Mr Joaquín Almunia
Vice-President
European Commission
Rue de la Loi 200
B-1049 Bruxelles

Brussels, 29 April 2013

Dear Vice President,

**We the signatories contact you in view of the debate in the college of Commissioners this week on the regional aid guidelines (RAG) for 2014-2020.** In January 2013 the European Commission Directorate General for Competition Policy (DG COMP) published a first draft of the future RAG. The RAG are of fundamental importance for the EU's economic policy, as they provide the legal basis for both national and EU **co-financing for production-related investments** by companies.

While our federations see the need for regulating state aid in the European Economic Area as to avoid distortions of competition, we would like to express our **serious concerns with regards to key provisions of the draft RAG for 2014-2020**. Some of the key aspects of the draft RAG, **in particular limiting regional aid to small and medium-sized enterprises (SME)**, directly contradict with the EU's goal of increasing international competitiveness and re-industrialising Europe (see the recently set goal of raising the share of industry to 20% of EU GDP). Also we have doubts whether negative impacts of the proposed RAG have been adequately taken into account as arguments by DG COMP are not backed with adequate economic evidence. In general, **policymakers should refrain from drawing a divide between SMEs and larger companies.**

Our federations have delivered separate contributions to the recent public consultation on the future RAG. Nevertheless we would like to use this opportunity to shortly outline some of our common concerns including recommendations for potential ways forward. We trust in your support on these issues.

1) **Non-SMEs (companies above the SME threshold) should not be excluded from the possibility of receiving regional aid in "c-regions"** (as Article 10 and Article 160 provide). Such a measure would cut off companies both from national support schemes as well as from the possibility to receive **co-financing via the European Regional Development Fund (ERDF) for production-related investments** (in some countries the share of ERDF co-financing for productive investments is estimated at 40% of overall ERDF deployment)**. The SME-threshold is an artificial border in this context.** The Commission does not distinguish between large-scale multinational enterprises and locally grown mid-tier companies (latter ones do not possess the respective financial capacities, economies of scale advantages or bargaining power of multinationals). Finally, cutting these non-SMEs off of regional aid would be **counter-productive both for structurally weak regions** where they are located, **as well as for other companies dependent on them** as suppliers and contractors. Larger enterprises are usually closely linked to SMEs, functioning as innovation carriers.

   **Also a limitation of production related investment aid to specific areas** - such as R&D, environmental measures and ICT, as currently discussed in the ERDF trialogue negotiations - **is not acceptable** as this would cover only a marginal scope of investment areas (partly as R&D and environmental measures are by definition not production-related investments). Instead a successful strategy for attracting industrial investments must build on both SMEs and larger enterprises and production related investments for a broad range of areas are crucial in this respect.

2) **The current procedure with regards to the evaluation of the incentive effect should be maintained ("start of projects") in order not to slow down implementation of investment projects.** According to the new draft RAG (Article 60), work on a project can only start once authorities have issued a decision on granting aid, previously projects could start with the date of presenting the request to authorities. The new procedure will decrease the firms' flexibility and capacity to rapidly react to market needs, as timing is often a decisive factor for investment decisions. Also this new rule risks competition distortions within the EU, due to varying decision-making speed of national and local authorities.

3) **Investments on "fundamental change" should not be favoured un-proportionally over recurring ones, in order to enable companies to introduce state of the art efficiency measures and avoid administrative burden.** A new clause provides specific requirements with regards to such investments. However this new provision ignores economic realities, as the need for constant innovation and regular adaptations of production processes and technologies has increased significantly in recent years. Many companies would fail to meet these new criteria and thus regular adjustments of companies would be avoided, which in return would reduce their capacity to compete with enterprises from third countries. Finally, the complexity of the new procedure could represent a significant burden for both authorities and companies, in particular SMEs.

We trust in your support and hope that you will take our concerns into consideration during the upcoming debate among you and your colleagues on this fundamental issue for European industry. Please do not hesitate to contact us in case there is need for further clarification on our concerns.

Yours faithfully,

**Christoph Neumayer**, Director General
IV - Federation of Austrian Industries

**Davor Majetic**, Director General
HUP - Croatian Employers' Association

**Stanislav Kázecký**, Vice-President for Foreign and EU Affairs
SPCR - Confederation of Industry of the Czech Republic

**István Wimmer**, Secretary General
MGYOSZ - Confederation of Hungarian Employers and Industrialists

**Mihai Manoliu**, Secretary General
ACPR - Alliance of Employers' Confederations in Romania

**Peter Molnar**, Secretary General
RUZ - National Union of Employers of Slovakia

**Jože Smole**, Secretary General
ZDS - Employers' Association of Slovenia

***This letter was also sent in copy to Commissioners Andor, Ciolos, Füle, Hahn, Potocnik and Sefcovic.***