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Summary

This paper investigates the Europeanisation of regional policy in the EU Member States. Much of the existing literature on Europeanisation tends to concentrate on one or two Member States and/or on one policy sector, is static in perspective and therefore prone to generalisations on the basis of narrow case studies. This study aims to address the weaknesses of such approaches by undertaking an historical analysis of the same activity (area designation for regional policy) within the context of two EU policy sectors (competition policy and regional policy) for all Member States.

The evolution of regional policy over the last thirty years has seen a growing involvement of the European level in area designation - the process by which the assisted areas for regional policy are selected. The designation of national assisted areas takes place within parameters determined by EU competition policy considerations; in parallel, EU regional policy operates within a separate map of assisted areas. However, the pattern of European involvement is complex. An analysis of historical trends shows that the capacity of the European Commission to influence how policy is targeted under national and EU regional policies has varied considerably over time and that the trajectories of Commission influence in the two policy spheres have differed significantly. Commission influence over the targeting of EU regional policy peaked in 1989 when Member States seemed almost taken by surprise at how policy was implemented under the (then) new Structural Funds Regulation and, in the subsequent decade, sought, successfully, to reassert control over EU regional policy targeting. For its part, Commission influence over national regional policy targeting was greatest in 2000 when the current rules were introduced.

Although the timing of the most recent area designation exercises was carefully orchestrated by the Commission so that the approved area maps for national and EU regional policies both run over the 2000-06 period, the influences of the national and EU levels on the process of area designation and on the outcomes of the reviews appear very different: the Commission has arguably had more impact on the designation of the national assisted areas than it has over the targeting of its own regional policy. These divergent patterns of influence and the reasons for them not only give important insights into current thinking on Europeanisation and policy transfer but also have significant implications for the current and future substance of regional policy in Europe.

The paper is in six parts. Following a brief introduction (Part 1), the second part outlines current thinking in the conceptualisation of policy Europeanisation, drawing attention to the need to examine the causes and consequences of Europeanisation over time. Part 3 adopts a bottom-up perspective by tracing the evolution of area designation under the respective policy sectors, focusing particularly on the interaction between the key players. The fourth part uses the implementation of the 1998 Regional Aid Guidelines and 1999 Structural Funds Regulation as test cases for a top-down approach to examine the domestic impact of the EU frameworks on area designation. Part 5 considers whether these processes and outcomes can be said to amount to Europeanisation and how and why the impact of Europeanisation varies across the Member States. The final part draws out some of the implications of these observations for policy substance and policy theory.
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1. INTRODUCTION

This paper investigates the Europeanisation of regional policy in Europe and specifically, the impact of European frameworks on the selection of the geographical areas at which regional economic policy is targeted.

The aim of the paper is to link current thinking on Europeanisation and policy transfer to empirical detail. Much of the existing literature on Europeanisation tends to concentrate on one or two Member States and/or one particular policy sector, and is therefore prone to generalisations on the basis of narrow case studies (Bomberg and Peterson, 2000). For its part, the policy transfer literature has been criticised for being “ahistorical” (Stone, 1999). As important, if not more so, little attention appears to have been given to the outcomes of the transfer process and there is a tendency in the existing body of work to identify cases for scrutiny that seem likely to satisfy a particular perspective on the process. This study addresses the weaknesses of such approaches by undertaking an historical analysis of the same activity (area designation for regional policy) within the context of two EU policy sectors (competition policy and cohesion policy) for all Member States.

Most EU Member States have been operating regional policies since before the EEC came into being; historically, a major strand of policy has involved the use of government subsidies (State aids) to encourage investment in designated problem regions by firms. Under the original Treaty provisions on competition policy, this use of regional State aids by the Member States has been subjected to scrutiny and prior authorisation by the European Commission. In contrast, regional policy at the European level is a comparative newcomer; the reduction of regional inequalities was a mere aspiration in the Treaty of Rome and the Community only gained bespoke regional policy instruments in the 1970s, with a distinct EC regional policy (in the form of the revised Structural Funds) not emerging until the late 1980s.

The evolution of regional policy over the last thirty years has seen a growing involvement of the European level in area designation - the process by which the assisted areas for regional policy are selected. The designation of national assisted areas takes place within parameters determined by EU competition policy considerations; in parallel, EU regional policy operates within a separate map of assisted areas. However, the pattern of European involvement is complex. An analysis of historical trends shows that the capacity of the European Commission to influence how policy is targeted under national and EU regional policies has varied considerably over time and that the trajectories of Commission influence in the two policy spheres have differed significantly. Commission influence over the targeting of EU regional policy peaked in 1989 when Member States seemed almost taken by surprise at how policy was implemented under the (then) new Structural Funds Regulation and, in the subsequent decade, sought, successfully, to reassert control over EU regional policy targeting. For its part, Commission influence over national regional policy targeting was greatest in 2000 when the current rules were introduced.

Although the timing of the most recent area designation exercises was carefully orchestrated by the Commission so that the approved area maps for national and EU regional policies both run over the 2000-06 period, the influences of the national and EU
levels on the process of area designation and on the outcomes of the reviews appear very different: the Commission has arguably had more impact on the designation of the national assisted areas than it has over the targeting of its own regional policy. These divergent patterns of influence and the reasons for them not only give some important insights into current thinking on Europeanisation and policy transfer but also have significant implications for the current and future substance of regional policy in Europe.

The paper is divided into six parts. Following this introduction, Part 2 outlines current thinking in the conceptualisation of policy Europeanisation. It does not dwell on theoretical debates at length, but rather draws attention to the weaknesses of current research strategies and the need to integrate bottom-up approaches into the analysis by examining the causes and consequences of Europeanisation over time. The third part adopts a bottom-up perspective by tracing the evolution of area designation under the respective policy sectors, focusing particularly on the interaction between the key players. Part 4 uses the implementation of the 1998 Regional Aid Guidelines and 1999 Structural Funds Regulation as test cases for a top-down approach in order to examine the domestic impact of the EU frameworks on area designation. The penultimate part examines in what sense these processes and outcomes can be said to amount to Europeanisation and how and why the impact of Europeanisation varies across the Member States. Finally, Part 6 draws out some of the implications of these observations for policy substance and policy theory.
2. THE EUROPEANISATION OF POLICY AND POLICYMAKING: THEORETICAL PERSPECTIVES

The concept of Europeanisation has gained prominence over the 1990s as a growing academic community has endeavoured to shed light on the EU’s institutional dynamics and its impact on national policies, politics and polities. Conceptualisations have varied widely in both their approach and application, leading some authors to warn against the perils of conceptual ‘stretching’, and calling for a greater emphasis on theoretical clarity and analytical rigour (Radaelli 2000; Olsen 2002).

A key question in the ‘unpacking’ of Europeanisation is whether the research focus should be bottom-up, top-down or both. This requires a clear definition of Europeanisation, which will in turn allow trends to be evaluated and the extent of Europeanisation to be gauged. The domain of Europeanisation should also be clearly specified. Is the research concerned with policy, politics or polity? Finally, attention should be paid to clarifying the mechanisms of change and, arguably the greatest challenge of all, linking these mechanisms to the explanation of Europeanisation.

2.1 Top-down: the impact of the EU on the Member States

Most studies on Europeanisation tend to adopt a top-down conceptualisation, focussing on the domestic impact of external pressures emanating from the EU. A starting point, was provided by Ladrech (1994) in his well-known definition of Europeanisation as an ‘incremental process reorienting the direction and shape of politics to the degree that EC political and economic dynamics become part of the organizational logic of national politics and policy-making’. Borzel’s (1999) definition draws more explicit attention to the ‘penetrative’ nature of Europeanisation as ‘a process through which domestic arenas become increasingly subject to European policymaking’. The vast majority of academic studies have tended to favour this top-down perspective, examining the domestic impact of the EU across a variety of domains, such as political structures (Mény et al 1996; Bulmer and Burch 1998), policy areas (Jordan 2002; Knill and Lenschow 2001), interest representation (Kohler-Koch 1994; Lehmkhul 2000), political institutions and policymaking styles (Andersen and Eliassen 1993; Rometsch and Wessels 1996) and regional governance (Kohler-Koch 1997; Borzel 1999).

As noted above, an important task for the study of Europeanisation is to specify the mechanisms of change. Knill and Lehmkhul (1999) identify three such mechanisms. The first mechanism involves the imposition or prescription of an EU model with limited discretion at the national level. The second mechanism concerns changing domestic opportunity structures and a corresponding redistribution of resources and power. This mechanism does not impose an EU model and allows more discretion at the domestic level. The third

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1 This reflects the ‘post-ontological’ turn in EU studies, as ‘scholars are less concerned with trying to categorise than how to explain process and outcome, paying less attention to the “nature of the beast”’ (Caporaso 1996:30).
mechanism is the weakest and relates to altering beliefs and expectations of domestic actors, following a cognitive logic.

These three mechanisms are not mutually exclusive and it is possible that they all play a role in the adaptation process to varying degrees, depending on the domain/phenomenon under study. For the purposes of area designation, it is the first mechanism that has most significance, given that the Member States are compelled to bring domestic arrangements into line with specific conditions and criteria that have been set at the European level. This can also be referred to as ‘coercion’, following the institutional isomorphism (Di Maggio and Powell 1991) and policy transfer literature (Dolowitz and Marsh 1996; 2000).

The key research task for the top-down approach is to account for variation in the domestic impact of EU pressures. Thus, Europeanisation is taken as the independent variable and the adaptation of domestic institutions as the dependent variable. The literature highlights a number of potential responses in terms of domestic adaptation, ranging from absorption to accommodation or transformation (Risse and Borzel 2000). Broadly speaking, three key factors can be discerned when turning to the explanation of differential domestic adaptation.

The first factor is the ‘goodness of fit’. As Risse et al (2001) put it: ‘the degree of adaptational pressure generated by Europeanisation depends on the “fit” or “misfit” between European institutions and domestic structures”. The goodness of fit applies to both institutions and, as in the context of this study, policies i.e. policy goals, instruments/techniques used to achieve policy goals, problem solving approaches etc. (Borzel and Risse 2000). When the fit between European institutions and national institutions is low, adaptational pressure will be high leading to transformation, as States are forced to alter domestic policy to satisfy EU requirements. On the other hand, when the policy fit is high, adaptational pressure will be low and absorption can be expected as Member States incorporate EU policies/ideas without substantially changing existing practices. Finally, when the fit is of medium intensity, adaptational pressure will also be of medium intensity and accommodation can be expected as Member States mediate EU requirements, by adapting existing policy without fundamental change to core existing features and collective understandings.

The second factor concerns domestic institutional structures. Unitary or federal territorial designs, the mix of public and private actors in the economy, political or organizational cultures, patterns of party competition etc. are variables that mediate the effects of Europeanisation. Political obstacles or ‘veto points’ (Tsebelis 1995) have received particular attention in the Europeanisation literature (Haverland 2000) as “the more power is dispersed across the political system and the more actors have a say in political decision making, the more difficult it is to foster the domestic consensus or ‘winning coalition’ necessary to introduce institutional changes in response to Europeanisation pressures” (Risse et al 2001: 9). For his part, Sharpf (1988) referred to the ‘joint-decision trap’ where

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2 In a similar vein the policy transfer literature identifies the domestic institutional context as an important constraint on the adoption of external models (Rose 1993).
the involvement of multiple actors in the decision-making process may give rise to political
gridlock. Insofar as the existence of veto points may mediate Europeanisation, the
structure of the State merits closer scrutiny. For example, in federal countries such as
Germany, Austria and Belgium, the regions have greater responsibilities in the field of
regional development. An important question in the context of this study is whether this
may lead to complications over the negotiation of area designation in such countries.
Multiple veto points can, however, be overcome by other ‘facilitating’ institutional
structures, such as a ‘consensual oriented or cooperative decision-making culture’ (Borzel
and Risse 2000).

The third factor relates to actors’ preferences and strategies. These preferences can be
exogenously defined, following a “logic of consequentialism” (March and Olsen 1998) from
a rational choice institutionalist perspective (i.e. treating actors as utility maximising
agents). Alternatively, preferences may be endogenously defined, following a logic of
“appropriateness” (March and Olsen 1998) through sociological factors such as collective
learning and socialisation processes. As an actor-centred process, learning can take the
form of ‘single loop learning’ (Agyris and Schö 1978) whereby actors acquire new
information, alter strategies but pursue given interests. Alternatively, learning may be of a
more fundamental nature involving a radical change of objectives associated with paradigm
shifts. This second type of learning is known as ‘double loop’ learning (Agyris and Schö
1978), or ‘third order change’ in the terminology of Hall (1993).

The above conceptualisation is not without its shortcomings. First, the notion of
adaptational pressure remains underspecified in the literature. Knill and Lehmkhul (1999)
argue that the power of the “goodness of fit” in explaining outcomes is not universal but
depends on the Europeanisation mechanism in question. In instances of “negative
integration”, for example, it has limited explanatory power (see also Haverland 2000).

Second, the approach is rather static since it holds domestic institutions constant (Knill and
Lenschow 2001). In reality, Europeanisation is characterised by dynamic processes in which
domestic and/or EU institutions evolve over time and in different directions. This aspect is
particularly relevant in the historical component of the case studies.

Third, Europeanisation is an interactive process between the various levels and actors
involved. Member States are not merely passive recipients of EU legislation, but also try to
influence or shape EU policy to suit their own interests in order to minimise the policy
misfit and subsequent adaptation costs. Indeed, in the context of area designation, the
methodologies for allocating population quotas to the Member States were developed
through a series of iterations which took account of Member State views (and associated
lobbying). Domestic actors, therefore, could influence the resulting match or mismatch.
This draws attention to the importance of exploring the “feedback loops” and “uploading”
of domestic preferences.

Furthermore, as new forms of policymaking emerge in the EU, the traditional vertical
relationship between the Member States and the Commission is evolving. With the growth
of softer forms of integration such as the open method of coordination (Wallace 2001;
Bomberg and Peterson 2000; Hodson and Mayer 2001) more attention is being directed
towards the horizontal relationships between Member States (a theme that is prevalent in the policy transfer and policy learning literature).

Finally, this approach assumes the existence of a domestic policy comparable to the EU policy and does not therefore take account of policy or institutional voids. This is particularly relevant to countries such as Greece, Portugal and Spain (or the accession countries) where EU membership has been associated with institutionalisation rather than institutional change *per se*.

### 2.2 Bottom-up: the development of EU institutions and uploading

The bottom-up approach is captured well by the definition of Europeanisation used by Risse *et al* (2001) as: ‘the emergence and development at the European level of distinct structures of governance’.³ Similarly, one of the conceptualisations offered by Olsen (2002) defines Europeanisation as:

> “the development of governance at the European level. This signifies centre building with a collective action capacity, providing some degree of political coordination and coherence. Formal legal institutions and a normative order based on some overarching constitutive principles, structures and practices both facilitate and constrain the ability to make and enforce binding decisions and to sanction non-compliance.”

Lawton (1999), on the other hand, distinguishes between “Europeanisation” and, drawing on Andersen and Eliassen (1993), “Europeification”. The former describes the transfer of power from national governments to the EU level, whereas, the latter relates to the sharing of power between the two levels.

Some authors question whether the bottom-up conceptualisation depicted above is Europeanisation, or merely a new label for European integration (Radaelli 2000; Buller and Gamble 2002; Schmidt 2002). For Featherstone and Kazamias (2001) it is the uncertain and unpredictable nature of Europeanisation that sets it apart from neo-functionalism (Haas 1958). Indeed, given that the effects of Europeanisation are ‘not necessarily permanent or irreversible’ (Featherstone 2003) there is room for a more realistic account of European integration than can be offered under the teleological assumption base of the neo-functionalist lens. Whereas, for Howell (2002), it is the ‘uploading’ or ‘vertical policy transfer’ element in the ‘development of EU institutions’ that constitutes the key difference between this conceptualisation of Europeanisation and European integration.⁴

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³ Nevertheless, the research strategy adopted by the Risse *et al* (2001) project lies firmly in the top-down tradition. The author’s do, however, acknowledge the existence of feedback loops, although they remain largely unexplored in the study.

⁴ Horizontal policy transfer occurs between national governments without EU involvement, whereas vertical policy transfer occurs between levels of governance through EU integration policies and processes.
This paper does not attempt to grapple with this somewhat sterile debate. As Olsen (2002) has argued, it is not important to know what ‘Europeanization ‘‘really is’’ but whether and how the term can be useful for understanding the dynamics of the evolving European polity. That is, how eventually it may help us give better accounts of the emergence, development and impacts of a European, institutionally ordered system of governance’. As already noted, understanding the ‘emergence’ and ‘development’ (bottom-up) can prove to be useful, and indeed necessary, for understanding the ‘impact’ (top-down).

Moreover, Europeanisation can be both institution-building at the EU level as well as influencing the domestic level. The relationship between these two processes is an interactive one (Bulmer and Burch 2000). The EU does not exist independently out there over and above the Member States. The EU is also the product of Member State actions. Indeed, Europeanisation cannot be translated neatly into the positivist language of dependent and independent variables and clearly identifiable unidirectional chains of causation. Instead, “Europeanisation denotes an interactive, iterative process between actors, domestic and European or both, and the EU level is occupied by varied and competitive actors” (Featherstone and Kazamias 2001). In other words, in order to use the concept of Europeanisation to explain policy outcomes it is necessary to explain what causes Europeanisation in the first place.

A clear implication of the bottom-up conceptualisation is the need to investigate power relations. As Olsen (2002) argues, ‘the research challenge is to identify the relevant actors and the motivations and forces that determine their choices’ Likewise, the first question that is raised as the basis for the Dolowitz and Marsh (2000) policy transfer framework is ‘who is involved in the policy transfer process?’ For Evan and Davies’ (1999) agency is ascribed a particularly powerful role:

“Policy transfer is ‘action-oriented intentional learning - which takes place consciously and results in policy action” and that a “necessary, but insufficient criterion for identifying policy transfer is therefore to identify the agent(s) of transfer, to specify the role played by the agent(s) and the nature of the transfer that the agents(s) are seeking to make”.

In this context it is important to examine the ‘uploading’ (Borzel 1999) or ‘projection’ (Bulmer and Burch 2000) of preferences and policies. However, as Heritier (1996) has argued, the EU regulatory framework can be best described as a ‘patchwork’, given that no one state can consistently have its preferred model adopted at the EU level.

Moreover, for analytical clarity it is important to specify what is being transferred or uploaded and to what degree. The policy transfer literature provides some useful organising concepts. First, to clarify the object of transfer, it is useful to distinguish between policy goals, content and instruments (Dolowitz and Marsh 1996; 2000). Similarly, Hall (1993) differentiates between goals (the overarching objective of the policy),

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instruments/techniques (policies to achieve these goals) and levels (the precise settings of the instruments). Second, in terms of degree, four gradations of transfer have been identified (Dolowitz and Marsh 2000): copying (direct and complete transfer); emulation (transfer of ideas behind the policy or programme); combinations (mixtures of several different policies); and inspiration (where policy in another jurisdiction may inspire a policy change, but where the final outcome does not actually draw upon the original).

Finally, it is also essential to understand the respective policy sectors under empirical investigation. Indeed, ‘comparison of the different dynamics of institutional spheres and policy sectors is particularly required when institution building is seen to involve changes in action capabilities...’ (Olsen 2002). Or as Lowi (1963) has put it, ‘a political relationship is determined by the type of policy at stake, so that for every type of policy there is likely to be a distinctive type of relationship’. In other words, policy determines politics.

2.3 The approach adopted

This study limits itself to the study of the policy domain of Europeanisation, rather than approaching some of the broader questions relating to ‘politics’ or ‘polities’. The approach adopted draws on both bottom-up and top-down conceptualisations of Europeanisation in recognition of its interactive nature. Part 3 takes a bottom-up approach and considers the varying influence of European frameworks on area designation for national and EU regional policies and, crucially, the power-play over time between the national and EU levels as well as within the Commission. Part 4 then examines the impact of current EU area designation frameworks on the Member States, using the 1998 Regional Aid Guidelines and the 1999 Structural Funds Regulation as test cases for a top-down approach.
3. **BOTTOM-UP: DIFFERENT POLICIES, DIFFERENT TRAJECTORIES**

### 3.1 The early years: developing a European role

From the beginning, the Treaty of Rome contained provisions for the control of so-called “State aids”; this was a logical counterpart to the removal of key barriers to trade - to leave the way open for governments to subsidise firms at will would have undermined the notion of a common market. In principle, Article 87(1) of the Treaty prohibited the use of State aids, subject to a number of exceptions contained in Article 87(2) and (3). Responsibility for the policing of State aids was given to the European Commission; of key importance, this included the task of deciding whether a given State aid could benefit from one of the exceptions to the general ban. According to the European Court of Justice:

> “the prohibition in Article 92(1) [now Article 87(1)] is neither absolute nor unconditional since Article 92(3) [now Article 87(3)] and Article 93(2) [now Article 88(2)] give the Commission a wide discretion and the Council extensive power to admit aids in derogation from the general prohibition in Article 92 [now Article 87].”

Two of the derogations referred to by the Court are of direct relevance to the use of State aids for regional policy:

- **Article 87(3)(a)** allows for aid in areas where the standard of living is abnormally low or where there is serious underemployment.

- **Article 87(3)(c)** allows for aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest.

In the early years, Commission policy on State aids was rather tentative - scarcely surprising since it involved intervening directly to outlaw the activities of national governments. Regional policy was the first sphere in which the Commission sought to introduce systematic control of State aids. In 1971, mainly motivated by concerns at competitive-outbidding for mobile investment, the Commission adopted the first of a series

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6 There is a substantial legal literature on what constitutes a ‘State aid’. Essentially, it refers to government (national or subnational) subsidies to firms in the form of grants, soft loans, tax and social security concessions, etc.

7 In practice, the exceptions to the ban have been widely interpreted by the Commission and there is a large body of rules (both hard and soft law) outlining the circumstances in which a derogation may be allowed - see: [http://europa.eu.int/comm/competition/state_aid/legislation/](http://europa.eu.int/comm/competition/state_aid/legislation/)


of principles for the coordination of regional aids. At first, these rules essentially aimed to curb the use of general investment aids outside areas designated as regional aid areas by the national authorities; in other words, the existing regional aid maps of the Member States were taken as a given, but outside the designated areas the Commission first sought to reduce (and later to eliminate altogether) the use of investment aids to large firms. These early rules introduced some concepts and principles that have remained central to the control of regional aids to this day, in particular:

- the notion that maximum amounts of aid should be stipulated and that these limits should be related to the severity of the regional problem;
- the importance of aid transparency - that aid should be measurable and comparable across countries, notably by calculating it as a percentage of aided investment or an amount per job created;
- the principle that regional aid should not cover entire national territories; and
- the need to monitor the sectoral impact of regional aid.

From the early 1970s, the Commission began to intervene directly in the design of the regional aid policies of the Member States. Its capacity to do this was partly based on the requirement for Member States to notify and gain Commission approval for any plans to offer aid or to change existing schemes (Article 88(3)) and partly on the Commission’s role in keeping State aids “under constant review” (Article 88(1)). In substantive terms, however, the existing policy principles did not provide a detailed basis for the actions that the Commission undertook. On at least one occasion, the Commission imposed its own designated area map on a Member State while, in many other instances, its views on whether or not a given area should be within or outside the designated aid areas often lacked transparency. In addition, political pressures from the Member States meant that there was frequent recourse to transitional periods for designated area status, after which the Commission would instigate a further review. The outcome was that, through to the late 1980s, Commission intervention was perceived to be ad hoc and opaque in nature. In no Member State was the targeting of regional aid unaffected by Commission intervention on the basis of the competition rules, while accession negotiations provided an important opportunity for the Commission to influence the spatial coverage of regional policy in new Member States.  

In this period, the Community’s own regional policy was in its infancy. Unlike the firm legal foundation for the control of State aids, the Treaty contained only an aspiration in the preamble to ensure “harmonious development by reducing the differences existing between the various regions and the backwardness of the least-favoured regions”. As has been well-documented, although a number of studies on European regional disparities in the EC had been conducted as far back as the early 1960s (Talbot, 1977), the roots of a bespoke EU regional policy really lie in the UK accession negotiations and the realisation that a

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European regional policy budget could partly compensate for the limited ability of the UK to benefit from the Common Agricultural Policy (Wallace, 1977). The absence of a specific legal basis for policy meant, however, that the formation of the European Regional Development Fund (ERDF) in 1975 depended on a ‘catch all’ provision (Article 235 of the Treaty of Rome) which enabled the Council, acting unanimously, to take appropriate measures on the basis of a Commission proposal.

The lack of a ‘proper’ legal basis for policy in these early years undoubtedly hampered the Commission in developing a truly European regional policy. For more than a decade, the ERDF was little more than an adjunct to national regional policies: EU regional policy funding essentially contributed to the financing of projects in areas designated by the national authorities; moreover, each country had a so-called ‘quota’ of ERDF funding. The history of the ERDF in this period is one of the Commission trying to throw off the restrictions imposed by the Council (Armstrong, 1989). There was a small, but expanding ‘non-quota’ section over which the Commission had power of initiative; this was not significant in financial terms, but it did enable the Commission to fund programmes outside the national assisted area maps and to pilot approaches (such as integrated operations) that were influential in later reforms of the so-called Structural Funds.

3.2 Late 1980s/early 1990s: growing European policy influences

The mid to late 1980s saw a radical change of context for both the control of State aids and EU regional policy owing to three interrelated developments: the accession of Spain and Portugal, which significantly widened regional disparities in the EU; the introduction into the Treaty of provisions on economic and social cohesion (and therefore a specific legal basis for EU regional policy); and the adoption of the Internal Market programme, which put State aid control higher up the policy agenda. These developments reinforced both EU regional policy and EU control of State aids and, of key importance, introduced important links between them: this was to some extent implicit in the motivations for policy change - the introduction of “cohesion policy” was partly a response to widening disparities - but it was also a policy counterpart and political compensation to the new Iberian Member States for the market access which the internal market programme would bring. Moreover, the amended Treaty required the implementation of national and common policies to take account of the objective of economic and social cohesion. This rhetoric was rapidly taken up by the Competition Policy Directorate of the Commission, which to some extent restyled regional aid control as an aspect of cohesion policy. Where previously national and EU policies had happily co-existed, with the ERDF essentially cofinancing aspects of national regional policy, a more integrated and involved relationship was now implied. However, the practical implications of the new provisions do not seem to have been immediately apparent and were to become a major source of conflict both between the Competition and Regional Policy Directorates of the Commission and between the Commission and the Member States. Against this background, both EU control of national regional aids and EU regional policy itself, underwent significant change.

In the field of competition policy control of regional aid, the change was arguably more one of presentation than of substance: the opaque basis of Commission control had contributed
to a deterioration of relations with the Member States and provided the motivation for adopting a more transparent approach. In 1988, the Commission outlined the method on which decisions to authorise or outlaw the regional aid proposals of the Member States were based; it simultaneously revealed that this approach had been in use for some five years. Importantly, and for the first time, an explicit distinction was made between Article 87(3)(a) and (c), which both provide a basis for allowing regional aid in derogation from the general ban on State aids; previously, only occasional use had been made of Article 87(3)(a), but there was no general practice of indicating the legal basis for any derogation. The new approach reflected a European Court of Justice ruling that Article 87(3)(a) was concerned with areas that were disadvantaged in relation to the Community situation, whereas Article 87(3)(c) concerned areas where conditions were less serious, and where both the national and Community situations had to be taken into account in determining whether a derogation was justified. 12

Article 87(3)(a) regions were defined as NUTS II 13 areas with GDP(PPS) per head of less than 75 percent of the EU average for the last five years for which data were available. This meant that, in 1988, Article 87(3)(a) covered all of Greece, Ireland and Portugal, most of Spain and the south of Italy; in addition, Northern Ireland was accorded Article 87(3)(a) status owing to its special situation.

Article 87(3)(c) areas were defined differently. The key principle for potential eligibility for Article 87(3)(c) was that a NUTS III region should have either GDP(PPS) per head of less than 15 percent of the national average or an unemployment rate of more than 15 percent of the national average. In order to take the Community situation into account, the national averages were themselves adjusted to reflect the national position in relation to the Community average. This first quantitative stage was subsequently fine-tuned with reference to other criteria such as demographic or geographic factors or particular labour market features.

The method outlined in the 1988 Communication marked an important shift in approach; rather than taking the existing aid area maps of the Member States as given, from the early 1980s the Commission progressively assessed the situation of the regions with respect to European averages of GDP(PPS) per head and rates of unemployment and decided on this basis whether it could justify the authorisation of national regional aid. The significance of the 1988 Communication lay not so much in its content - which was essentially a formalisation of existing practice - but rather in the extent to which it laid bare the methodology underpinning that practice. This transparency was to contribute to its undoing.

11 Commission Communication on the method for the application of Article 92(3)(a) and (c) to regional aid, OJEC No. C 212 of 12 August 1988.
13 NUTS refers to the European Nomenclature of Statistical Units which are defined across the EU at up to five different levels. NUTS II is equivalent to a French or Italian region or a Spanish Autonomous Community.
The importance accorded to “economic and social cohesion” in the Single European Act Treaty changes culminated in 1988 in fundamental changes to the existing European regional policy instruments - chiefly the ERDF - known collectively as the Structural Funds. These involved: a significant increase in funding; a radical overhaul of the administration of policy with an emphasis on multi-annual planning, programming and partnership between the Commission, the national and subnational levels; a requirement that Community funding be genuinely additional to national monies rather than simply replace it; and, of key importance in the present context, the introduction of a Europe-wide typology of designated problem regions: Objective 1 (‘lagging’ regions); Objective 2 (regions of industrial decline) and Objective 5b (rural development areas). The significance of this new typology, which was, and remains, different in approach to national traditions, lay in the fact that EU regional policy would be operated in regions designated on the basis of European criteria, rather than simply cofinancing projects in areas designated by the national authorities.

The bulk of the Structural Funds was allocated to so-called Objective 1 regions for which the designation criteria were broadly similar (but not identical) to those for determining eligibility for the Article 87(3)(a) derogation; these regions were identified in the Framework Regulation and covered 21.7 percent of the Community population.

Importantly, the initiative for designating the Objective 2 areas lay with the Commission, based on the criteria set out in the Regulation. The preamble to the Regulation implied an overall limit on Objective 2 coverage of 11.7 percent of the EC population. However, this requirement was reinterpreted early on: when the Commission announced the list of areas satisfying the basic criteria it stated that “the basic principle for concentration is that Objective 2 spending should cover up to 15% of the Community’s population.” In practice, however, the population covered by Commission’s list of regions meeting the basic criteria had already exceeded even this reinterpreted target. Moreover, not only did this list exclude areas covered by additional criteria, but Denmark and Luxembourg had no coverage on the basis of the initial list, an outcome that was likely to prove politically unpalatable. The list of regions meeting the basic criteria was the subject of negotiations with the Member States in the first months of 1989. Competing bids from the Member States led to proposals covering up to 25 percent of the Community population, Following negotiations, a list of Objective 2 areas, covering 16.4 percent of the population, was

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14 The more usual approach within countries is to operate different ‘grades’ of designated area within a single map or, in some countries to operate different maps of assisted areas for different policy purposes/instruments.
16 This being 15 percent of the population after the designation of the Objective 1 areas.
18 IP/89/91 Mr Millan continues round of consultations with Member States on industrial areas in decline, 16 February 1989.
adopted in March 1989. Unlike Objective 2, there was no stated limit to the coverage of Objective 5b. Also different from Objective 2, the Member States played the lead in proposing Objective 5b regions.

An apparently largely unanticipated outcome of the designation of Objective 1, 2 and 5b regions was the emergence of a distinct set of assisted areas that did not coincide with the areas designated for national regional policy purposes, as authorised under EU competition policy (see Table 1). This had significant implications for policy. It brought EU regional policy and EU competition policy into direct conflict and instigated the first of a series of compromises that have sought to reconcile the objectives and outcomes of the two policies.

Table 1: The ‘Coherence’ of Assisted Area Coverage 1989-1993

<table>
<thead>
<tr>
<th>% of Community Population</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Least-favoured regions (Article 87(3)(a))</td>
<td>20.6</td>
</tr>
<tr>
<td>2. Development areas (Article 87(3)(c))</td>
<td>24.2</td>
</tr>
<tr>
<td>3. Total national assisted areas</td>
<td>44.8</td>
</tr>
<tr>
<td>4. Objective 1</td>
<td>21.5</td>
</tr>
<tr>
<td>5. Objective 2</td>
<td>16.3</td>
</tr>
<tr>
<td>6. Objective 5b</td>
<td>5.2</td>
</tr>
<tr>
<td>7. Total Structural Fund areas</td>
<td>43.0</td>
</tr>
<tr>
<td>8. Common coverage</td>
<td>37.0</td>
</tr>
<tr>
<td>9. National aid only</td>
<td>7.8</td>
</tr>
<tr>
<td>10. Structural Funds only</td>
<td>6.0</td>
</tr>
<tr>
<td>11. Combined coverage (8+9+10)</td>
<td>50.8</td>
</tr>
</tbody>
</table>

Notes: (i) Objective 2 coverage excludes the areas added under RECHAR which would add a further 0.3 percentage points. (ii) Coverage and population totals exclude the new Länder.

Source: Data kindly provided by DG Competition, European Commission.

The Single European Act had required that national and common policies take account of the objective of economic and social cohesion; on the other hand, each of the Structural Funds planning documents, the so-called Community Support Frameworks (CSF), contained a standard clause to the effect that the measures planned and funded would comply inter alia with EU competition rules. This meant that any Structural Fund supported measures taking the form of State aid would have to be notified to and approved by the European Commission prior to implementation. In those Objective 1, 2 and 5b areas that coincided with the existing national assisted areas this was unlikely to present major problems. However, as Table 1 shows, around 6 percent of the EU population were eligible for the Structural Funds, but not for national regional aid. Moreover, while Objective 1 and 5b

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19 IP/89/195 Final adoption of list of regions eligible for assistance under Objective 2 of the Funds, 22 March 1989.
areas were designated for the full five-year planning period and Objective 2 regions for three then two years, DG Competition signalled its intention early on to review the status of certain areas for national regional aid purposes. This was notably the case for the Italian region of Abruzzi which was designated as Objective 1 for EU regional policy purposes, but which DG Competition considered should, at the least, be downgraded from Article 87(3)(a) to Article 87(3)(c) status, if not de-designated altogether.

This situation produced sharp internal divisions in the Commission, with the Regional Policy Directorate, DG Regio, arguing that designation for the Structural Funds should be adequate justification for the Article 87(3)(a) or (c) derogation and that DG Competition was failing to take account of the new situation introduced by the Single European Act. Most, but not all, the Member States supported this view. For its part, DG Competition argued that competition policy was itself an important instrument of cohesion policy and that it was necessary to limit the use of State aid, especially in the more prosperous Member States in order to maintain an appropriate differential to poorer regions.

Arguments were taken to the highest level within the Commission with discussions taking place in 1990-91. These culminated in a letter to the Member States from the then Commissioners for Regional Policy and Competition Policy outlining a compromise for the remaining planning period and emphasising the need for a coherent solution post-1993.

Member States were able to exploit the disagreement between the DGs and gained more flexibility in their dealings with DG Competition regarding the aid area maps. Another factor weakened DG Competition’s position in the control of national regional aid coverage. Its decision to outline the methodology for assisted area approval in the 1988 Communication exposed the method to criticism; where previously Member States had attacked the lack of transparency, now arguments shifted to the substance of the method, aspects of which were difficult to defend. This background coincided with a Commission review of German aid map proposals, which now included the significantly poorer new Länder. German regional policy relations with the Commission had always been contentious, and it might have been expected that incorporating a reunited Germany, comprising the widest disparities in the Community, might have strained relations further. However, this did not happen. The Commission appeared to recognise the complexities of the domestic process involved in area designation in this new situation and allowed considerably more flexibility in the actual selection of areas than it had done previously - provided that an overall ceiling expressed as a percentage of the population was not exceeded. This approach marked a significant departure from that outlined in the 1988 Communication: instead of focusing on which areas should or should not be designated, the percentage of the population covered by designated aid areas became the key element of regional aid discipline.

Given the success of this population-based approach in Germany under challenging circumstances, DG Competition began informally to pilot it in subsequent map negotiations and to devise new mechanisms for approving the actual selection of aid areas within the agreed population quota. The principles of this approach were very much borrowed from DG Competition’s dealings with the German authorities: the population ceiling allowed much more flexibility at the national level than the 1988 Communication methodology, but
some further discipline over how the areas were chosen was also perceived to be needed in order to avoid pinpointing and to ensure that assistance was focused on areas of genuine need. Reflecting the federal domestic context, the German system of area designation involved a high degree of transparency and rationality that enabled the Commission to appreciate its objectives and persuaded it that the imposition of a similar model could avoid the free-for-all that could result from simply allowing Member States to select assisted areas up to a given proportion of the national population.

These developments marked an important new phase in the evolution of competition policy control of regional aid. That said, DG Competition influence was arguably weakened in the 1990s. The intra-Commission dispute on the coincidence of the maps meant that it was difficult for DG Competition to resist demands for extensions to the national assisted areas where these involved increasing the overlap between the national and the Structural Fund maps. Also, the fact that the new method was still at an experimental stage made it difficult to impose - although there was an internal unpublished mechanism for calculating national population ceilings, it was hard for DG Competition to enforce this, precisely because it was unpublished. As a result, the population ceilings it imposed became negotiable as well as the actual selection of areas, with arguments for coherent maps contributing to the difficulties.

If DG Competition control over national regional aids was, at best, in a state of flux, DG Regio was arguably in retreat over the selection of assisted areas for EU regional policy purposes. This meant that, although the Commission placed considerable emphasis on the need for coherent maps in the run up to the 1994-99 Structural Funds planning period, the Member States rejected Commission proposals for achieving coincidence. These proposals were arguably impractical and unrealistic anyway (since they would have given the Commission a greater role in determining both the national and the Structural Funds maps and indirectly risked increasing Article 87(3)(c) coverage), but the whole question of coherent maps was overshadowed by the desire of Member States to (re-)assert control over the spatial coverage of the Structural Funds assisted areas and, related, to maximise national revenues from structural policies. Two issues were key: Objective 1 status guaranteed larger per capita financial allocations so there were competing claims for special cases; and Member States wanted more control over the designation of the Objective 2 and 5b regions than in 1989. These pressures led to a significant increase in the coverage of Objective 1 areas and deprived the Commission of its power of initiative in proposing Objective 2 regions; these were now to be designated taking account of national priorities, national statistics and with national governments playing the lead role.

It might have been expected that increased national involvement would have improved the coherence of the maps and resolved the issue but this was not so. The horse-trading that characterised the designation of Objective 1, 2 and 5b areas not only resulted in more extensive coverage (up from 43 percent to over 51 percent of the EU12 population) but also led to an increase in the areas eligible for the Structural Funds alone (which increased from 5.7 percent to 6.6 percent of the population). Moreover, the Commission’s role in area designation in 1993-4 was so diminished compared to 1988-89 that map coherence largely became a matter for the national authorities who, for their part, became markedly less concerned with the coincidence question.
3.3 Preparing for 2000: concentration and coherence?

DG Competition’s response to the weakening of regional aid discipline was to embark on early preparations for regional aid control for the post-1999 period, ie. when the (then) current Structural Funds programmes ended. This took the form of several draft guidelines and simulations in 1996-98 that were discussed multilaterally (and later bilaterally) with the Member States. Importantly, the new Guidelines were framed in the context of eastern enlargement - although the extent and timing of that could not be predicted - and the perceived need to restrict national regional aid coverage in the current membership, given the relative poverty of countries likely to accede post-2000. As a result, there was a upper limit on coverage of 50 percent of an enlarged EU population. The essence of the new approach was to formalise the method piloted with Germany, and subsequently used with other Member States, albeit with some enforcement difficulties, and extend it throughout the EU. This involved discipline being driven by limits set on population coverage and more latitude being given in principle to the Member States in the actual selection of aid areas. The main features of the approach were:

1. current national aid area maps to expire at the end of 1999 and authorisation of new maps to apply for 2000-06 (ie. coordinated with the Structural Funds planning period)
2. an EU-wide population ceiling for national aid area coverage; this was ultimately set at 42.7 percent, this being the level needed to enable total coherence between the national and Structural Funds areas and to restrict coverage to around half or less of the enlarged EU population
3. a top-down (Europe-wide) definition of Article 87(3)(a) areas, these being NUTS II regions with GDP(PPS) per head of less than 75 percent of the EU average (the same definition as for Objective 1)
4. the remaining (i.e. Article 87(3)(c)) population to be shared between Member States on the basis of internal disparities viewed in an EU context to give an initial Article 87(3)(c) “quota” for each country;
5. the initial Article 87(3)(c) “quotas” to be subject to various adjustments (side conditions) as a means of securing the acceptability of the allocation mechanism;
6. Member States to be responsible for the actual designation of Article 87(3)(c) areas, subject to certain parameters regarding building blocks (units of analysis) and the selection of indicators.

Of these features, the notion of a population-based approach does not appear to have been controversial in itself; this is perhaps surprising since it is hard to correlate population coverage with the prevention of distortions of competition. Similarly, the criteria for

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Article 87(3)(a) seemed to gain a degree of acceptance. As a result, most of the discussion centred on the calculation of the initial quotas for Article 87(3)(c) population, the adjustments to which they were subjected and the parameters governing area designation. All of these aspects were changed in significant respects during the course of the negotiations; while the basic approach was retained throughout, the changes made radically altered outcomes for individual countries and the extent to which the system could be viewed as having been directly “uploaded” to the European level from the German context. Moreover, the differences between this final version and the German approach were to have important consequences for the capacity of the German system to adapt to the new rules.

An important component of the proposed new Guidelines was the issue of map coherence. It was argued earlier that DG Competition’s discipline over national assisted areas had, to some extent, been eroded by the dispute over the lack of coincident maps. It sought to reassert its position by establishing principles for coherence on its terms, rather than being buffeted by the demands of the Member States, buttressed by the views of DG Regio. Certainly, the early move by DG Competition to set the agenda for the approval of designated regional aid areas was perceived by some DG Regio policymakers as DG Competition ‘stealing a march’ on the issue.

Preparations for the Structural Funds post-2000 were also undertaken in the context of enlargement. In particular, Agenda 2000 had stressed the importance of concentration. The Commission emphasised the need for a strict application of the criteria for Objective 1 and the elimination of ‘special cases’; it also rationalised the number of spatial objectives from four to two, with Objective 1 comprising the former Objective 6 areas and Objective 2 and 5 being merged into Objective 2. In reality, this change was more cosmetic than substantive since Objective 2 was to contain industrial and rural areas (as well as urban and fisheries restructuring areas). In the context of this paper, two crucial features of the proposed reforms to the Structural Funds areas flowed from the emphasis on concentration: first, the insistence on a strict application of the Objective 1 eligibility criteria; and second, the imposition of a population ceiling on overall Objective 2 coverage which was then distributed among the Member States. Of crucial importance for the subsequent Structural Funds area designation process, the Objective 2 population ceilings for each Member State were decided in advance of the area designation process and aid in Objective 2 areas was set at the same amount per capita across the Community. This not only differed from the past (where the intensity of Structural Fund support varied widely between regions) but also from Objective 1 where, although the criteria were applied

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23 This criterion appears to have been more hotly disputed for the purposes of Objective 1 eligibility for the Structural Funds than under competition policy, although there have remained concerns at the relevance of the criterion and its sensitivity to small changes in GDP and population.

24 Guidelines on National Regional Aid, OJEC No C 74 of 10 March 1998.

25 In fact, although DG Competition policymakers confirmed that the German approach had provided the model for developing the new approach, this revelation was the source of some consternation to German policymakers.

26 This new Objective had been added with the accession of Finland and Sweden in 1995 to accommodate areas of very low population density.
strictly, protracted and heated negotiations resulted in more exceptions from than adherences to the Objective 1 allocation formula.

The question of coherence also received some prominence in regulatory preparations for the post-2000 period. However, its importance was progressively downgraded. In particular, the need for coherence between Objective 2 regions and those designated on the basis of Article 87(3)(c) was emphasised in the First Cohesion Report, but ultimately diluted and relegated to the preamble of the new Structural Funds Regulation following negotiations in Council. Out of concern that the extent of coherence would be driven by DG Competition views, DG Regio sought to reassert the importance of coherence as an objective and negotiated with DG Competition a Communication that set out the Commission position. In practice, the Communication added little substance to Commission policy and, if anything, reinforced the circular nature of the timetables for selecting the national and the Structural Funds assisted areas.

3.4 Regional policy in a European framework: the new context for area designation post-2000

The changes to the regulatory environment brought about by the 1998 Regional Aid Guidelines and the 1999 Structural Funds Regulation significantly altered the respective roles of the Member States and the Commission in area designation for national and Community regional policies, as well as the parameters within which area designation was to take place. In both instances, population ceilings on coverage, coupled with greater apparent freedom for the Member States in the actual selection of assisted areas, characterised the new approaches.

For EU competition policy control of national regional aids, the key elements were essentially threefold. First, in respect of spatial coverage, the Commission proposed to reduce overall assisted area coverage from 46.9 percent to 42.7 percent of the EU population for the period 2000-06. Within this ceiling, Article 87(3)(a) areas were defined ‘top-down’ on essentially the same basis as Objective 1 areas and covered around 21

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27 The single exception was the division of the Republic of Ireland into two NUTS II regions which resulted in one of the two (Border-Midlands-West) qualifying for Objective 1 where none of the country would have done otherwise.


29 For the most part, coherence between Objective 1 and Article 87(3)(a) was a given owing to the selection criteria – the major exception to this concerned the sparsely-populated areas that were to be assimilated with Objective 1, but were not automatically eligible for Article 87(3)(a).


percent of the population. The remaining population was divided among the Member States according to a method set out in the Guidelines and resulted in a population quota for Article 87(3)(c) for each Member State.

Second, regarding **area designation systems**, within this Article 87(3)(c) population ceiling, Member States had relative freedom to select assisted areas, but:

- the *methodology* had to be “objective”, had to enable socio-economic disparities to be measured, highlighting significant differences, and had to be presented in a manner that would enable the Commission to assess its merits;
- the *indicators*, of which there could be up to five (simple or combined), had to be objective and relevant and based on times series of at least three years; and
- the *building blocks* were to be NUTS III or, where justified, an alternative unit (such as labour market areas). However, of crucial importance, only one type of unit could be used in the method; moreover, a contiguity requirement - that designated areas generally had to have a minimum population of 100,000 - was also imposed.

Third, with respect to **coherence** with the Structural Fund areas, regions eligible for Objective 2 could be included in addition to areas chosen on the basis of the methodology, subject to the population ceiling and the 100,000 population rule (but not the building block requirement). This became known as the Structural Fund derogation.

Overall, these criteria not only represented a significant departure from past Commission policy practice but also involved a considerable challenge for the Member States. They implied an area designation system based wholly on quantitative criteria, which was at odds with traditions in almost every Member State.  

Regarding EU regional policy, the key elements of the new approach also concerned coverage, area designation systems and coherence. As far as **coverage** was concerned, the strict application of the criteria for Objective 1 resulted in coverage of just over 22 percent. For the 2000-06 planning period, the approach to Objective 2 was centred on disciplining overall coverage whilst ensuring that the proposed cutbacks were distributed equitably. To this end, Objective 2 coverage was constrained by two quantitative parameters, namely:

- that overall Objective 2 coverage should not exceed 18 percent of the Community population, this being comprised of the following indicative breakdown: 10 percent industrial areas; 5 percent rural areas; 2 percent urban. Importantly, within the overall ceiling, the Regulation provides for the Commission to fix population ceilings on a country-by-country basis; and

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33 Subject to the population ceiling, regions with a population density of less than 12.5 per km² could also qualify for the Article 87(3)(c) derogation.

that no Member State Objective 2 population should be less than two-thirds of the (then) current Objective 2 and 5b population, in order that the impact of achieving “concentration” would be shared - the so-called “safety net” provisions.

Within the constraints of these “floors” and “ceilings” on population across the Community as a whole, the Structural Funds Regulation provides for the Commission to lay down a population ceiling for Objective 2 for each Member State based on:

- the total population in the NUTS III areas of each Member State that met the criteria for designation as areas “undergoing socio-economic change in the industrial and service sectors” (essentially, the previous Objective 2) or “declining rural areas” (the former Objective 5b) - the so-called “hard criteria”; and
- the severity of the structural problem at the national level compared to other Member States, this being based on total unemployment and long-term unemployment outside the Objective 1 regions.

In practice, however, the hard criteria only partially determined Objective 2 coverage; importantly, meeting the hard criteria was no guarantee of inclusion in the map. The key feature of the process was that the floors and ceilings played more of a role in determining coverage than the eligibility criteria. Coverage in nine Member States (Austria, Belgium, Denmark, Germany, Italy, Luxembourg, the Netherlands, Sweden and the UK) was determined by the safety net; in the remaining countries, coverage resulting from the application of the method outlined was cut back either to avoid exceeding Objective 1, 2 and 5b coverage under the previous period (Finland), or to avoid breaching the 18 percent ceiling set for the Community as a whole (France and Spain).

Regarding area designation systems, Member States had to propose Objective 2 areas within the ceiling set on the basis of criteria outlined in the Regulation. Four types of Objective 2 area were identified:

(i) those undergoing socio-economic change in the industrial and service sectors;

(ii) declining rural areas;

(iii) urban areas in difficulty

(iv) depressed areas dependent on fisheries.

The coverage of industrial restructuring and declining rural areas (ie. (i) and (ii)) was to constitute 50 percent of the Objective 2 coverage in each Member States, unless “duly justified”. These areas were essentially defined on the basis of EU criteria, at least to the extent that they had to constitute or belong to NUTS III areas that exceeded thresholds set in terms of EU averages. By contrast, the criteria for defining urban and fisheries areas were much more qualitative (eg. “a high level of poverty” or facing “problems relating to the restructuring of the fisheries sector which result in a significant reduction in the number of jobs in that sector”) and implicitly relied on national criteria, reflecting, at least
in part, the absence of comparative data at the Community level with which to make such assessments.

As to *coherence*, the Structural Funds Regulation itself was rather weak. Although initially given prominence in policy statements, the coherence objective was ultimately given expression only in the preamble to the Regulation which stated that Objective 2 areas “should correspond to a large extent to the areas assisted by the Member States pursuant to Article 87(3)(c)” and that the “objective of the Community should be to increase consistency at the end of the period 2000 to 2006 by an appropriate effort by Member States”. This was a lame adjunct to the earlier Communication on concentration and mutual consistency and, coupled with the Regional Aid Guideline provisions on coherence, meant that the extent of overlap between Objective 2 and Article 87(3)(c) areas became a matter for the Member States; more damaging, from the perspective of EU regional policy, designation as Objective 2 often became a device to ensure inclusion in the national assisted areas map where this would have proved difficult or impossible on the basis of the Regional Aid Guidelines.

### 3.5 Explaining the variations

In some respects Community regional policy and competition policy control of national regional policy could be viewed as having been brought together: the timetables for the maps were aligned to the period 2000-06; both policies emphasised the need for concentration expressed in terms of reduced population coverage - EU regional policy on the basis that resources should be focused on areas most in need and EU competition policy on the basis that the distortion of competition resulting from State aid could only be justified by its ‘exceptional’ nature; both policies allowed for greater (apparent) freedom for the national authorities to select the assisted areas subject to population ceilings and certain area designation parameters; and both policies promoted ‘coherent’ maps and especially the principle that the Structural Funds should not intervene in areas ineligible for national regional aid. And there, arguably, the similarities end. In reality, the two policy frameworks had, by 1999, reached very different stages in their evolution and implied different constraints and opportunities for the area designation exercises to be undertaken by the national authorities.

In terms of policy *evolution*, the key features of the new context for area designation resulted from the interplay over time of three main elements: policy substance; roles and responsibilities; and the nature of the regulatory environment. All played a role in the development of competition policy control of regional aid and in the targeting of the Structural Funds, but their *relative* importance and the *changes* in their relative roles go some way to explaining the very different contexts for the two area designation exercises set to take place in 1999.

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35 Such as Agenda 2000.
36 See footnote 32.
Central to the *substance* of policy have been issues of spatial coverage and expenditure. Indeed, it can be argued that these aspects - which essentially concern policy implementation - have overshadowed fundamental debates about the *objectives* of policy (namely the prevention of distortions of competition and the reduction of regional disparities). In the early days, overall spatial coverage was not a primary consideration for either competition policy control of regional aid or for the Structural Funds. In the context of the former, the Commission even observed that “area and population coverage provide a better indication of Member States’ regional policy than of the impact of schemes on competition...” (CEC, 1986). Nevertheless, by the mid-1980s, the Commission had started to measure the success of “efforts to concentrate regional aid on the priority areas...” in terms of the proportion of the population covered. Increasing Member State frustration with the Commission’s detailed involvement in the selection of assisted areas led to a growing role for spatial coverage in regional aid discipline; the piloting of the approach in the 1990s culminated in spatial coverage being the key measure of regional aid discipline under the 1998 Regional Aid Guidelines. In some respects, the role of spatial coverage under the Structural Funds has followed similar pattern; although the 1989 and 1993 Regulation attempted to set some limits, these were exceeded in practice; as under the regional aid rules, the 1999 Regulation imposed an absolute ceiling on coverage partly in response to Member State dissatisfaction with the actual selection of assisted areas, as well as the perceived need for concentration.

Regional policy expenditure has played quite different roles in shaping the evolution of EU competition and regional policies in relation to area designation. Expenditure on State aids became a growing Commission concern in the 1980s, especially the notion that the greater budgetary capacity of the richer countries could undermine cohesion by indirectly eroding the aid differentials between the Article 87(3)(a) regions in the cohesion countries and Article 87(3)(c) regions in the more prosperous Member States. In practice, however, no part of the Guidelines actively serves to reduce regional aid spending (although, in announcing the 1998 Guidelines the Commission highlighted the reduction of aid expenditure as a founding principle (DG IV, 1998)). By contrast, the relationship between budgets and eligible areas has been central to the evolution of area designation under the Structural Funds, largely because eligibility has determined access to the ERDF, to some extent reflecting Gary Marks’ characterisation of the Structural Funds as a budget without a policy. Following the initial surprise of the Member States at the implications of the area designation and funding allocations under the 1989 planning period, national policymakers have progressively sought to reassert influence over the distribution of spending and/or eligible population (see Figure 1).

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Figure 1: Structural Funds Assisted Areas and Budget Allocation Mechanisms 1989-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Objective 1</th>
<th>Budget allocation</th>
<th>Objective 2</th>
<th>Budget allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-93</td>
<td>Commission proposal</td>
<td>GNP and regional GDP per head</td>
<td>Commission proposal; indicative ceiling exceeded</td>
<td>Unemployment rate</td>
</tr>
<tr>
<td>1994-99</td>
<td>Commission proposal eroded by Member States</td>
<td>Ring-fencing of C4 monies; separate mechanism for non C4 Objective 1 regions</td>
<td>Member State proposals; indicative population ceiling exceeded</td>
<td>Unemployment rate index and undisclosed Commission adjustment</td>
</tr>
<tr>
<td>2000-06</td>
<td>Commission proposal: strict application of criteria</td>
<td>No C4 ring-fencing; significant per capita variations</td>
<td>Population ceilings; Member States propose areas</td>
<td>Flat rate per capita</td>
</tr>
</tbody>
</table>

This meant that, for the current period, the central point in the negotiations for Objective 1 concerned the precise mechanism for allocating funding, whereas for Objective 2, the essential issue lay in the population quota assigned to each country.

The respective roles and responsibilities for area designation have shifted considerably over time, and are related to the increased priority given to spatial coverage. Initially, area designation for national and EU regional policy was essentially the prerogative of the Member States. The existing assisted area maps were taken as the starting point for the Commission position on regional aid control and the ERDF only intervened where Member States already did so. This position was progressively eroded. DG Competition took an increasingly proactive role in the selection of the assisted areas, outlawing some Member State proposals, requiring other areas to be phased out and on one occasion even imposing its own assisted area map on a Member State. An important shift took place under the 1998 Guidelines: Member States regained greater apparent freedom in area designation, but subject to population ceilings and designation parameters. For its part, EC regional policy underwent a step change in 1989 with the move from essentially intervening in national assisted areas to introducing a whole new typology of regions. In the first Structural Funds planning period, the Commission played the lead role in area designation; however, the European Court of Auditors has noted that “The objective Community criteria laid down in the SF Regulations have steadily become less important than the national criteria” arguing that while 77 percent of the Objective 2 population met the Community criteria in 1989-93, this fell to 55 percent in 1994-99 and 47 percent for 2000-2006 (ECA, 2003). In short, from an initial position in which the Member States wholly controlled the selection of areas for both maps, the national assisted areas became increasingly subject to Commission influence through the 1970s and 1980s and the Structural Fund areas quite suddenly so in 1989. Subsequent policy developments have seen DG Competition relinquishing control over the actual selection of national assisted areas (but subject to detailed area designation parameters being met for Article 87(3)(c) areas) and DG Regio losing the power of initiative
over the Structural Funds assisted areas (but imposing country-by-country population ceilings for Objective 2).

The third element that has been crucial in determining the trajectory that the respective policy areas have followed concerns the nature of the regulatory framework and the capacity for enforcement. Although in principle the role of the Commission is more influential in competition policy than in any other sphere, in practice, the Commission had often been hesitant about imposing its authority in relation to State aids on the Member States. Moreover, although frequently a major source of irritation to the Member States, the impact of the Commission on regional aids in the past was hampered by the fact that, where its regular reviews required policy changes, these were to existing measures. As a result, Member States were often able to delay changes or engage in lengthy negotiations. The 1998 Guidelines radically altered the Commission’s capacity to enforce its views on regional aid. The introduction of the rules as so-called ‘appropriate measures’ effectively terminated the existing regional aid approvals at end 1999, so that all regional aid maps and schemes had to be notified as new measures, meaning that they could not be implemented until they had received approval.

Changes to the regulatory framework for EU regional policy came in 1989; until then, policy had been little more than a minor adjunct to national activities lacking much in the way of autonomous instruments and essentially cofinancing national policy. The 1989 Regulations introduced a bespoke EU regional policy rooted in Treaty objectives and providing significant discretion to the European Commission in area designation for the new Objective 2; the priority (Objective 1) regions had been proposed by the Commission and accepted by the Council. As far as Objective 2 was concerned, the Commission had considerable discretion and power of initiative in area designation; somewhat to the consternation of many national policymakers, the Commission exploited this opportunity in a manner that seems to have been largely unanticipated, proposing areas that were not necessarily a priority for Member States and sometimes conflicted with existing measures. The key to the Commission’s influence at this stage seems to have been opportunism - national policymakers were not able to predict how the Commission would use its discretion and, once the framework was approved by the Council, were relatively powerless to influence the area designation process; however, the two subsequent rounds of Structural Funds negotiations have been characterised by the reassertion of national authority, as have recent developments in policy thinking for the post-2006 period. A similar pattern of opportunism followed by reassertion of national authority can be seen in the adoption and implementation of the 1998 Regional Aid Guidelines; it seems improbable that Member States will accept new Guidelines without a clearer idea about how they will be implemented in practice.
4. TOP-DOWN: AREA DESIGNATION UNDER THE 2000-06 FRAMEWORKS

Against this background of evolving policy frameworks, this section takes a top-down perspective to the impact of the two frameworks on the area designation exercises carried out within countries. Reflecting expectations about Europeanisation processes and outcomes that arise from the existing literature, countries are grouped into five categories that take account of the existing policy context (notably the severity and nature of the regional problem), systems of governance and the domestic importance of policy responses to regional problems (largely reflected in country size). Designation is expected to be most straightforward in the Cohesion countries - Greece, Portugal, Ireland and Spain - which have traditionally been considered to be poor in a European context. In such countries, European rather than national criteria tend to determine designation (under Objective 1 and Article 87(3)(a)). A relatively uncomplicated process can also be anticipated for the Nordic Member States since their main problem areas (regions of sparse population) are specifically catered for in both European frameworks. Designation in other countries is likely to be more complicated. It can, however, still be expected to be relatively unproblematic in smaller unitary Member States like Denmark, Luxembourg and the Netherlands, where regional issues generally have low domestic prominence. In contrast, regional policy has a higher political profile in France, Italy and the United Kingdom, making area designation issues more sensitive. Finally, in federal Austria, Belgium and Germany, the expectation is of a potentially difficult process, due to the challenge of reaching domestic agreement on the new maps and the complexity of relationships with the Commission.

4.1 The Cohesion countries

Within the Cohesion countries, area designation was straightforward in Greece since the whole country continued to qualify for support under Objective 1 and Article 87(3)(a).

In Ireland and Portugal, the process was more complex. In Ireland, the main issue concerned the need to move from one to two NUTS II regions at the national level in order that the poorer of these regions (Border, Midlands and West) could continue to qualify under Objective 1. Once this had been agreed (in the run-up to the March 1999 Berlin European Council) and once DG Competition had been persuaded that de-designated Article 87(3)(a) areas should be included automatically under Article 87(3)(c), then there were few problems in developing the map. Like Ireland, Portugal was designated as Objective 1 in its entirety from the 1988 reform of the Structural Funds up until 1999. This was important since Lisbon was considered to be the main engine of national economic development. To compensate for Lisbon’s loss of Objective 1 status for 2000-06, generous transitional provisions were sought - and granted - at the Berlin European Council.

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problematic, Lisbon also lost its Article 87(3)(a) status. While the DG Competition rule that de-designated Article 87(3)(a) areas be automatically treated as Article 87(3)(c) areas reduced the impact of this change, award ceilings remained a bone of contention in the map negotiations, culminating in the opening of the Article 88(2) investigative procedure in January 2000.

Finally in Spain, increased population quotas greatly eased designation. Reflecting political sensitivities, the additional quotas were allocated broadly in proportion to existing regional coverage. An initial problem in negotiating the aid area map concerned the Guideline preference for NUTS III (the *provincia*). The Spanish choice was NUTS IV, the *comarca* (groups of municipalities). The Commission eventually agreed to this but could not accept GDP per head as an indicator since, contrary to the Guidelines, it was not available for all *comarcas*. The problem was resolved by utilising the Structural Fund derogation in those parts of the Baleares where the GDP per head indicator had been used.

### 4.2 The Nordic Member States

Finland received generous population quotas under both designation exercises. An early decision was that the regional aid map should be totally contained within the Structural Fund map. This was facilitated by the fact that two of the three aid area categories reflected Structural Fund criteria: Development Area 1 was the Objective 1 area of Itä-Suomi while Development Area 2 was the former Objective 6 area in Lapland. The remaining aid areas were grouped together in Development Area 3, designated using indicators of unemployment, long-term and youth unemployment, net migration, job decline and rurality. The extra quota available under the Structural Funds was targeted at small industrial towns, reflecting national policy priorities. Negotiations with the Commission on the aid area map were straightforward. Though DG Competition expressed a preference for NUTS III rather than the NUTS IV (sub-regional) level, the latter was accepted since it had been used in the past and was enshrined in domestic legislation. A second Commission concern related to the inclusion of the (relatively prosperous) Åland islands. They were designated for political reasons, related to the devolved powers granted to the islands’ Swedish-speaking inhabitants. In line with the Structural Fund derogation, DG Competition stipulated that eligibility was conditional on inclusion within the Finnish Objective 2 map; this was readily accepted.

As in Finland, all regional aid areas in Sweden lie within the Structural Fund map. The key designation issue concerned the low regional aid quota (15.9 percent). This left little room for manoeuvre, given that 13.5 percent of the population is located in areas of sparse population. In effect, areas in the south could no longer be included in the map. Concern about the quota delayed map submission significantly. On the other hand, the designation process itself was straightforward. Since all the aid areas fitted within the Structural Fund map (and thus benefited from the Structural Fund derogation) the designation method did not need to be justified to the Commission. As regards Structural Fund designation, there were also few problems. Reflecting the national policy focus on areas facing rural depopulation, Objective 2 support was concentrated on regions bordering Objective 1; this was also in line with the Commission’s Structural Fund priorities.
4.3 Small unitary countries

In Denmark, nationally-funded regional incentives were withdrawn in 1991 so that the only localities offering regional aid are Structural Fund areas. This made it vital that these areas (10.2 percent of the national population) should be wholly contained within the designated aid area map (17.1 percent). This was not straightforward since the aid area map had to be submitted in March 1999, well before the Structural Fund map. To try to ensure map coherence, the long-established approach to aid area designation was changed. The socio-economic analysis that was traditionally at its heart was complemented by additional demographic criteria (focusing on population decline and low population density) which reflected Structural Fund priorities. This ultimately ensured that the Structural Fund map, which was accepted more or less as proposed, lay wholly within the designated aid areas.

In Luxembourg, an attempt to maximise the coherence of the two maps caused the initial aid area submission to exceed the population quota (32.2 percent instead of 32 percent). Once the Commission confirmed that the quota was non-negotiable, the map was revised (reducing overall map coherence). Of more concern to the Luxembourg authorities, the Guideline-imposed 10 percent award maximum created worries about the ability to attract mobile investment, given higher award ceilings in neighbouring regions.

Faced with the lowest aid area population quota of all the Member States (15 percent), the Dutch approach was to start with the existing map and identify areas to exclude. A number of domestic pressures made cutback difficult, but eventually a map was developed at the NUTS III level which respected the Guideline ceiling. However, crucially, this was accomplished only by omitting a number of municipalities. When the Commission rejected this sub-division of NUTS III, the analysis was simply repeated at NUTS V (the municipality), resulting in almost identical coverage. The Commission objected to the revised methodology and initiated the Article 88(2) procedure, arguing that the use of NUTS V had not been sufficiently justified and that it was anyway “not appropriate for the definition of regional aid zones”. The Commission also stressed the lack of “compactness” of the map and its focus on areas of development potential; this was not considered to be “in conformity with the spirit of the Guidelines”. It was Commission concern with the number of “white spots” on the map that subsequently took centre stage and delayed agreement until July 2000, sixteen months after submission. In comparison, the Dutch Objective 2 map was approved quickly. For Objective 2, there was an early mover advantage since DG Regio was eager to reach agreement with a first group of countries. In contrast, early submission under the Regional Aid Guidelines was perceived to have been a serious disadvantage, given Commission caution about setting precedents that might be of benefit to later submissions.

4.4 Large unitary countries

In France, the previous (1995) aid area designation had been essentially qualitative, based on policymaker insights. The new Guidelines demanded more quantification using standard

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40 OJEC No.C326; 13 November 1999
41 ibid.
units of analysis. Designated areas were built up sequentially from separate lists of employment zones - those which had below average household income but above average unemployment or population decline; those which had experienced significant job losses since 1996, where “sensitive” industrial sectors dominated and where unemployment was high; those losing Objective 1 eligibility; and parts of those employment zones suffering from particularly high unemployment or which were facing planned closures in the energy and mining sectors. This final step was not acceptable to the Commission since, as with the Dutch approach, it involved the subdivision of the unit of analysis; the Article 88(2) procedure was accordingly initiated. In contrast, Objective 2 designation was straightforward. The population quota was allocated regionally on the basis of previous Objective 2 coverage and national urban and rural criteria which reflected Structural Fund objectives; the regions were then tasked with designating eligible areas within the quotas allocated. As well as respecting Commission priorities, designated areas had to complement various national policy goals. With respect to the partial employment zones included in the aid area map, regional préfets were asked to consider whether they might be included in the Objective 2 submission. This use of the Structural Fund derogation much eased the aid area negotiations; these came to be described as lengthy rather than difficult. It is of note that the aid area map has since been the source of domestic controversy related to the fact that a very poor rural area, the Lozère, was excluded. One argument for the omission of such areas was their unsuitability for large projects which benefit from regional investment aid. However, the aid area map also impacts on award ceilings for SMEs. In disadvantaged rural areas, local politicians could not understand why SMEs in richer urban areas should qualify for much higher levels of support. This not only resulted in a threatened legal challenge to the map but also raised more general issues about the rationality of narrowly-designated aid areas.

In Italy, the Article 87(3)(c) and Objective 2 cutbacks were especially challenging since quotas of 10 percent and 12.9 percent respectively had to cover not only the Centre-North but also Abruzzi and Molise in the Mezzogiorno. Designation was built around 784 labour market areas. Three criteria were applied sequentially to determine eligible aid areas: average unemployment; a composite indicator to identify less-favoured areas; and the change in the number of agricultural jobs - all subject to a minimum population of at least 100,000. At the end of the process, regions had the opportunity to replace some areas with others (within their allocated ceilings) as long as the new areas were included in the Objective 2 map. Areas holding over one-quarter of the Article 87(3)(c) quota were replaced in this way. This extensive use of the Structural Fund derogation much delayed the adoption of the regional aid map since the new Objective 2 regions were not approved until July 2000. The problems with the Objective 2 map stemmed partly from the difficulties of reaching domestic agreement within the available quota but also from the use of labour market areas since this breached the Structural Funds Regulation that NUTS III be employed. The areas designated also did not meet Article 4(2) of the Regulation, which states that at least 50 percent of the quota should be allocated to industrial and rural areas. Significant map changes were required to meet these conditions; these were difficult to achieve and were viewed very negatively by the Italian authorities.
In submitting their aid area proposals, the UK authorities couched their approach in terms of the Regional Aid Guidelines.\(^{42}\) In line with the Article 87(3)(a) criteria, the UK’s Objective 1 areas qualified for Tier 1 status. Northern Ireland was treated separately; the argument was that this was justified by a footnote in the Guidelines which stated that “in view of its particularly difficult situation, Northern Ireland will retain its status as an exceptional region and its ceiling will be 40%”.\(^{43}\) This allowed the UK authorities to argue that the quota was not 28.7 percent of the UK population but 28.7 percent of the British population plus Northern Ireland as a special case; this increased the ceiling to 30.7 percent of the UK population. The main designation effort related to the Article 87(3)(c) areas (Tier 2). The NUTS II Highlands and Islands area was included as a sparsely-populated area.\(^{44}\) For the remaining Article 87(3)(c) areas, a new unit of analysis was developed based on the areas within which the currently unemployed would travel if work was available. These were smaller than the previous travel-to-work areas. They reflected the labour market objectives of regional policy, responded to consultation feedback that more disaggregated units of analysis be used and provided a solution to the problem of designating some but not all of London. Based on these areas, the review aimed “to identify locations of need ... and match these with neighbouring areas of opportunity”. Need was measured using indicators of labour market weakness - employment participation rates, unemployment rates and local dependence on manufacturing. The areas identified significantly exceeded the quota. The next stage was, therefore, to choose, from those areas, locations where regional aid was likely to be effective. A last stage involved ensuring that the areas identified represented “compact, contiguous zones”, as required by the Guidelines.

Much to the surprise of the UK authorities, who had tried to keep DG Competition informed about their thinking and methodology as it developed, the submission was rejected.\(^{45}\) The main problem concerned the unit of analysis (which the Commission viewed as a way of diluting the population quota) and, related, the (lack of) compactness of the resulting aid areas. A revised map was submitted in May 2000, following a complex reiterated series of calculations and further domestic consultation. Change was extensive; around 1 million people (some 8 percent) were transferred between the original and amended maps. In comparison, agreement of the Objective 2 map was straightforward. Criteria were selected to identify industrial, rural, urban and fisheries areas. Very small areas were then excluded and contiguous areas aggregated to meet the Commission goal of designating significant areas. In all this, London was treated separately. The London Objective 2 areas were later used to justify some of the choices made in the revised aid area map (under the Structural Fund derogation).

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\(^{43}\) OJEC No.C74; 10 March 1999, footnote 44.

\(^{44}\) This was not accepted by the Commission since the sparse population derogation applies at NUTS III. The eligible area had to be revised accordingly.

4.5 Federal Member States

In Austria, the process of designating the Objective 2 and Article 87(3)(c) maps was similar; the two were effectively viewed as a package. An important early step was to agree that the Land-level should be responsible for the first map proposals. This became problematic when data updates caused major shifts in the regional rankings, leading to intense and often difficult political discussions between the Länder. However, agreement was eventually achieved. Thereafter, each Land had to decide how the ceiling would be distributed internally (generally using the hard criteria under the Structural Fund map and a composite indicator under the regional aid map). Finally, the areas proposed were agreed with other relevant partners - the federal government, the municipality association and the social partners. Reflecting pragmatic considerations, the initial submission involved considerable overlap between the two maps. Where the Structural Fund areas lay outside the aid area map, such areas had to be able to benefit from non-regional aid, particularly SME support. In the negotiations, DG Competition was concerned about the fragmented nature of the proposed map and, in particular, the designation of a considerable number of sub-NUTS III regions. Its acceptance of these areas was based wholly on their designation under Objective 2. Accordingly, it refused to open formal negotiations until after the Structural Fund map had been approved. In contrast, DG Regio was prepared to accept subdivided areas as long as this could be justified from an economic perspective.

Regional policy has been the functional responsibility of the regional level in Belgium since the early 1980s. The political sensitivity of aid area designation can be seen in the fact that the designated areas were re-negotiated only once between the early 1970s and 1995. In the run-up to March 1999, political difficulties were compounded by forthcoming domestic and European elections. It proved impossible to agree regional allocations following a major reduction in the population quota in December 1998 (from 35.2 to 30.9 percent). The map submitted in May 1999 continued to propose 35.2 percent coverage and was based on separate uncoordinated regional submissions. Unsurprisingly, this map was strongly criticised by the Commission and the Article 88(2) procedure was opened. The situation with respect to the Structural Fund map was very different, notwithstanding much-reduced Objective 2 coverage. Designation was facilitated by the fact that it was regionally-based and took place in the post-election phase. The map was submitted in September 1999 and had been agreed by November. In contrast, a revised aid area map was not submitted until March 2000 and was not approved by the Commission until the following September.

Different from Austria and Belgium, it was relatively easy to reach internal agreement on the aid areas in Germany since there was a well-established approach to designation. On the other hand, there were major concerns about the operation of the Guidelines - and especially the Commission side conditions, which cut the German Article 87(3)(c) quota from 23.4 percent to 17.6 percent. The German submission in March 1999 did not acknowledge this reduced quota. It had an overall population coverage of 40.7 percent (17.3 percent Article 87(3)(a), 23.4 percent Article 87(3)(c)) compared to the Guideline ceiling of 34.9 percent. The designation methodology followed the standard German

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46 OJEC No.C351: 4 December 1999
approach. First, appropriate labour market areas were identified and arranged in ranked lists— one for the eastern Länder (Article 87(3)(a)), and one for the remainder of the country (Article 87(3)(c)). The rankings combined four indicators: unemployment (underemployment in the east) (40 percent weighting); income per head (40 percent); infrastructure indicators (10 percent); and employment prospects until 2004 (10 percent). A cut-off was then applied to distinguish designated from non-designated areas. All the eastern Länder qualified as Article 87(3)(a) areas. For Article 87(3)(c), the labour market areas ranked 1 to 60 in the composite list were selected (23.4 percent coverage). A final stage allowed the Länder to make small adjustments (swaps) involving no more than 2 percent of the designated population within the Land. This flexibility mainly benefited areas on the border with east Germany and eastern Europe.

Since it exceeded the available quota, the proposed map was rejected and the Article 88(2) procedure was opened in respect of the Article 87(3)(c) areas. The Commission also expressed concerns about the swap arrangement since this was equivalent to the subdivision of the basic unit of analysis (the labour market region). The status of Berlin and certain aid ceilings were also questioned. Following difficult negotiations, and pressurised by the absence of an approved regional aid regime, the German authorities submitted a revised map in February 2000 which met the Guideline population quota and did not involve any area swaps at the Land level. This map was approved in mid-March. However, the story did not end here. In June 2000, the German authorities opened court proceedings relating to the application of the Commission’s side conditions. Although the German case was rejected on procedural grounds, the merit of the substantive points made has been acknowledged.

For Structural Fund purposes, the Objective 1 regions in the east were determined on the basis of EU-wide GDP per head data. With respect to Objective 2, each western Land was granted an Objective 2 programme. The task of distributing the available quota (12.6 percent) was initially given to the Land level but was subsequently coordinated federally following a decision that the Objective 2 areas should cohere strongly with the national aid area map. The quota for each Land was first decided by a special Federal-Land working group; an Objective 2 map was then developed by each Land within this ceiling. The working group stipulated that coverage should be based (at least 80 percent) on the aid area map except in ‘special situations’. In the final Objective 2 submission, over 90 percent of the total coverage was located in the designated aid areas. The ‘special situation’ areas included some that met the hard criteria under the Structural Funds and other non-aid areas which faced specific problems. The exercise was generally straightforward, as the Objective 2 quota had to fit into an aid area map that, at the time, covered 23.4 percent of the national population.

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47 OJEC No.C340; 27 November 1999
48 OJEC No.L97; 6 April 2000
4.6 Explaining the variations

This section first reviews the outcomes of the area designation exercises on a cross country basis before focusing in on the main explanations of the difference found by policy framework and between countries.

4.6.1 The outcomes of the area designation exercises

Initial expectations about the difficulties experienced by the Member States in designating areas for the 2000-06 period were largely, but not wholly, met. An overview of the time taken by the Member States to submit and agree maps with the Commission is provided in Table 2.

<table>
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<tr>
<th>Table 2: Map Submission and Approval Dates</th>
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<td><strong>Aid Area Maps</strong></td>
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<td><strong>Submission</strong></td>
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<td><strong>Target dates</strong></td>
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<td><strong>Belgium</strong></td>
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The table confirms that aid area map submissions were delayed in most countries, often significantly so. Only four Member States met the target submission date of end-March 1999 (Finland, Denmark, the Netherlands and Germany), although the delay of a month or so in the four Cohesion countries is understandable given that Structural Fund allocations were not agreed until the Berlin European Council in late March. For the remaining Member States, political factors generally lay behind the delays: the wish to keep area designation announcements separate from elections (France and the UK); severe political difficulties in achieving the necessary regional-level consensus (Austria, Belgium and Italy); dissatisfaction with the available population quota (Sweden); and the need to consult widely following a change of government (Luxembourg). Where delays were particularly lengthy (Austria, Sweden, Italy, Luxembourg), the aid area submissions were dovetailed with the Structural Fund maps. This contrasted with the position in the remaining Member
States where the Objective 2 map was generally submitted three to six months after the aid area map.

Member States had very varied negotiation experiences (as measured by the time between map submission and approval). In Ireland, Denmark, Finland, Sweden, Luxembourg and Greece, all smaller Member States, the aid area maps were generally approved in six or seven months; in Austria, France, Italy, Germany, Spain and the United Kingdom, all large and/or federal countries, the negotiations lasted between nine months and one year; while in Portugal, the Netherlands and Belgium there were delays of 13 to 16 months. In contrast, the Objective 2 map negotiations were completed in less than three months for most countries and took more than five months only for Italy.

Submission and approval dates are, of course, only partial measures of the difficulties Member States experienced in developing or negotiating regional policy maps. For aid area maps, another indicator is whether the Commission opened the formal Article 88(2) investigative procedure (see Table 2). Where the procedure was opened, lengthy negotiations were the norm. The three countries with the longest negotiations (Portugal, the Netherlands and Belgium) all had the procedure opened, as did the two Member States where agreement was not finally reached until September 2000 (Belgium and Italy). Also of note is the fact that all the regional aid regimes previously in force finished at the end of 1999 pending approval of a new map. This left countries under pressure to reach agreement with DG Competition, even in circumstances where they remained unhappy with the outcome. The most obvious example is Germany which, having received map approval in March, took its grievances about the designation process to the European Court of Justice in June. More generally, half the Member States were prepared to forego the award of regional aid for periods in excess of four to nine months while striving to negotiate appropriate maps with the Commission.

The length of many of the aid area negotiations, suggests significant dissatisfaction with the process in a range of Member States. Indeed, the exercise can be said to have run smoothly only in Denmark, Finland, Ireland and Greece plus, with reservations, Spain and Luxembourg. Amongst the Cohesion countries, it is clear that the Portuguese authorities were very concerned with the treatment of the Lisbon region and, particularly, with the phasing in arrangements for the new award ceilings. Amongst the Nordic Member States, the Swedish authorities were deeply disappointed with their population quota, which, in effect, meant that areas outside the sparsely-populated north could not be designated. Amongst the three small unitary Member States, the fact that it took 16 months for the Dutch map to be approved underscores the intensity of the disagreement with the Commission - and this in a country where regional policy has a very low priority.

As far as the large unitary Member States are concerned, all three had problems with the 2000-06 aid area maps. Although the French negotiations were not of themselves difficult, the resultant map has been the source of domestic debate, particularly concerning SME aid ceilings in poor rural areas. In Italy, there were clearly major internal problems in agreeing Article 87(3)(c) and Objective 2 areas in the Centre-North. The Italian authorities felt that their domestic strategies and priorities were heavily distorted by the need to meet the Structural Fund eligibility requirements and this was carried over into the aid area map.
Finally, in the United Kingdom, the fact that more than 8 percent of the Article 87(3)(c) population quota moved between the initial and the approved maps suggests that domestic regional policy objectives were significantly diluted by the revised map.

In the remaining countries, the aid area maps created clear domestic tensions. In Austria, area designation became highly politicised and difficult, in contrast to its generally low profile prior to entry into the EU. In Belgium, designation was also very political, so much so that the initial aid area map consisted of three independent regional submissions with no national coordination. Finally in Germany, two aspects of the Commission’s approach distorted domestic priorities: the refusal to allow Land-level swaps when this had been an integral part of the German designation system; and the method for allocating population quotas across the Member States. In particular, the rule that some countries had to give up part of their quota in order that other countries might receive extra support was not acceptable to the German authorities and, as mentioned, was subsequently challenged in the European Court of Justice.

The widespread Member State dissatisfaction with the aid area designation process and outcomes was not repeated with the Objective 2 submissions. Only Italy experienced significant problems and this for very specific reasons. One factor was the low population quota available - just 12.9 percent of the population. Moreover, this had to incorporate a sizable Mezzogiorno region (Abruzzi) which had been in receipt of Objective 1 support up until the end of 1996. The Italian authorities had tried to obtain special treatment for Abruzzi at the Berlin European Council but had not succeeded. Another issue concerned the use of NUTS III as the building block for Objective 2 designation. The view in Italy is that NUTS III serves to mask regional disparities. Local labour market areas were felt to reflect more accurately the true nature and intensity of the regional problem. Although this was accepted by a Commission representative in December 1998, the non-use of NUTS III became a prime reason why the Objective 2 map was deemed incompatible with the Regulation. Given the difficulties in reaching domestic agreement about the submission, the subsequent rejection of the map caused major problems. Their severity was underlined by two points: first, the lengthy period needed to reach internal agreement on a revised submission (in June 2000); and, second, the fact that the Commission had to make concessions to allow the map to be accepted under the Regulations. This included use of an updated dataset which the Commission agreed to only after confirming that this was acceptable to the remaining Member States.

4.6.2 Explanations of the outcomes

Designating areas under the Commission frameworks

As noted above, area designation under the Regional Aid Guidelines was much more of a challenge than under the Structural Funds Regulation. One reason for this is that the

50 Interestingly, and different from the situation in the other Member States, the German authorities were specifically refused use of the Structural Fund derogation to address this issue.

51 OJEC No.L223; 4 September 2000.
Regional Aid Guidelines called for historically significant reductions in designated area coverage. Aid area population coverage was cut by more than 20 percent in three Member States, by around 15 percent in a further four and by some 10 percent in another three; viewed historically, these were very marked reductions. In addition, the designation framework made few concessions to national contexts or past designation practice. In only Denmark and Germany did the traditional designation methodology rank and select regions in a transparent, quantified way as anticipated under the Guidelines. Moreover, even though the German approach provided the original inspiration for the Guidelines, the German authorities became so dissatisfied that, as previously mentioned, they ultimately took a case to the European Court of Justice on the grounds of unfair treatment.

Traditional designation approaches were further constrained by the fact that the Guidelines favoured EU-based units of analysis (NUTS III) and only permitted alternatives ‘if appropriately justified’. Outside of Greece, Ireland and Portugal (eligible for support in their entirety), no Member State considered NUTS III to be a suitable unit of analysis. This became a central area of dispute in a number of the map negotiations, including those relating to the British and Dutch maps. The Commission was also suspicious of designation systems which focused on areas of development potential (rather than need) and on forward-looking indicators (rather than historical measures); it viewed these as a means of diluting the discipline of population-based coverage ceilings.

Another problem for the Member States was the lengthy time period over which the maps were developed. This meant that statistics had to be updated during the process, which changed winning and losing regions and, inevitably, raised the political profile of the exercise. Consequently, virtually every country experienced difficulties in achieving domestic agreement on the areas to be designated; such problems were particularly acute within some of the federal Member States. A further difficulty lay in the imprecision of the Guidelines, creating uncertainties about what might be acceptable to the Commission. Many submissions departed from the letter of the Guidelines and raised issues where negotiation was obviously expected. For instance, population quotas were exceeded in the Belgian, Luxembourg and German notifications and possibly also in the UK with respect to the treatment of Northern Ireland. The Guideline stipulation that a common unit of analysis be used was not met in Belgium and there were potential problems with the sub-division of units in Austria, France, Germany, Italy and the Netherlands. Further, in nearly all submissions there were issues to be clarified with respect to the designation methodologies employed and rate ceilings proposed.

Set against these difficulties, the approach adopted for the designation of Structural Fund areas created few problems. A key point was that the Structural Fund maps built upon procedures adopted and criteria used for the 1994-99 programming period. In addition, the Structural Funds Regulation had been through far more detailed Member State scrutiny since it was negotiated jointly with the Commission. Related, the political element to the process was clearly recognised and catered for. This caused tensions between DG Competition and DG Regio; the former consider that political factors are given too much weight under the Structural Fund designation system.

\[52\]
(until 2005) meant that no country suffered any immediate decline in its Structural Fund coverage. This contrasts markedly with the Regional Aid Guidelines where de-designations applied from the end of 1999.

**Negotiating maps with the Commission authorities**

Map negotiations were also much more difficult under the Regional Aid Guidelines. The task of reaching agreement with the Commission within the parameters set by the Regional Aid Guidelines proved to be technically demanding. A particular problem was that, throughout the process, the Commission was keen to avoid setting precedents and preferred to review and reject successive proposals rather than indicate what changes were required. Even where countries attempted to gain insight into Commission thinking prior to the submission of proposals, the effort proved to be wasted. For instance, the UK use of travel-to-work areas for the unemployed as the basic unit of analysis was not questioned until after map submission, despite a policy of keeping the Commission informed about the approach as it developed.

Member State irritation with the reactive approach of the Commission was enhanced by DG Competition’s capacity to exploit the lack of clarity in the Guidelines to its advantage. This was perhaps most obvious with regard to the negotiation of award ceilings but it also applied with respect to map “compactness” where it was virtually impossible to judge what would be acceptable to the Commission. In addition, it is apparent that aspects of the Guidelines were set aside during the negotiations for pragmatic reasons. Examples include: the acceptance of revised NUTS boundaries for Ireland and the United Kingdom after the specified cut-off date; a shift in the population quota between the Article 87(3)(a) and (c) areas in Germany; transitional provisions for part of the Lisbon NUTS III area; and, virtually everywhere, the move away from an insistence on a single ranked list of eligible areas. Although DG Competition was satisfied with the process, viewing it as administratively efficient compared with the more ad hoc approaches of the past, many national policymakers found the exercise intensely frustrating.

On top of this, the nature of the negotiations was a surprise to many Member States. Most had anticipated negotiating around areas of difficulty, as had happened in the past. However, the Commission proved to be intransigent on most, though not all, points. Part of the problem lay in different interpretations of the role of the Guidelines. Many Member States had initially viewed them as providing a framework to assist in developing appropriate designation approaches; however, by the end of the process, they were seen as steering, but not binding, the Commission in its appraisal of map proposals.

A further feature of the negotiations is that they were determinedly bilateral and opaque. The Commission was concerned not to set (or at least publicise) precedents which might be of use to other Member States and thus chose a reticent and very careful path. It reserved judgement until submissions had been made and, even when Member States thought an agreement had been struck, was prepared to review such agreements subsequently. In addition, the publication of some notices in the Official Journal was much delayed, while the most problematic maps (from a precedent-setting perspective) were left to the end of the process. The lack of transparency engendered a climate of suspicion and a perception
that Member States were not treated equally. Perhaps not surprisingly, mistrust was generated on both sides of the negotiating table which may have implications for the future development of policy. In particular, national policymakers are likely to be wary of accepting provisions without knowing precisely how they will be applied in practice. On the other hand, it can be argued that the DG Competition managed a successful strategy that offered some countries concessions but avoided creating precedents. Certainly, it is possible to identify aspects of the approved maps in virtually all countries that could be viewed as a departure from a strict reading of the Guidelines.

In contrast to the acrimonious nature of many of the aid area discussions, the Objective 2 map negotiations were, except for Italy, straightforward. One reason for this is that, different from the situation with respect to the aid area maps, both sides were under pressure to introduce the 2000-06 programmes on time. In addition, DG Regio’s main aim was to ensure that the map proposals could both be justified under the Regulations and had a clear regional development rationale. This allowed the merits of designating individual areas to be debated without challenging the area designation system as a whole.

Area designation outcomes and their implications

The difficulty and length of many of the aid area negotiations suggests that many Member States had reservations about the map outcomes. As already highlighted, in Portugal, there was certainly major concern with the treatment of Lisbon and its surrounding area. In Sweden, there was dissatisfaction with a population quota which left no room to support areas outside the sparsely-populated north. In the Netherlands, there was frustration that an already very limited map had to be amended in order to meet Commission concerns about map compactness. In France, the map finally approved was subsequently the source of domestic discord, particularly relating to the treatment of poor rural areas. In Italy, there were significant internal difficulties in agreeing designated areas in the Centre-North; the view was that domestic priorities had been considerably distorted to meet EU eligibility requirements. In the United Kingdom more than 8 percent of the Article 87(3)(c) population quota moved between the initial and the agreed maps, resulting in the dilution of domestic regional policy objectives. In Austria, the area designation exercise became highly politicised and resulted in a much more targeted approach than was felt to be appropriate. In Belgium, too, aid area designation was very political and ultimately resulted in much more fragmented maps than desired. Finally in Germany, there was considerable frustration with the refusal of the Commission to allow (limited) Land-level swaps within the population quotas allocated; this had been an integral part of traditional German approach. There was also a fundamental disagreement regarding the Commission method for determining Member State population quotas.

At the outset, there had been an expectation that the process would be most straightforward in countries where the nature and severity of the regional problem fitted within EU regional policy frameworks and priorities (in particular, the cohesion countries

53 More than this, some countries consider that the process was unduly personalised and that the nature and outcome of the negotiations was much influenced by just who was involved in the discussions.
and, less so, the Nordic Member States) and in countries where the political priority attached to regional policy in a national context was generally low (the small unitary Member States) and would be more problematic in large or federal countries where regional policy generally has a higher political profile and where there may be more challenges in securing domestic agreement on the new maps. Whilst this expectation was met in broad terms, it is of note that there were significant reservations about the designation outcomes in Portugal, Sweden and the Netherlands as well as in nearly all of the large and/or federal Member States.

Part of the discontent came from the Commission emphasis on population coverage as a measure of aid discipline; this did not always allow aid areas to be designated in accordance with national regional development priorities. There were also significant difficulties in meeting the Guideline requirements with respect to units of analysis, map cohesion and rate differentiation. A final Member State concern related to the equity of the map outcomes. In this context, the varied application of the Structural Fund derogation is of note. This allowed areas to be designated as aid areas as long as they were included within the Objective 2 map. Although initially utilised only in Italy, this derogation was subsequently widely applied (often with Commission encouragement) to resolve problems related to the subdivision of units of analysis. On the other hand, it was specifically denied to the German authorities as a means of overcoming Commission objections to Land-level population swaps. Such inconsistencies added to Member State frustration with the process and dissatisfaction with aspects of the map outcomes.
5. THE TARGETING OF REGIONAL POLICY: IN WHAT SENSE EUROPEANISED AND WHY THE VARIATION?

The evolution of policy formulation in the European Union has been characterised by the increasing array of objectives to be met. Perhaps nowhere is this more apparent than in the formulation of competition policy in relation to State aids. From the outset, the Treaty of Rome provided for an apparently market-oriented competition policy which outlawed the use of subsidies to industry; however, the Treaty also provided for a range of exceptions to this ban on various policy grounds and these have been progressively elaborated by the Commission into a significant body of “soft law” taking on board an increasing range of policy objectives. Within this framework, and over more than two decades, the Commission’s approach to the control of the regional aid policies of the Member States has had a significant, and growing, impact on national policy designs.

A comparatively recent Treaty preoccupation concerns economic and social cohesion. Although the Community operated a nascent regional policy from the 1970s, this was essentially an adjunct to (and subsidy for) national regional policies. The status of Community economic and social cohesion policy changed radically in the mid 1980s, its upgrading largely a consequence of negotiations over the Single European Act and the associated completion of the Single Market.

The Single Market programme also had implications for competition policy: State aids were increasingly perceived as one of the few remaining instruments of protectionism. Consequently, the Commission redoubled its efforts to impose discipline on this form of government intervention. Subsequently, under the Maastricht Treaty, economic and social cohesion was made one of the “tasks” of the Community and, under the later Amsterdam Treaty, all Community policies were required to take economic and social cohesion into account in the “formulation and implementation” of policy.

The swift and complex evolution of these two policies areas - EC competition policy and EC cohesion policy - meant that they gained a momentum of their own. The principles of competition policy discipline over the regional aid policies of the Member States seem distant from any theoretically justifiable approaches to the matter. Similarly, the negotiation process that characterises the development of Community cohesion policy contributes to the emergence of elements of policy that are far removed from the concept of economic and social cohesion. Moreover, and of particular importance in considering the relationship between competition policy and cohesion policy, the trend to (over)load policies with secondary objectives has not been accompanied by any systematic attempt to analyse and address, let alone resolve, the inherent conflicts between those objectives.

The importance of these trends for Member State regional policies is clear; in a field that was once essentially a national preserve, a matter of domestic concern alone, Community policies now have an important stake. On the one hand, competition policy has become increasingly prescriptive about the targeting of national regional policy, arguably more so than is justified by concerns at the distortion of competition; on the other hand,
Community cohesion policy not only operates through a Europe-wide typology of problem regions, but is also committed to the “coherence” of national and European regional policies. Whilst superficially plausible, the Commission’s interpretation of coherence is of limited practical policy relevance in many Member States. Nevertheless, national regional policy designs find themselves squeezed between the competing and conflicting demands of these two policy areas - both of which have increasingly emphasised the need for spatial concentration - whilst struggling also to reflect domestic policy objectives.

Against a background in which policy evolution has been characterised by the growing interdependence of policy objectives, two key questions emerge. First, in what sense does the evolution of European regional policy frameworks (the Structural Funds Regulation and the Regional Aid Guidelines) amount to the ‘Europeanisation’ of area designation? And second, why, in spite of attempts to intertwine the objectives of policy both at the level of the Treaty itself and in terms of the practical aims of coherence and concentration, should the trajectories of the two policies and the outcomes of the recent area designation exercises have been so different? This section addresses these questions in turn.

5.1 In what sense Europeanised?

In a general sense, it can scarcely be disputed that area designation for regional policy has been colonised by the activities of the EU level. Member States cannot lawfully implement new assisted area maps for regional aid purposes without the prior authorisation of the European Commission; at the same time, Member State shares of the Structural Funds depend on national authorities reaching agreement with the Commission over the areas to be targeted. The European level has not only had a significant impact on the targeting of policy at the worst-off areas (Article 87(3)(a) and Objective 1) - where EU-wide statistics and criteria determine the areas to be designated - but it has also constrained the coverage of other assisted areas (Article 87(3)(c) and Objective 2) whilst setting down the parameters governing how those areas are selected.

At first sight, therefore, there has been a transfer of power from national governments to the EU - Europeanisation in the Risse et al (2001) and Lawton (1999) sense of the term. In practice, however, it is important to consider a number of further elements. In particular, what, precisely, has been Europeanised? To what extent has Europeanisation been achieved? Has/have the process(es) been linear or irregular? How can this be explained?

Hall (1993) distinguishes three levels of policy: policy objectives; policy instruments; and the levels or precise settings of those instruments. Unpacking EU competition policy in relation to regional aid and the targeting of the Structural Funds on the basis of this breakdown reveals a rather different perspective from the straightforward colonisation of area designation by the EU level that might be assumed to have taken place from a cursory review of the processes.
Regional Policy in the EU: A Passing Phase of Europeanisation or a Complex Case of Policy Transfer?

Figure 2: Disaggregating Regional Policy Area Designation after Hall

<table>
<thead>
<tr>
<th>Competition policy</th>
<th>Structural Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives</td>
<td></td>
</tr>
<tr>
<td>Prevention of distortion of competition</td>
<td>Reduction of regional disparities</td>
</tr>
<tr>
<td>Instruments</td>
<td></td>
</tr>
<tr>
<td>Concentration of assisted area population coverage</td>
<td>Targeting spending at designated problem regions (Objective 1)</td>
</tr>
<tr>
<td>Imposing area designation parameters</td>
<td>Setting parameters for Objective 2</td>
</tr>
<tr>
<td>Reduction of award values</td>
<td>Encouraging map coherence</td>
</tr>
<tr>
<td>Levels</td>
<td></td>
</tr>
<tr>
<td>Higher award values in Article 87(3)(a)</td>
<td>Higher per capita spending Objective 1</td>
</tr>
<tr>
<td>Lower Article 87(3)(c) spatial coverage in countries with smaller internal disparities</td>
<td>Flat rate per capita spending in Objective 2</td>
</tr>
</tbody>
</table>

Of crucial importance, the link between the fundamental objectives of both policy areas and the activity of area designation is tenuous; in both policy spheres there is a dislocation between the underlying objectives of policy and the hows and whys of the spatial targeting of policy. This in turn has significant implications for whether the objectives of policy have been Europeanised in any meaningful sense.

The aim of competition policy is to prevent distortions of competition and trade within the EU by means of State aid; however, the focus of regional aid control is on the precise delineation of the assisted area maps and on containing assisted area coverage. At the very best, this focus can be regarded for a crude proxy for a genuine assessment of the competition impact of regional State aid; on the other hand, “within the parameters of the Guidelines, aids that cause potentially serious distortions can be granted without prior scrutiny by the Commission; similarly, the design of innocuous measures may be compromised quite needlessly” (Wishlade, 2003: 248). The absence of a real understanding of the competition effects of State aids has led to a situation in which even the Director-General of DG Competition has acknowledged that: “there is the impression that we are simply applying rules which aim to curtail state aid as such rather than concentrating on controlling aid which really distorts the European single market”.  

For its part, under the Treaty provisions, EU regional policy aims to reduce disparities between the levels of development of the various regions and the backwardness of the least-favoured regions. In reality, however, it is widely recognised that the Structural Funds have two other main roles: first, they act as a side payment for the acceptance of other aspects of European integration; and second, there is an element of budgetary compensation. In addition, and not unimportant, there is a political cohesion dimension to policy which means that the European Commission has a vested interest in parts of every Member State being eligible for EU regional policy. This array of additional political objectives distances area designation from the stated Treaty aims of EU regional policy and undermines the scope for genuine policy debates about the appropriate targeting of structural actions - for example, should policy be targeted at poor regions, wherever located, or poor countries? Is it really justifiable to channel EU funds through elaborate

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mechanisms to problem regions in countries that are well able to finance regional policy from domestic budgets?

In short, in both policy areas, there has been a Europeanisation of the instruments and levels of policy but, at best, these only partially embody the underlying objectives of policy.

How can the differing trajectories of the Europeanisation of area designation be explained and, in particular, the very different outcomes of the two exercises for the 2000-06 period? In Part 3, three main factors were highlighted to explain the different Europeanisation trajectories. First, there was the issue of policy substance; in other words, the importance attached to area designation control in the respective policy fields. As far as EU competition policy is concerned, the coverage of designated areas has moved from not being initially a primary consideration, to becoming an aspect of increasing interest in the 1980s and 1990s until, in the most recent policy phase, it had moved to the core of the competition policy disciplining of regional aid. In contrast, under EU cohesion policy, the precise designation of the assisted areas is a second-level consideration. The key concern of the Member States relates to the funding allocations for each country; these were resolved prior to the map negotiations. As noted in Part 3, the central point in the negotiations for Objective 1 related to the detailed mechanism for allocating funding to areas designated on the basis of strict EU criteria, whereas for Objective 2 the essential issue lay in the population quota assigned to each country.

Second, there are the respective roles and responsibilities of the Commission and the Member States to consider. Under EU competition policy, the role of the Commission has increased significantly (though irregularly) over the years. Member State area designation has been subject to growing DG Competition control, culminating in the 1998 Guidelines under which the Commission set both population ceilings and designation parameters whilst giving the Member States more apparent freedom for area designation within these constraints. For its part, EU regional policy was initially channelled through Member State maps; although the Commission acquired the lead role with the reform of the Structural Funds in 1988, the two subsequent designation exercises have seen DG Regio lose the power of initiative in the map negotiations.

Third, there is the nature of the respective regulatory frameworks to consider and, in particular, their capacity for enforcement. A crucial change with respect to the competition policy control of area designation in the 1998 Guidelines was that the new rules were introduced as ‘appropriate measures’. This effectively terminated the existing regional aid approvals at the end of 1999 and deprived Member States of the ability to award regional aids until the new maps were agreed. This obviously changed the balance of power in the map negotiations, as did the fact that the Guidelines were a new policy departure. As a result, many aspects did not become clear to the Member States until after they had gone through the process of designating and negotiating the maps; this put DG Competition very much in control during the map negotiations. A similar situation had applied when the revised Structural Funds first became operational in 1989. National policymakers were not able to predict how DG Regio would use its discretion and, once the framework had been approved by the Council, were relatively powerless to influence the
area designation process. As noted, it took two subsequent rounds of Structural Fund negotiations to reassert national authority in this area.

Taking these points together, it is apparent why the area designation process for the 2000-06 period was much more difficult for the Member States under EU competition policy than EU cohesion policy, why the adaptational difficulties were much more severe under the Regional Aid Guidelines than under the Structural Funds Regulation. In the first place, the coverage and composition of the designated aid areas was perceived by DG Competition to be central to competition policy control of regional aid. In contrast, the designation of Objective 2 areas was a secondary consideration under the Structural Funds. Second, under the Regional Aid Guidelines, the designation process was essentially determined by DG Competition, albeit with a degree of ‘consultation’ with the Member States. In contrast, the Member States had, as mentioned earlier, recovered the power of initiative with respect to the designation of Objective 2 areas and had jointly negotiated the Structural Funds Regulation with the Commission. Finally, the Regional Aid Guidelines placed DG Competition very much in control of the process of map approvals. The Guidelines represented a new policy departure, with associated uncertainties for those charged with developing and negotiating the aid area maps and with DG Competition the judge and jury on issues of interpretation. In addition, there was much more pressure on the Member States than on DG Competition to reach agreement on the new maps since regional aid schemes were otherwise in abeyance. In contrast, the Structural Funds Regulation involved well-established procedures and approaches and a common Commission/Member State wish for the maps to be approved and the new Structural Fund programmes introduced with the minimum of delay.

5.2 Why the variation by country?

The theoretical literature review in Part 2 highlighted a number of key factors which help explain the process of adaptation in the context of Europeanisation. The first of these relates to the adjustment mechanisms and pressures emanating from the EU. In both of the policy contexts under review the adjustment mechanism in operation is one of coercion i.e. the Member States are compelled to bring domestic arrangements into line with specific conditions and criteria that have been set at the European level. However, the actual level of coercion differs across the two policy domains, reflecting the differential degree to which the Member States have been involved in the negotiations to develop the respective policy frameworks (see Figure 3). As noted earlier, the Regional Aid Guidelines were essentially determined by the European Commission with limited involvement by the Member States. In contrast, the Structural Funds Regulation was decided jointly with the Member States, under the decision-making mode of unanimity. As such, the outcomes of the negotiations leading to the adoption of the Structural Funds Regulation were more likely to reflect national interests, implying a lower level of compulsion and lower subsequent adaptational pressure upon the Member States. Furthermore, the intensity of

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55 This point is confirmed by the European Court of Auditors’ figures quoted in Section 3.5, which suggest that national rather than EU criteria have regained the dominant role in the designation of Objective 2 areas.
adaptational pressure under the Regional Aid Guidelines was considerable given the very marked (by historical standards) and immediate reductions in aid area population coverage and the fact that regional aid regimes were held in abeyance until a new aid area map had been approved.

Figure 3: Mechanisms of Change and Adjustment Pressure

<table>
<thead>
<tr>
<th>Policy domain</th>
<th>Decision-making mode</th>
<th>Mechanism of change</th>
<th>Adaptation pressure</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Aid</td>
<td>Imposed by the European Commission</td>
<td>Coercion at high level</td>
<td>High</td>
</tr>
<tr>
<td>EU Regional Policy</td>
<td>Negotiated in consultation with Member States</td>
<td>Coercion at lower level</td>
<td>Low/Medium</td>
</tr>
</tbody>
</table>

Whilst the characteristics of the respective policy sectors can help to explain the differential pressures emanating from the EU, it is necessary to turn to more distinctively domestic-level factors in order to understand the variation in terms of national adaptation. The focus here is on the Regional Aid Guidelines since, as just discussed, area designation under the Structural Funds Regulation was relatively straightforward. As previously mentioned, the only country where there were significant designation difficulties under the Structural Funds Regulation was Italy, in respect of its Objective 2 areas.

As noted in Part 4, the expectation was that there would be fewer designation problems in the poorer Member States (where regional problems in a national perspective also register as significant problems on a European scale); in Member States facing specific regional policy issues which are also recognised from an EU perspective (for instance, areas of sparse population in the Finland and Sweden); and in Member States where regional policy was of low national priority (reducing the national importance attached to area designation outcomes). In contrast, area designation issues were expected to be more prominent in the larger Member States (since regional policy in such countries generally has a higher policy profile) and in federal Member States (since such countries not only have more developed regional interests but, related, often face more difficulties in developing the necessary political consensus to agree assisted area maps).

While these expectations were generally met, there were some exceptions to these rules. Two of the three countries experiencing the longest aid area negotiations were poor (Portugal) or small (the Netherlands), while Sweden experienced lengthy delays in its aid area map submission. In each of these countries, the process touched upon nationally-sensitive issues. In each, the policymaker view was that the Guidelines were leading to outcomes which were either unfair or inappropriate or both. For instance, the Portuguese authorities were concerned about the treatment of Lisbon and its surrounding areas. On the
one hand, Lisbon had long been viewed as the motor of the economy and there were concerns that the ability to award regional aid in the area might be curtailed too far too fast. At the same time, there were feelings of unfairness about the treatment of poor areas surrounding Lisbon which were disadvantaged simply because of their proximity to the capital. In the Netherlands, there were problems in satisfying DG Competition's wishes on map compactness in the context of the lowest population ceiling allocated to any Member State (15 percent) and a national wish to focus support on areas of development potential. Finally, there was a desire in Sweden to award support outside the areas of sparse population. This proved to be largely impossible given the allocation of the second lowest population quota, 15.9 percent, an outcome that was felt to take insufficient account of the specific nature of the Swedish regional problem.

The starting point for an explanation of these domestic level variations is the ‘goodness of fit’ hypothesis (Risse et al 2001). Basically, the argument is that the pressure for adaptation and the degree of domestic change is dependent on the congruence between EU and national policy. Certainly in those countries where the process ran smoothly the ‘goodness of fit’ of policy objectives was relatively high. Thus, Greece, Ireland and Spain were, for much of the 1990s, amongst the poorest Member States (bringing EU and national policy objectives broadly into line), Denmark and Luxembourg have very low-level regional problems viewed from a national (and Community) perspective, and large parts of Finland met the key EU designation criteria - poor (Objective 1) areas, regions of sparse population and areas with high levels of unemployment.

On the other hand, ‘goodness of fit’ was initially limited for at least some of these countries and was only achieved in the course of developing the Guidelines. Ireland is an example of this. Prior to the 2000-06 designation, it had been classified as a single NUTS II region and, as such, benefited from Objective 1 and Article 87(3)(a) designation in its entirety. However, in the run-up to the March 1999 Berlin European Council, it became apparent that the country, viewed as a whole, would fall outside the Objective 1 definition. Accordingly, it was agreed to divide it up into two NUTS II regions, one of which qualified under Objective 1. Although this happened after the cut-off date for the Regional Aid Guidelines, the new subdivision was accepted by the Commission for these purposes too. Even more important, in response to lobbying against an early iteration of the Guideline methodology for allocating aid area population quotas amongst the Member States, a side condition was added to the methodological annex to the Regional Aid Guidelines that all de-designated Article 87(3)(a) areas should be automatically included under Article 87(3)(c). This saved both Ireland and Portugal from major cutbacks in their designated aid area coverage over the 2000-06 period. In similar vein, a key goal of the Finnish authorities during the development phase of the Guidelines was to ensure that sparsely-populated areas continued to receive special treatment (in line with the agreement reached during the accession negotiations of the Nordic Member States). Once this had been achieved, the ‘goodness of fit’ of EU and national areas in Finland was assured.

The German case is also interesting in the context of ‘goodness of fit’ since Germany provided the initial model on which area designation under the Regional Aid Guidelines was based. The key feature of the German approach is that it takes place within a joint Federal-Land body, the Gemeinschaftsaufgabe “Verbesserung der regionalen
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Wirtschaftsstruktur” (GA), Joint Task for the improvement of regional economic structures. This is noteworthy since economic development is a Land responsibility under the German constitution. The establishment of the GA in 1969 reflected acceptance of the need for enhanced policy coordination, not least to constrain wasteful competition for potentially-mobile investment. The GA is a consensus-based forum within which Federal and Land representatives designate aid areas and establish an annual framework plan (Rahmenplan) within which regional policy objectives, instruments and budgets are determined. Policy implementation, however, remains the sole responsibility of the Länder.

Under the GA, there has been a long tradition of designating aid areas on a three to four year cycle. The approach involves a series of stages, each of which is agreed within a GA technical sub-committee. These include determining local labour market areas within which to undertake the analysis, deciding on relevant indicators and on how they should be combined to form a composite listing, agreeing an appropriate cut-off point to distinguish designated from non-designated areas and setting a limit to the extent to which Länder can swap parts of designated and non-designated areas to fine-tune the exercise to the situation on the ground. A number of features of this approach are worthy of comment. First, the system is based on consensus and involves a transparent methodology. Second, the approach has been stable (though not unchanging) for many years. While various alternatives are considered in preparing any new map, there is a departure from the status quo only where any proposed change produces more plausible results. Third, the belief is that a wholly technical solution to area designation is not possible; hence, the scope for (limited) flexibility through the ability to swap areas within a given Land quota. Finally, the rule of law is considered to be paramount. The uniform applicability of the designation system is crucial to its acceptance.

Many superficial features of the Regional Aid Guidelines reflect the German system. However, there are a number of important differences between the two approaches which are worth highlighting. In particular, the Guidelines do not rest on genuine consensus; instead, the necessary level of political agreement was achieved through the application of side conditions which benefited some Member States at the expense of others. In addition, the Guidelines lack clarity in a number of important respects, relating in particular to what would represent acceptable map compactness and rate differentiation. Further, the Guidelines were unpredictable in their impact, not least due to the (in part understandable) provision for data updates. Finally, the Guidelines were inflexible with respect to the unit of analysis used, except through the common but not universal resort to the Structural Fund derogation and through bilateral and opaque deals reached as part of the map negotiations. While these may have helped to conclude negotiations under sometimes difficult circumstances, they had a very negative impact on Member State perceptions of fairness, even-handedness and the rule of law.

Taking these points together, it can be seen that, while there are superficial similarities between the German designation methodology and the approach adopted under the Regional Aid Guidelines - and while the latter certainly grew out of the former - the principles on which the two systems are based, and the operation of those principles in practice, are very different. This helps to explain why the German authorities were amongst the most implacable opponents of the Guidelines from the outset (when, along
with Belgium, they objected formally to their implementation) and why they remained set against them throughout the negotiations and beyond, culminating in recourse to the European Court of Justice to seek redress. In terms of the categorisation of Dolowitz and Marsh (2000), the use of the German model was viewed as policy emulation and perhaps even copying by the Commission but, from a German perspective, was not even recognised as the inspiration behind the Commission’s approach.

A second explanatory factor in the theoretical literature concerns domestic institutional structures. The expectation is that area designation adaptation will be more difficult in federal and quasi-federal countries, partly due to the difficulties in developing domestic consensus (reflecting more veto points and the ‘joint-decision trap’ of Scharpf (1988)) and partly to the problems created when such consensus is rejected by the Commission and has to be re-negotiated domestically. This turned out to be strongly the case. Federal countries like Austria, Belgium and Germany all faced significant designation challenges under the Guidelines, as did both the United Kingdom and Italy. The sensitivities present are underlined by a number of examples. One is that the federal level in Austria immediately allocated designation responsibility to the Länder, in awareness that it was at the Land level that the key political decisions would have to be made. It was only once the Länder had agreed amongst themselves (after a series of contentious negotiations) that the federal level entered into the process. Another example is Belgium. When the available population quota was reduced by the Commission in December 1998 in response to an updating of the statistics, it proved impossible for the Belgian regions to agree a new sub-division of the reduced quota in a pre-election phase; instead, three entirely separate designation exercises were undertaken for Wallonia, Flanders and Brussels using the old quota and a map was submitted on this basis in May 1999 even though it quite clearly did not accord with the Guidelines. Third, although benefiting from an enhanced population quota for the 2000-06 period, the exercise in Spain remained highly political; instead of re-opening the issue of appropriate designation methodologies, the extra allocation was simply divided up regionally in line with the status quo. Whilst multiple veto points can act as an impediment to institutional change, the Europeanisation literature also points to the role of other informal institutions, such as political and organisational cultures, in facilitating adaptation (Borzel and Risse 2000; Risse et al 2001). Support for this hypothesis is found in the German case.

A third explanatory factor in the literature relates to actors’ preferences and strategies and associated learning mechanisms. These certainly had an impact on the degree of adaptational pressure experienced, though perhaps more so between the two policy frameworks than amongst the Member States. In this context, it has already been noted that the Member States had learnt from the operation of the Structural Funds Regulation in two earlier phases and had developed their strategies accordingly. DG Regio had a similar understanding of the ‘rules of the game’, with the result that agreement was generally relatively easy to achieve. In contrast, the Regional Aid Guidelines were new and unpredictable. Member States could not really know what would or would not be acceptable under the Guidelines and the Commission was also uncertain how they would operate in practice. At the same time, DG Competition was very aware that it was involved in bilateral discussions which had important multilateral implications. This, combined with
its overriding goal of maintaining overall aid discipline by ensuring that the global population ceiling was not seriously breached, led to its adopting a very measured and careful approach which tried to avoid setting damaging precedents at all costs. Its essentially reactive and opaque stance put the onus on the Member States to develop map proposals in line with the Guidelines.

The approach adopted by the United Kingdom in this context is interesting. The aim was to produce a map proposal which, as far as possible, met the letter of the Guidelines. In line with this, the map submission was very much couched in terms of the Guidelines. In addition, faced with uncertainty about the unit of analysis which might be acceptable to the Commission under the Guidelines, a serious attempt was made to keep DG Competition fully informed about the thinking behind the use of amended travel-to-work areas (based on the areas within which the currently unemployed would travel if work was available). However, this strategy did not reap any benefits. It was only after the map had been submitted that the Commission made clear that it could not accept the unit of analysis proposed. This caused major difficulties to the UK authorities who had to reconstitute their basic unit of analysis and revise their map significantly as well as undertake a second country-wide consultation exercise.

Other countries adopted strategies where submissions were made which were clearly not fully in line with the Guidelines in the expectation that it would be possible to negotiate their way around any problems. Such strategies, too, were of only limited success. The Commission, worried about precedents, was relatively inflexible in the negotiations, except where the Structural Fund derogation could be applied. Under this derogation, areas could be designated as aid areas as long as they were included within the Objective 2 map. This ultimately benefited a range of countries including Austria, Finland, France, Italy, Spain and the United Kingdom.

Finally with respect to Member State strategies and preferences, it should be noted that the most serious difficulties arose in the map negotiations where the Guidelines did not allow nationally-sensitive issues to be addressed, particularly where the map outcomes were viewed as inappropriate or unfair or both. Where Member States had not been able to influence the development of the Guidelines in their favour, there proved to be only limited scope to redress matters in the course of the map negotiations, not least due to the pressures that most Member States were under to reach agreement with the Commission.

Summing up the discussion, a number of points emerge. First, the most important factor in explaining the differential country experiences with regard to area designation under the respective policy frameworks relates to the specific characteristics of each policy area. In particular, the level of coercion and subsequent adaptational pressure implied by the Structural Funds Regulation was considerably lower than under the Regional Aid Guidelines due to the closer involvement of the Member States in the development of the former


58 Any departure from the use of NUTS III had to be ‘appropriately justified’.
policy area. Turning to the varied responses in term of the processes and outcomes under the Regional Aid Guidelines, the empirical material presented lends support to the ‘goodness of fit’ hypothesis. However, policy fit/misfit is a necessary but insufficient condition for explaining the varied experiences across the EU in terms of negotiating the aid area maps and the final outcomes. Two other factors also have to be taken into account. One is that the existence of veto points proved to be particularly problematic in the federal countries, although this was eased in the case of Germany by the consensus based forum, the Gemeinschaftsaufgabe (GA). The other is that the ability to negotiate and bargain with the Commission was greatly constrained by the aims, objectives and, ultimately, authority of the European Commission.
6. CONCLUSIONS: LESSONS FOR POLICY, LESSONS FOR POLICY THEORY

This paper is the product of both a longitudinal analysis of the evolution of area designation under EU competition and regional policies and a detailed study of the application of the 1998 Regional Aid Guidelines and 1999 Structural Funds Regulation in all the Member States. The approach to the study has been one that is grounded in a detailed understanding of the objectives, context and processes of area designation for regional policy purposes with a view to addressing what some have viewed as the simplistic approaches to ‘policy’ that characterise some studies in the Europeanisation and policy transfer literature. This approach suggests a number of lessons for policy and some insights into policy theory.

*Policy evolution is neither linear nor irreversible; opportunism and ‘backslash’ effects are key to policy change*

A key feature of the research has been its emphasis on the *dynamics* of policy evolution and interrelationships - the ways in which changes in the policy environment, institutional arrangements and regulatory frameworks, coupled with the momentum created by policy itself - inform, shape and foster further policy development.

Tracing the Europeanisation of regional policy area designation over time makes clear that the process has neither been steady nor uniform. Indeed, on occasion, quite abrupt changes have taken place, later to be modified or diluted as actors react to the imposition of norms or systems or forecast with increasing accuracy the motives of others. This ‘backlash’ effect is most in evidence in the Europeanisation of Structural Funds area designation. The early history of EU regional policy is one of the Commission seeking to secure some independence of action from the Council of Ministers; the 1988 Structural Funds Regulation represented a major breakthrough from this perspective, resulting, for the first time, in a Europe-wide typology of regions for which the Commission had power of initiative in area designation. With hindsight, it is evident that national policymakers had failed to predict how the Commission would use this autonomy in practice, with the result that subsequent policy change has been characterised by the Member States reasserting control over the designation of assisted areas and associated budget allocations.

A similar fate may befall the 1998 Regional Aid Guidelines. Although the differences between existing national area designation practices and the methodology implied by the Guidelines were arguably clear from the outset, national policymakers seemed, in some respects, unprepared for the scale and extent of the changes that would be imposed in practice - perhaps assuming that scope for negotiation that had pertained in the past would continue. Looking forward post-2006, there are already initial indications of detailed preparatory work by several Member States (notably the larger ones) which indicates that they may be unwilling to be subjected a second time to rules with uncertain outcomes.
A detailed appreciation of policy is key to understanding policy change and impacts

An important feature of the present study is its scope both in the historical sense and in the detailed understanding of policy. Grounding the analysis in policy detail in this way avoids the trap of self-fulfilling prophecies and enables a broader context to be taken into account in understanding policy change.

A key example is the apparent uploading of the German approach to area designation as the policy model for area designation under the Regional Aid Guidelines. It is evident that the German system provided the inspiration for the Guidelines; moreover, there are some parallels in the need to impose discipline within a domestic federal environment and at the European level. In practice, however, significant aspects of the German model were not transferred, with the result that, contrary to what might have been expected from the policy transfer literature, the German authorities arguably had more difficulty than any other country in adapting to the Guidelines.

The multifaceted and multilevel nature of policy objectives can lead to confusion over what has genuinely been Europeanised or transferred. This can arise because the achievement of intermediate or essentially cosmetic policy aims - most notably, in the present context, coherence and concentration - may undermine underlying objectives. The use of the Structural Fund ‘coherence’ derogation in national aid area negotiations meant that Objective 2 designation frequently became a device to resolve rigidities in the Regional Aid Guidelines, a mechanism to increase the flexibility of national area designation possibilities. This in turn meant that the overall ‘coherence’ of the maps (measured in the extent of map coincidence) was certainly increased, but that ‘European’ criteria played a reduced role in Structural Funds area designation. More importantly, perhaps, ‘coherence’ was simply perceived in terms of coherent maps rather than taking account of the appropriate articulation of policy content and institutional responsibilities. Similarly, the ‘concentration’ of spatial coverage was given considerable prominence in the reform of the competition policy control of regional aid; although this was largely achieved, the link between spatial coverage and distortion of competition is at best tenuous, leading to questions about whether the discipline enforced can meaningfully be correlated with the fundamental objective of preventing distortions of competition.

The complexity and variability of policy evolution (bottom-up) and implementation (top-down) create significant challenges for policy theorising

Europeanisation has been the subject of intense theoretical, conceptual and empirical controversy in recent years. Whilst it could be argued that the definitional debate has to a certain extent hindered theoretical advance and productive empirical work, it has at the same time directed attention to the need to clarify the conceptual status of Europeanisation. In particular, this paper has highlighted the importance of examining the distinct processes of Europeanisation and unpacking the concept into its constituent parts.

However, understanding the EU’s institutional architecture is by no means a simple task and/or one easily amenable to theoretical testing. Indeed, there is no single approach that can explain the complex evolution of EU institutional dynamics. However, different theories
can shed light on different aspects of the process and outcome. The research challenge for the future is therefore to integrate the different perspectives and to get them to talk to each other, or at least in the same language. As Radelli (2000) has commented, ‘one does not see the point of starting theoretical research on Europeanisation from tabula rasa, and perhaps reinventing propositions already well-known...’ It is in this context, that the integration of the various subfields of political science (such as comparative politics, public policy and administration, and international relations) and engagement with wider meta-theoretical debates (namely, new institutionalism) may provide a promising future for further theoretical and empirical research in the field of Europeanisation.

_Divergent patterns of influence, and the reasons underlying them, have important implications for policy objectives and the future design of policy_

The context for regional policy in Europe is set to undergo a period of dramatic change. Central to this is the impact of enlargement, which will significantly increase regional disparities across the EU. At a purely technical level, the heavy reliance of policy on relative measures of prosperity must come under pressure: the existing mechanisms for distributing the Structural Funds will create “losers” among the current major beneficiaries of policy; at the same time, a continuation of the current approach to national regional aid approval would severely constrain the capacity of countries to address their own regional problems, even though the absolute situation of the problem regions may be little changed.

Beyond essentially practical considerations for post-2006 reform, however, there are some more fundamental issues to address. EU competition policy is confronting an ambitious reform agenda comprising not only the practical realities of regulation within an expanded EU but also substantive policy questions about how policy should tackle the question of competition distortion. For its part, EU regional policy remains caught between its role as part side payment and part budgetary compensation as well as part regional policy. Reconciling the expectations from each within an enlarged EU will present a major challenge.

It is clear that there are major sources of tension in the relationship between national and EU regional policy and EU competition policy, and that there is scope for future policy change and the impact of enlargement to render those relationships yet more conflictual. Importantly, however, it can be argued that greater conflict is by no means inevitable and that a fundamental review of policy objectives, policy focus, policy responsibilities and the relationship between policy instruments and regulatory frameworks could, in fact, improve the complementarity of the policy areas rather than heighten tensions.
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