



Il-Ministru

The Minister

Mr. Joaquín Almunia
Vice President of the European Commission and
Commissioner responsible for Competition Policy
European Commission
Brussels

5 March 2013

Dear Vice President Almunia,

Subject: State aid reform and draft Regional Aid Guidelines 2014-2020

Reference is made to the Commission's process to finalise the Regional Aid Guidelines (RAG) for the period 2014-2020.

While commending the excellent work done in preparation of the current draft, Malta believes that there are a number of areas that require changes in order to secure the sustainability of Malta's economic development given its size and geographical realities.

The draft RAG published on 14 January 2013 by DG Competition, designates the whole of Malta as a predefined Article 107(3)(c) region for the period 2014-2020. While statistical indicators show that Malta's GDP is higher than 75 % of the EU, losing its current Article 107(3)(a) status implies that Malta will be significantly constrained in its means to mitigate the permanent handicaps faced by operators in Malta. From a competition policy perspective, this will have very serious repercussions on employment, economic development and the integration of Malta in the European economy.

Thus it is submitted that the proposed draft RAG require further fine tuning in order to adequately reflect the challenges faced by single NUTS level 2 region island Member States like Malta, due to the permanent and very particular geographical handicaps and insularity problems that they face irrespective of their GDP level. It is believed that the allowed aid intensity in such regions should reflect these additional permanent handicaps in order to ensure a fair playing field with other regions.

In the spirit of Article 174 of the Treaty on the Functioning of the European Union (TFEU) it is strongly believed that single NUTS level 2 region island Member States like Malta should be given an equal recognition of the particular permanent handicaps they face and should thus be treated in the same way as the outermost regions for regional aid purposes. This equal treatment is very important for Malta within the State aid rules.

This would also be in line with the European Council Conclusions of 7-8 February 2013, wherein it was established in paragraph 44 that besides the special additional allocation to the outermost regions and northern sparsely populated NUTS level 2 regions, "the special situation of the island regions also needs to be taken into account." The European Council quantified this special situation of Malta and Cyprus by recognizing the challenges posed by the situation of island Member States and the remoteness of certain parts of the European Union by means of an additional allocation in Cohesion Policy. Given that the European Council recognized Malta's challenges to be similar to those of outermost regions, a parallel treatment through granting additional aid intensity top ups is warranted.

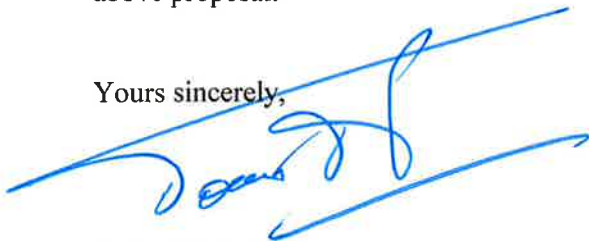
Regional aid is considered a highly important area for the economic and social development of Malta. The proposed draft Regional Aid Guidelines are problematic as they present a substantial reduction in the permissible aid intensities that may be given by Malta and do not take account of the island's permanent handicaps and insularity.

Thus the premises underpinning and conclusions reached in the draft RAG would result in a disproportionately large and unintended adverse effects on the Maltese economy. The geographical handicaps caused by the natural isolation are permanent in nature and should thus be mitigated through permanent mechanisms. We submit that such disadvantages are material enough to warrant specific consideration with regards to Malta's allowable aid intensity levels. Malta strongly believes that similarly to the recognition of the realities faced by remote regions, a top-up on the permissible aid intensities should be allowed for single NUTS level 2 region island Member States. Moreover, the possibility to grant operating aid as in the case of outermost regions should also be applicable, thus mitigating the impact of the additional transport costs involved that are not faced by other undertakings based in mainland Europe.

Finally, Malta also joins other Member States in requesting the Commission to revisit the proposal of completely excluding the possibility of granting aid to large enterprises in 'c' regions, especially in the context of the current global economic crisis. We believe that this is necessary to secure the possibility of using aid as an important incentive effect for large enterprises to invest in 'c' areas.

I trust that the above submission will be taken into account in finalising the forthcoming Regional Aid Guidelines. We remain available to your Services for any additional information and discussion on the above proposal.

Yours sincerely,



TONIO FENECH
Minister

cc: Permanent Representative of Malta to the EU
Chairman, State Aid Monitoring Board