networks and services.
- (2) **The small size of the regional market, breaking bulk and the lack or inadequacy of 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 meet the lack of adequate economic diversification, extra support will be provided to innovative sectors, including measures in the field of research and innovation (for those not already financed under the framework programme or the other cohesion policy instruments), training for human resources and the promotion of local production outside these regions.
- (3) **Environmental and climatic difficulties (including cyclones, volcanic activity and earthquakes) and the preservation of biodiversity:** the measures should target the exploitation of environmental conditions, the treatment of waste and correction of additional costs resulting from particular climatic conditions.

¹²⁸ COM (2004) 490 final, 14.7.2004

¹²⁹ COM(2004) 497 final, 14.7.2004

This assistance should be provided in the context of a harmonised evaluation of the additional costs as proposed in this report, to avoid duplicating measures and so over-compensating for the additional costs and in order to ensure equitable treatment for the activities suffering under their impact, while eliminating intersectoral barriers to economic diversification.

The funding will be decided under the forthcoming financial perspectives for the 2007-13 programming period.

Management of the programme will follow the general principles of programming, partnership, evaluation and part-financing, while complying with all Community policies (in particular, competition policy).

The Commission will propose adjusting rules on the eligibility of expenditure under the ERDF, on the basis of Article 299(2) of the Treaty, to include operating aid intended to take account of additional costs. The Commission could be open to authorising part-finance for mobile transport assets, if this were limited exclusively to links 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 for the outermost regions had a real economic impact, care would have to be taken that Community funding did not replace public structural or similar expenditure by the Member States concerned.

There should also be provision for the application of horizontal instruments, such as the public service obligation, to have an impact on the aid granted under the existing schemes (particularly the specific supply arrangements, the scheme to compensate for additional costs in disposing of fisheries products, the framework programme for research and training).

Without calling into question the main criterion of eligibility but using existing legal bases, the proposal for a specific programme will permit substantial application of the cohesion policy to promote sustainable development in the outermost regions. It will increase the visibility of that policy as an essential instrument for their development and afford them equitable treatment with its modulated application in the outermost regions, having regard to the differing levels of economic backwardness and the intensity of the handicaps affecting each of them. It entails the application of different instruments to deal with different problems: lagging development and the specific problems which aggravate it. It stresses the consistency and horizontal nature of the instruments (including state aid) and is consistent with the reform of the cohesion policy.

The specific programme will allow introduction of special conditions for use of the Funds, while reducing the perverse impact of the handicaps on local development and allow clearer identification of the special conditions which impede their development through specific conditions to reduce their impact on the development of the outermost regions, including operating aid to offset additional costs. This programme will contribute to the objectives of Articles 160 (for the ERDF, correcting the main regional imbalance in the Community through participation in development) and 158 (promoting economic and social cohesion) of the EC Treaty.

4.4.3. *The contribution of cohesion policy to the wider neighbourhood action plan in the outermost regions.*

The outermost regions will be eligible under the future ‘territorial cooperation’ objective of the cohesion policy, as regards both transnational cooperation (particularly cooperation among the outermost regions) and cross-border cooperation. Part of the amounts allocated under cross-border cooperation in the outermost regions will go to projects implemented in neighbouring non-member countries. This derogation from the rules on territorial eligibility is based on Article 299(2) of the EC Treaty. It is justified by the outermost regions’ own constraints and the effectiveness of cooperation measures.

The outermost regions will continue to benefit from a greater and adequate effort as regards the aim of this initiative in the context of transnational cooperation. That effort should also be made in the case of cross-border cooperation.

The cooperation programmes can be coordinated as regards programming and implementation with the regional indicative programmes (RIP) financed by the EDF in the ACP States. In the case of the overseas departments and where there is no RIP, the measures financed may therefore be requested by the departmental authorities and form part of the fields of cooperation listed in the association decision. The possible budgetisation of the EDF¹³⁰ will allow this coordination strategy to be improved, by allowing specific funding to be earmarked from the RIP to step up cooperation between the outermost regions and the ACP States.

There will be no particular exceptions to the management system for all the cooperation objectives of the reform, except for the following two cases, based on Article 299(2) of the Treaty:

- In the case of ERDF assistance in non-member countries, the national authorities of the Member States concerned will be financially responsible for its implementation and for compliance with the Treaty and the 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 and after a study 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.

To promote regional integration, the fields for priority action in the programmes will be:

- Promotion of urban, rural and coastal development.
- Promoting business spirit.

¹³⁰ In its Communication “Towards the full integration of cooperation with ACP countries in the EU budget” the Commission proposes ending the EDF system. The budgets for 2007 and 2008 would be the point of departure for the budgetisation of financing for the ACP States and the OCT.

- Developing small and medium-sized firms, including in the tourism sectors.
- Developing local initiatives for employment.
- Aid for integration into the labour market and social inclusion.
- Encouraging sharing of human resources, research capacities (e.g. infrastructure or innovation, research or university centres), education, culture, sport, communications and health.
- Support for environmental protection, protection of the natural heritage and prevention of natural hazards, including cooperation on civil protection and financial support to repair damage caused by natural hazards.
- Support for improving the yield from energy and for renewable sources of energy.
- Improving transport, networks and information and communications services, including the NICT (in particular high-speed networks such as satellites, fibre optics etc.) and water and energy systems.
- Increasing cooperation in legal and administrative matters.
- Increasing human and institutional potential for cross-border and transnational cooperation.
- Combating illegal immigration (excluding the costs of forced repatriation of illegal immigrants) and programmes to improve living conditions in neighbouring countries.

4.4.4. *Competition policy in the field of state aid and the coordination required*

The current conclusions on the future of the cohesion policy after 2006 do not include a change in the general criterion for eligibility under Objective 1. Any region whose per capita GDP exceeds 75% of the Community (EUR 25) average will cease to be one whose development is lagging behind.

This criterion of 75% of the Community average is also used for eligibility for the derogation under Article 87(3)(a) of the EC Treaty.

Furthermore, in accordance with the Conclusions of the Lisbon European Council of 23 and 24 March 2000, the Commission, in its revision of the guidelines for state aid for regional purposes, intends, in general, to reduce the rate of intensity of aid. The rate will also be modulated to a greater extent depending on the level of development of the regions and the criterion of under-employment in the regions coming under Articles 87(3)(a) and 87(3)(c).

However, in order to ensure the efficiency and consistency of the development strategy for the outermost regions, their particular situation should also be taken into account in the revision of these guidelines. Accordingly, the Commission intends to propose that:

- the outermost regions eligible under the ‘convergence’ objective should also be eligible under Article 87(3)(a) of the Treaty;

- the outermost regions which are eligible under the ‘convergence’ objective but which, under the cohesion policy, suffer from the ‘statistical effect’ or which do not fall under the new ‘convergence’ objective, will benefit from a specific transitional state aid scheme setting limits to aid which will be comparable at first to those set under Article 87(3)(a) and then gradually decline;
- the Commission also intends to allow the outermost regions an extra 10 percentage points compared with the intensity of regional aid for initial investment which it will set for the regions eligible for the derogation under Article 87(3)(a) and (c) and in a comparable socio-economic situation.

The principle of operating aid which is not progressively reduced and not limited in time in all the outermost regions will continue, irrespective of its purpose (environment, research and development, etc.) and without prejudice to further adjustments which the Commission may consider. The provisions which ensure that the aid granted is proportional to the handicaps to be offset will also continue. Here a methodology to quantify in a horizontal, uniform and common fashion the additional costs of the outermost regions in all sectors of activity and for the various categories of aid, as described earlier in this report, will be essential.

As regards taking account of the additional costs relating to transport, the Commission will consider authorising compensation for the additional costs involved in the transport of goods within the Union market, and not just within the national frontiers of the country concerned, if Member States proposes such a scheme for an outermost region. These additional costs will be calculated on the transport costs 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.

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

5. CONCLUSIONS

The European Union must deal with one of the biggest challenges in its history. The largest enlargement ever will entail far-reaching institutional reforms, a reaffirmation of its fundamental values and thorough consideration of the mechanisms to ensure its economic, social and territorial cohesion.

To ensure 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 the outermost 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.

After several years during which these specific features have been taken into account, the real nature of remoteness is now unquestionably a matter for the Union.

At the most crucial and most sensitive moment in the process of European integration as a whole, the integration of the outermost regions must make progress as the June 2002 European Council instructed the institutions.

The overall strategy which the European Council asked the Commission to outline is certainly not easy to achieve but it is nonetheless indispensable.

That is the strategy set out in the Communication of the Commission adopted on the 26th May 2004 (COM (2004) 343), which takes a horizontal approach to the main questions affecting the development and integration of the outermost regions and which is based on three pillars of analysis and measures: access by the outermost regions, their competitiveness, and their cooperation with the other regions of Europe and integration into their area.

Completely new instruments will be used to meet the European Council's double instruction: to introduce a transport strategy and to find an appropriate place for the outermost regions in the reform of the regional policy.

This mandate will be discharged by implementing a series of measures (standards, financial measures and operational initiatives) described in this report. Naturally, regional policy instruments will occupy an innovative place among them, principally through a programme to offset additional costs and the contribution of the action plan for a wider neighbourhood strategy.

But the mandate for a global strategy for the outermost regions is not limited to one report. The Commission acted as long ago as June 2002 when it proposed a series of measures to the Council and by continuing the programme of measures which it described in its March 2000 report. It must continue this effort by implementing as soon as realistically possible all the initiatives and measures which it proposes to adopt under this report.

In its propositions rules on the 2007-2013 cohesion policy, the Commission has presented appropriate legislative provisions for introducing the specific programme for the outermost regions described in this report¹³¹.

¹³¹ COM(2004) 492 and 495 final, 14.7.2004.

ANNEXES

ANNEX I. List of measures adopted to assist the outermost regions

ACCESS		
Measures	Description/objectives	Legislative act references
SSA (Specific supply arrangements)	Aid for the introduction of food products for human and animal consumption (finished products and products intended for processing)	Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001.
Aid for import of breeding animals.	Aid for compensation of additional costs, in particular of transport.	Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001.
Aid for export of male bovines – the Azores.	Aid for shipment of young male bovines to other regions of the Community.	Council Regulation (EC) No 1453/2001.
Annual contracts	Aid for annual contracts for the export of tropical products.	Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001.
Aid for the transport of sugar- FOD	Aid for the movement of raw sugar to refineries on the mainland (including transport, storage and refining on the mainland).	Council Regulation (EC) No 1261/2001.
Aid for the transport of cane.	Aid for the transport of cane.	Council Regulation (EC) No 1452/2001.
Programme to compensate for the additional costs incurred in the fisheries sector.	Aid for the marketing of fishery products to the Community market and the international market.	Council Regulation (EC) No 2328/2003.
TEN - T (trans-European transport network)	Eligibility of the ports and airports of the outermost regions for the TEN - T.	Decisions of the European Parliament and of the Council Nos 1692/1996/EC and 1346/2001/EC
Marco Polo	Modal shift actions, catalyst actions and actions aimed to create "shared knowledge".	Regulation of the European Parliament and of the Council (EC) No 1382/2003.

COMPENSATION FOR ADDITIONAL COSTS		
Measures	Description/objectives	Legislative act references
AIEM	Tax is applied differently to local products compared to imported products.	Council Decision 2002/546/EC.
Dock dues	Tax is applied differently to local products compared to imported products.	Council Decision 2004/162/EC.
SSA (Specific supply arrangements)	Aid for the introduction of food products for human and animal consumption (finished products and products intended for processing.)	Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001.
Programme to compensate for additional costs incurred in the fisheries sector.	Aid for the marketing of fishery products to the Community market and the international market.	Council Regulation (EC) No 2328/2003.
POSEI Measures to support local livestock farming.	<p>Production premiums</p> <p>Beef and veal: French overseas departments (FOD), Canary Islands and Madeira – the Azores.</p> <p>Milk: aid to maintain dairy herds the Azores.</p> <p>Goat farming: Canary Islands</p> <p>Consumption/processing aid</p> <p>Milk (aid for local consumption): Canary Islands, FOD, Madeira.</p> <p>Milk (aid for cheese storage): the Azores.</p> <p>Aid for import of breeding animals.</p> <p>Local sector development programme</p>	Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001.
POSEI Measures to support crops.	<p>Premiums to promote local production:</p> <p>Potato: Canary Islands, Madeira</p> <p>Seed potato: the Azores</p> <p>Vine: Canary Islands, Madeira - Azores</p> <p>Beetroot: the Azores</p> <p>Pineapple: the Azores</p> <p>Tobacco: the Azores, Canary Islands</p> <p>Tea and chicory: the Azores</p> <p>Cane sugar: Madeira</p> <p>Wicker: Madeira</p> <p>Green vanilla and essential oils: FOD</p> <p>Aid for consumption/processing:</p> <p>Local marketing of plant products (fruit, vegetables, flowers and live plants) : FOD, Canary Islands, Madeira-Azores.</p> <p>Processing of fruit and vegetables: FOD</p> <p>Processing of cane into rum and syrup: FOD, Madeira.</p> <p>Liqueur wines (Madeira) and verdelho (the Azores)</p> <p>Processing of beetroot into refined sugar: the Azores</p> <p>Pineapple sector development programme: FOD</p>	Council Regulation (EC) Nos 1452/2001, 1453/2001 and 1454/2001.
Banana	WTO: tariff quota and aid for loss of income (compared to average pre-WTO income)	Council Regulation (EC) No 404/93.

REGIONAL COOPERATION AND TRADE		
Measures	Description/objectives	Legislative act references
Interreg III, strands B and C	Regional cooperation programme between the outermost regions themselves and with their neighbours. Canary Islands - Madeira - Azores programme cooperation with neighbouring countries Caribbean programme: French Guiana, Martinique cooperation with neighbouring countries Indian Ocean programme: Réunion and neighbouring countries Interreg III C programme	Council Regulation (EC) No 1260/1999 and Communication of 28 April 2000 from the Commission to the Member States
SPD FOD	Regional cooperation is the priority for each FOD Single programming document (SPD) in order to facilitate regional exchanges and networking in the geographical area surrounding the FODs.	Council Regulation (EC) No 1260/1999.
ACP cooperation	Article 28 of the Cotonou Agreement states that measures to strengthen cooperation and regional integration between ACP states can also apply to the outermost regions and the OCTs.	Cotonou Agreement
OCT cooperation	Article 16 of the OCT Decision states that measures to strengthen cooperation and regional integration between the OCTs can also apply to the outermost regions and the ACP states.	Council Decision 2001/822/EC.
Immigration	Article 138 of the Schengen Convention and Article 13(4) of the Cotonou Agreement.	Schengen Convention, Cotonou Agreement
SSA (Specific supply arrangements)	Exemption of import duties of food products intended for human and animal consumption imported from third countries. (fresh products and products intended for processing)	Council Regulations (EC) Nos 1452/2001, 1453/2001 and 1454/2001.
Free zones	Import of merchandise to equip free zones (Madeira and the Azores). Re-exportation of processed products exempt from countervailing duties to customs territory (Madeira and the Azores.) No application of economic conditions for the AHT in the Free zones of the outermost regions.	Council Regulation (EC) No 122/96. Council Regulation (EC) 2913/92.
Temporary suspension of customs duties for certain products – Canary Islands.	Temporary suspension of customs duties for certain products: sensitive products for local consumption, raw materials for the industrial sector and local consumption and products intended for processing and local consumption in the fisheries sector.	Council Regulation (EC) No 704/2002.
Commercial policy derogations – Canary Islands.	No application of quantitative restrictions on imports of certain textile or clothing products intended exclusively for the Canary Islands market.	Council Regulation (EC) 1087/97.

COMPETITIVENESS AND “PULL FACTORS”		
Measures	Description	Legislative act references
SPD/OP	Measures aimed at developing businesses	Council Regulation (EC) No 1260/1999.
ERDF innovative measures	Innovative measures in the following regions: Canary Islands, Madeira, Réunion and French Guiana..	Council Regulation (EC) No 1260/1999.
ESF innovative measures	Measures part-financed by ESF (pilot projects Article 6). In 2000-02, two themes: adaptation to the new economy within the framework of social dialogue and local strategies for employment and innovation (NB: to date, these measures have not been applied in the outermost regions.)	Council Regulation (EC) No 1260/1999.
TEN-E (trans-European energy network)	Development of electricity networks and connections, the introduction of natural gas and the creation of a natural gas distribution network. (Eligibility for part-financing of studies and other preparations linked to these projects.	Decision No 1229/2003/EC of the European Parliament and of the Council.
Intelligent energy for Europe	Energy efficiency and promotion of renewable energy sources.	Decision No 1230/2003/EC of the European Parliament and of the Council

ANNEX II. List of Decisions approving state aid to assist the outermost regions

1) Spain

Reference	Date of adoption of the Decision	Region	Title of the aid
N 333/2000	29.11.00	Canary Islands	State aid scheme for industrial development and technological modernisation in the Canary Islands.
N 773/2002	1.10.03	Canary Islands	Economic and tax arrangements
N 94/2003	12.8.03	Canary Islands	Amendment of state aid N708/98 (tax rate reduction)

2) France

Reference	Date of adoption of the Decision	Region	Title of the aid
N 147/A/B/2000	31.1.2001	FOD	Framework law for overseas departments
N 309/2000	22.12.00	Réunion	Interest subsidy
N 310/2000	5.6.02	Réunion	Acquisition of holding
N 311/2000	3.1.01	Réunion	Industrial investment projects
N 316/A/2000	25.4.01	Réunion	Activity areas and strategic areas (industrial sector)
N 316/B/2000	14.8.01	Réunion	Activity areas and strategic areas (agricultural sector)
N 317/2000	27.11.00	Réunion	Tourist amenities
N 318/2000	27.11.00	Réunion	Classified hotels and restaurants
N 320/2000	5.2.01	Réunion	Enhancing business skills
N 321/2000	19.7.01	Réunion	Laboratories and technology transfer centres
N 322/2000	17.7.01	Réunion	Support for investment in information and communications technologies.
N 323/2000	31.7.01	Réunion	Support for the production of new goods and services in information and communications technologies.
N 324/2000	3.1.01	Réunion	Energy management and development of renewable sources of energy.
N 325/2000	10.1.01	Réunion	Environmentally sound waste management
N 326/2000	5.2.01	Réunion	Opening up of the economy
N 327/2000	22.12.00	Réunion	Fund to assist business location
N 328/2000	22.12.00	Réunion	Regional employment premium
N 375/2000	15.5.01	Martinique	Martinique agricultural and rural guarantee fund
N 376/2000	14.6.2001	Martinique	Regional guarantee fund
N 377/2000	15.3.2001	Martinique	Local initiative platforms
N 378/2000	28.6.01	Martinique	Interest subsidies
N 393/2000	French authorities notified on 13 June 2000	FOD	New products and networks in the tourism industry

Reference	Date of adoption of the Decision	Region	Title of the aid
N 402/2000	13.11.00	French Guiana	Establishment fund
N 450/2000	18.9.00	FOD	Amendment of FOD guarantee fund
N 464/2000	12.3.2001	French Guiana	Support for freight
N 628/2000	13.11.00	French Guiana	Ten aid schemes for small and micro businesses in the region.
N 672/2000	3.12.01	FOD	Investment grant plan for overseas departments.
N 697/2000	27.2.01	Martinique	Aid to create private moorings in Martinique.
N 66/2001	1.6.01	Réunion	FISAC/FLACR
N 77/A and B/2001	27.11.01 (sector A) and 6.11.01 (sector B)	Guadeloupe	Premiums for employment and the creation of businesses
N 319/2001	11.10.01	Guadeloupe	Support for freight
NN 151/01	3.4.01	FOD	Financing for businesses in overseas departments by the French Development Agency (Afd)
N 517/2001	28.10.02	FOD	Exemption, subject to approval, of profits, when new businesses are set up in the overseas departments.
N 519/2001	19.5.03	FOD	Abatement of one third on returns from holdings situated in the overseas departments.
N 179/2002	17.7.02	FOD	Reduced excise duty on 'traditional' rum
N 186/2002	28.10.02	FOD	Aid for the transport of Martinique products
N 422/2002	15.11.02	Guadeloupe	Fund for loans at reduced rates
N 423/2002	25.11.02	Guadeloupe	Equip and restore traditional constructions that are part of national heritage
N96/A and B/2003	10.12.03 (A) and 11.11.03 (B)	FOD	Framework law for overseas departments
N 422/2003	1.12.03	Martinique	Martinique risk capital funds (FIRM)

3) Portugal

Reference	Date of adoption of the Decision	Region	Title of the aid
N 555/1999	14.3.00	Madeira	Regional tax aid scheme for investment in the region of Madeira
N 817/1999	1.8.00	Azores	Aid scheme for the transport of regional products
N 563/2000	27.4.01	Azores	Aid scheme to promote regional development in the Azores (SIDER)
N 197/2001	28.11.01	Azores	Amendment of aid scheme to promote regional products
N 222/A/2001	11.12.02	Madeira	Aid scheme for the Free zone of Madeira for the period 2003-06
NN 10/2000 and C 35/2002	11.12.03	Azores	Adaptation of the national tax system to the specific characteristics of the Autonomous Region of the Azores.

Web links:

http://europa.eu.int/comm/secretariat_general/sgb/state_aids/index.htm

http://europa.eu.int/comm/competition/state_aid/register/ii/

ANNEX III. Structural Funds (Regional SPD/OP) 2000-06 and the economies of the outermost regions.

REGION	Regional SF SPD/OP 2000-06	National public matching funds	Private sector	Total SPD or Regional OP	Population (2000)	SF/Population (2000)	GDP (2000)	SF/GDP (2 0 0 0) *	GFCF (1997)	Total funds mobilised/ GFCF (1997) ♠
	(€ million)				(thousand)	(€)	(€ millions)		(€ million)	
Guadeloupe	809	925	253	1987	428	1891	5.703	2%	1265	22%
French Guiana	370	274	86	730	164	2256	2.037	3%	370	28%
Martinique	674	763	245	1.682	385	1752	5994	2%	1019	24%
Réunion	1516	916	414	2846	722	2099	8425	3%	1217	33%
FOD TOTAL	3369	2878	998	7245	1699	1983	22158	2%	3871	27%
Azores	854	244	161	1259	239	3575	2046	6%	523	34%
Madeira	705	382	100	1187	244	2885	3014	3%	643	26%
PT REGION TOTAL	1559	626	261	2446	483	3226	5060	4%	1167	30%
Canary Islands	1846 ♦	974	874 ◇	3694	1689	1093	24308	1%	3200	16%
OUTERMOST REGIONS TOTAL	6774	4478	2133	13385	3871	1750	51527	2%	8238	23%

* Average grant planned for each year of the programme, according to GDP (2000)

♠ Average SF grants and private and public national matching funds planned for each year of the programme according to the annual gross fixed-capital formation.

♦ The regional OP does not include FIGF funds.

◇ As the part-financing rate for Spain is calculated according to public spending, the level of private investment does not appear as such in the OPs. The value which appears in the table is an estimate, calculated for the Canary Islands from the total private investments as indicated by the Commission Decision establishing the Community support framework for the whole of Spain.

Sources: SF: regional OPs and SPD. Population and GDP: Eurostat. GFCF: Eurostat and BBVA (Canary Islands)

ANNEX IV. Horizontal and sectoral derogations to the Structural Funds regulations to the benefit of the outermost regions

Regulation	Content of the exceptions	Scope of application
<p>Council Regulation (EC) No 1447/2001 amending Regulation (EC) No 1260/1999 laying down general provisions on the Structural Funds.</p>	<ul style="list-style-type: none"> – Increase from 75% to 85% in the part-financing ceiling for the Structural Funds for public infrastructure operations in the FODs. The 85% rate already applied to the other outermost regions. – The part-financing ceiling for investment in SMEs, agricultural holdings and agri-food industry in all the outermost regions will be increased from 35% to 50%. 	<p>All eligible sectors</p>
<p>Council Regulations (EC) Nos 1452/2001 (FOD), 1453/2001 (Madeira and the Azores) and 1454/2001 (Canary Islands) which amend Council Regulation (EC) No 1257/1999 (general EAGGF regulations)</p>	<ul style="list-style-type: none"> – Increase from 50% to 75% in the ceiling for official aid to small farm holdings for investment in diversification and restructuring. – Increase from 50% to 65% in the ceiling for official aid to agro-food processing businesses and increase to 75% for SMEs. – Eligibility of tropical forests and woodlands situated in the FODs and in the Azores and Madeira – 85% increase in the maximum rate of Community part-financing for agri-environmental measures. – Doubling of maximum amounts per year eligible for Community aid for the support of agri-environmental commitment appropriations for measures to protect lakes in the Azores and the measures to preserve the landscape and traditional features of agricultural land, in particular the conservation of the stone walls supporting terraces in Madeira. 	<p>Agricultural sectors under Annex I to the Treaty</p>
<p>Council Regulation (EC) No 1451/2001 amending Council Regulation (EC) No 2792/1999 on fisheries sector.</p>	<p>Increase in Community financial participation and in the ceiling for official aid in the different types of investment in the fisheries sector.</p> <ul style="list-style-type: none"> – Group 1 (including permanent withdrawal premiums, premiums for the creation of joint enterprises, socioeconomic measures, fishing port facilities with no financial participation by private beneficiaries): increase from 75% to 85% in the ceiling of Community part-financing in duly justified cases. – Group 2 (including fleet renewal and the modernisation of fishing vessels): increase from 35% to 45% in the ceiling for Community part-financing and an increase from 40% to 50% in the ceiling for official aid for vessels registered in the outermost regions that are less than 12 metres in length. – Group 3 (including aquacultures, processing and marketing and fishing port facilities with no financial participation by private beneficiaries): increase from 35% to 50% of the ceiling for Community part-financing and increase from 60% to 75% of the ceiling for official aid for businesses of small economic size. – 	<p>Fisheries sector</p>

Scope of application

- The four overseas departments needed to decide, with the Commission, which holdings of small economic size could benefit from a rate of 75% of official aid. Subsequently, the Commission proceeded to amend the programmes. For Réunion, this revision was carried out in September 2002. Pour la Guadeloupe cette révision a été effectuée en décembre 2002. For Martinique and French Guiana, a request for revision is in process. this concerns only the derogations planned for the EAGGF and the FIG.
- After the structural derogations introduced by Council Regulation (EC) No 1453/2001, no other amendment was made to the structural programmes for the Azores and Madeira.
- In June 2002, the operational programme for the Canary Islands was amended in order to add the derogations on structural matters adopted by the Council in Regulation (EC) No 1454/2001¹³²
- Regarding fisheries, experience gained from the application of Council Regulation (EC) No 1451/2001 shows that aid ceilings are under-used by the outermost regions. The Commission considers that the fisheries and aquaculture sector is a vital part of the socio-economic structure of the outermost regions, as the populations of these regions are confronted with unemployment and income problems.
- The structuring projects which will, in time, generate activities and employment, include modern and comprehensive port facilities which are geared towards the fisheries sector. Certain regions could use their geographical position to their advantage by providing regional hubs offering the services needed in order to develop marine products or the maintenance of vessels.
- Until now, the outermost regions have mobilised the funds available through the Financial Instrument for Fisheries Guidance (FIG) to varying degrees. Consequently, it is important to improve progress in these programmes for the 2000-06 period in order to prevent the automatic decommitment rule from resulting in the loss of FIG assistance in certain regions.

¹³² EN Council Regulation (EC) No 1454/2001 of 28 June 2001 introducing specific measures for certain agricultural products for the Canary Islands and repealing Regulation (EEC) No 1601/92 (Poseican)

ANNEX V. Loans signed by the EIB in the Outermost regions between 1.1.2000 and 15.11.2003

Region	Year	Project name	Project description	€M
Canary Islands	2001	Endesa electricity distribution	Extending and reinforcing the electricity distribution network.	21
	2002	Cabletel Canarias	Construction of a cable telecommunications network to provide broadband multimedia services in the Canary Islands.	90
	2002	Gran Canaria urban rehabilitation	Rehabilitation and modernisation of the urban infrastructures of Gran Canaria	60
	2002	Tranvia de Tenerife	Construction of a new tramway network in Tenerife (Canary Islands)	138
	2003	Las Palmas port	Enlargement of Las Palmas port (Gran Canaria)	30
Martinique	2003	Martinique - Centre hospitalier	Modernisation of the Centre Hospitalier Universitaire de Fort-de-France	25
Réunion	2000	Réunion II airport	Extension of Saint-Denis-Gillot airport (Réunion)	7.6
The Azores	2001	Ana airports and ATC	Technical upgrading of equipment in the three airports	0.3
	2001	Eda Power V	Increasing capacity for electricity production and distribution in the Azores	30
	2002	Eda Power V	Increasing capacity for electricity production and distribution in the Azores	20
Madeira	2000	Madeira Airport II	Technical upgrading of equipment in Madeira airport	74.8
	2002	Madeira development 2000-2006	Part-financing of the regional programme for multisectoral investment in the autonomous region of Madeira under the 2000-06 Community support framework.	65.0
	2002	Madeira water and environment II	Technical upgrading of the water supply network on the island of Madeira	18.0
Total				579.7
Source: EIB				

ANNEX VI. List of PSOs in the air transport sector in the outermost regions

Type of act	OJE	Date	page	State	Routes
Imposition	200	4.8.95	3	Portugal	Lisbon/Oporto-Funchal/Porto Santo/Ponta Delgada/Terceira/Horta
Imposition	200	4.8.95	7	Portugal	Funchal-Porto Santo
Imposition	115	16.5.02	2	Portugal	Ponta Delgada-Santa Maria/Terceira/Horta/ Pico/São Jorje/Flores, Terceira-Graciosa/São Jorge/Pico/Horta/Flores/Colvo, Horta-Flores/ Colvo, Colvo-Flores
Amendment	267	26.8.98	4	Portugal	Lisbon-Ponta Delgada/Terceira/Horta, Ponta Delgada-Oporto/Funchal (OJ 200, 4.8.1995, p. 3)
Amendment	267	26.8.98	7	Portugal	Lisbon-Porto Santo/Funchal, Funchal-Oporto (OJ 200, 4.8.1995, p. 3)
Amendment	267	26.8.98	9	Portugal	Porto Santo-Funchal (OJ 200, 4.8.1995, p. 3)
Amendment	261	18.9.01	2	Portugal	Lisbon-Funchal/Porto Santo, Oporto-Funchal-Lisbon (OJ 267, 26.8.1998, pp. 7 and 9)
Amendment	271	26.9.01	5	Portugal	Lisbon-Ponta Delgada/Terceira/Horta, Funchal/Oporto-Ponta Delgada (OJ 267, 26.8.1998, p. 4)
Invitation to tenderr	273	28.9.01	10	Portugal	Lisbon-Terceira (OJ 271, 26.9.2001, p. 5)
Invitation to tender	273	28.9.01	11	Portugal	Lisbon-Horta (OJ 271, 26.9.2001, p. 5)
Invitation to tender	273	28.9.01	13	Portugal	Lisbon/Oporto-Ponta Delgada (OJ 271, 26.9.2001, p. 5)
Invitation to tender	273	28.9.01	14	Portugal	Funchal-Ponta Delgada (OJ 271, 26.9.2001, p. 5)
Amendment	74	23.3.02	10	Portugal	Lisbon-Ponta Delgada/Terceira/Horta, Funchal/Oporto-Ponta Delgada (amended, OJ 102, 27.4.2002, p. 38)
Imposition	221	30.7.96	8	France	Cayenne-Rochambeau - Saül/ Maripasoula/Saint Georges de l'Oyapock
Imposition	243	9.8.97	2	France	Metropolitan France- Guadeloupe/French Guiana/Martinique/Réunion
Amendment	213	26.7.00	5	France	Cayenne - Maripasoula/Saint-Georges-de-l'Oyapock/Saül (OJ 221, 30.7.1996, p. 8)
Amendment	254	13.9.01	15	France	Cayenne-Rochambeau - Saül/Maripasoula/Saint Georges de l'Oyapock (OJ 221, 30.7.1996, p. 8)
Amendment	69	22.3.03		France	Metropolitan France- Guadeloupe/French Guiana/Martinique/Réunion
Imposition	172	22.7.03		France	Pointe-à-Pitre/La Désirade/Les Saintes/Marie-Galante
Imposition	267	26.8.98	13	Spain	Gran Canaria-Tenerife North/Tenerife South/Lanzarote/Fuerteventura/El Hierro/Santa Cruz de la Palma/La Gomera, Tenerife North-Lanzarote/Fuerteventura/El Hierro/Santa Cruz de la Palma, Santa Cruz de la Palma-Lanzarote
Amendment	251	18.10.02	10	Spain	Gran Canaria-Tenerife North/Tenerife South/Lanzarote/Fuerteventura/El Hierro/Santa Cruz de la Palma/La Gomera, Tenerife North-Lanzarote/Fuerteventura/El Hierro/Santa Cruz de la Palma, Santa Cruz de la Palma-Lanzarote (OJ 267, 26.8.1998, p. 13)

ANNEX VII. Budget allocated to regional programmes of innovative action (2000-06)

(amounts in euro)

REGIONS	ERDF	National public expenditure	Private expenditure	Total
Azores	3 000 000	670 000	80 000	3 750 000
Canary Islands	2 840 000	710 000	710 000	4 260 000
Guadeloupe	1 047 000	878 000	175 000	2 100 000
Madeira	720.108	180.027	100.015	1 000 150
Réunion	1 224 000	258 000	48.000	1 530 000
Total	8 831 108	2 696 027	1 113 015	12 640 150
Source: European Commission. DG Regional policy				

ANNEX IX. Expenditure and appropriations - initial budget for agricultural measures under the POSEI programmes

Initial budget expenditure and appropriations for agricultural measures under the Poseidom programme												
Financial year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 Budget
Marketing year	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03
Expenditure, comprising:	8.5	38	34.1	31.9	26.3	25.1	30.7	32.5	38.7	34.6	40.2	
plant products	8.5	37.2	32.2	30.2	23.7	17.3	20.9	22.4	27.0	25.7	28.7	
– supply arrangements		23.1	17.2	14.0	7.5	5.1	4.0	9.5	9.8	9.4	8.5	
– other aid		14.1	15.0	16.2	16.2	12.2	16.9	12.9	17.3	16.3	20.3	
animal products	0.0	0.8	1.9	1.7	2.6	7.8	9.8	10.0	11.7	8.8	11.4	
– supply arrangements		0.0	0.0	0.6	0.6	0.2	0.6	0.2	0.7	0.4	0.5	
– other aid		0.8	1.9	1.1	2.0	7.6	9.2	9.8	11.0	8.4	11.0	
Supply arrangements total		23.1	17.2	14.6	8.1	5.3	4.6	9.7	10.4	9.8	8.9	
Other aid total		14.9	16.9	17.3	18.2	19.8	26.1	22.8	28.3	24.7	31.2	
%SSA/other aid		61/39	50/50	46/54	31/69	21/79	15/85	30/70	27/73	28/72	22/78	
Initial budget appropriations, comprising:	45	47	50	35	61	49	34	45	46	35	45	52.0
plant products	42	45	47	31	48	36	22	33	34	24	34	38.4
animal products	3	2	3	4	13	13	12	12	12	11	11	13.6

Initial budget expenditure and appropriations for agricultural measures under the Poseima programme												
Financial year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 budget
Marketing year	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03
Expenditure, comprising:	6.8	36	41.7	40	43.1	24.2	30.2	40.5	36.0	29.0	32.2	
plant products	0.8	27.9	26.9	22.7	16.3	13.8	14.3	15.5	16.5	13.1	16.1	
– supply arrangements		27.3	25.8	18.5	10.7	10.0	8.8	11.3	12.2	9.1	11.9	
– other aid		0.6	1.1	4.2	5.6	3.8	5.5	4.2	4.3	4.0	4.2	
animal products	6.0	8.1	14.8	17.3	26.8	10.4	15.9	25.0	19.5	15.9	16.1	
– supply arrangements		6.2	7.2	7.6	8.7	7.9	6.5	8.2	9.7	6.5	6.4	
– other aid		1.9	7.6	9.7	18.1	2.5	9.4	16.7	9.8	9.4	9.7	
Supply arrangements total		33.5	33.0	26.1	19.4	17.9	15.3	19.5	21.9	15.6	18.3	
Other aid total		2.5	8.7	13.9	23.7	6.3	14.9	21.0	14.1	13.3	13.9	
%SSA/other aid		93/7	79/21	65/35	45/55	74/26	51/49	48/52	61/39	54/46	57/43	
Initial budget appropriations, comprising:	11.5	55.0	55.0	55.0	58.0	46.0	36.0	40.0	38.0	38.0	40.0	42.0
plant products	1.5	33.0	34.0	32.0	34.0	25.2	18.0	21.0	20.0	17.5	23.7	23.2
animal products	10.0	22.0	21.0	23.0	24.0	20.8	18.0	19.0	18.0	20.2	15.9	18.8

Initial budget expenditure and appropriations for agricultural measures under the Poseican programme												
Financial year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Budget 2003
Marketing year	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03
Expenditure, comprising:	0	110.1	140.1	137.9	115.8	104.3	92.6	114.3	114.5	88.0	88.8	
plant products		30.1	43.8	44.2	30.9	34.8	25.8	35.9	35.0	30.2	34.5	
– supply arrangements		29.9	38.5	32.7	19.8	23.6	20.6	24.4	24.0	18.8	23.5	
– other aid		0.2	5.3	11.5	11.1	11.2	5.2	11.6	11.0	11.4	11.0	
animal products		80.0	96.3	93.7	84.9	69.5	66.8	78.4	79.5	57.8	54.3	
– supply arrangements		76.8	92.2	89.2	80.5	65.3	62.6	74.1	74.9	53.4	49.8	
– other aid		3.2	4.1	4.5	4.4	4.2	4.2	4.4	4.5	4.4	4.5	
Supply arrangements total		106.7	130.7	121.9	100.3	88.9	83.2	98.4	98.9	72.3	73.2	
Other aid total		3.4	9.4	16.0	15.5	15.4	9.4	15.9	15.5	15.8	15.6	
%SSA/other aid		97/3	93/7	88/12	87/13	85/15	90/10	86/14	87/13	82/18	82/18	
Initial budget appropriations, comprising:	9.5	216.0	217.0	215.0	147.0	116.6	104.0	106.0	108.3	118.8	115.7	118.8
plant products	1.5	91.0	89.0	95.0	52.0	40.8	37.0	38.0	35.8	34.9	44.2	45.9
animal products	8.0	125.0	128.0	120.0	95.0	75.8	67.0	68.0	72.5	83.9	71.5	72.9

ANNEX X. Expenditure and appropriations- initial budget for agricultural measures in the fisheries sector under the POSEI programmes

Financial year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Marketing year	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03
Initial appropriations			9.0	16.01	11.0	9.7	11.5	15.0	15.0	16.0	15.02	15.02
Expenditure			2.4	11.2	8.9	11.7	10.7	13.9	13.6	7.1	10.7	