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## **TECHNICAL NOTE**

# **ADDRESSING THE ISSUE OF ISLAND TERRITORIES IN FUTURE COHESION POLICY**

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## Background

- In 2009, DG REGIO published a Working Paper on “*Territories with specific geographical Features*” (n° 02/2009) which addressed *inter alia*, the issue of Island territories.
- This document gave rise to a number of criticisms and, in January 2010, brought the various organisations representing the different types of “specific” territories (Euromontana, AEM, INSULEUR, ESIN, Northern Sparsely Populated Areas and CPMR Islands Commission) to produce a “Critical Analysis” of the aforementioned Paper.
- In May 2010, in reply to this document, a letter was addressed by the DG REGIO Director General to the Chair of the CPMR Islands Commission (27/05/10 N°004336) underlining the need to reflect “...on the challenges faced by these territories on a more detailed basis” and suggesting a tentative solution; namely, considering islands according to their size of population, with 5 categories of regions at NUTS III level, ranging from below 50,000 to over 1 million.
- The present note is a brief assessment of how such a categorisation could be implemented in practice to meet the needs of islands, and of the potential impact of such measure in terms of overall population size.

## Conclusions & Recommendations

- Though perfectible (in particular with regards to archipelagos and coastal islands) the grading of Islands according to their level of population at NUTSIII level is an interesting proposition since such system can delineate those islands where lack of economies of scale and market size limitations call for higher level of intervention.
- To contribute usefully to Cohesion Policy such mechanism should be used in a comprehensive way, covering simultaneously the fields of Regional Policy and State Aid Regulations.
- Bearing in mind the over-cost arising from insularity, EU intervention tools should be fixed, from the onset, at a sufficiently high level to be effective. EU support should be no lower than the minimal one granted to Regions with a GDP/h <90% (or “Intermediate” Regions) for the purpose of Regional Policy, and to that provided by article 107.3 c) for the purpose of State Aid; any further increase being then granted in reverse proportion to demographic size of each NUTIII area.
- The impact of such proposals in term of overall population appears to be limited, if not marginal in some cases. Integrating all islands with a GDP/h >90% in the Intermediate Regions category will affect only 3 million people, and thus increase the population covered by the aforesaid category by only 4% . The cost of strengthening intervention in NUTSIII Island areas in reverse proportion to their size of population, will be hardly significant because of the very nature of the scheme (those who will get more being the less numerous). For example, in the case of NUTSIII Islands under 50,000 inhabitants, the total population concerned will be circa 300,000 people for the whole EU.

## Scaling EU intervention in NUTS III “Island” areas according to demographic size

### Definition of NUTS III Island areas.

- NUTS III “Islands” are defined as “*NUTS 3 regions where the majority of the population live on one or more islands without fixed connections to the mainland, such as a bridge or a tunnel*”;
- As for the Island States, it will be recalled that if Regional policy concerns by definition regional and local authorities, Declaration 33 of the Intergovernmental Conference, annexed to the Lisbon Treaty, which refers to Malta and Cyprus, also specifies that “*the Conference considers that the reference in Article 158 to island regions can include island states in their entirety, subject to the necessary criteria being met*”.

### DG REGIO’s letter suggests classifying each NUTS III “Island” area in 5 categories, according to the size of population.

The size of population at NUTS III level could be calculated either on the basis of the overall population at NUTS III Island level, or ( as DG REGIO’s document suggests) on the basis of the population size of the largest single island within a NUTS III area. The proposed classification is the following one:

- Category 1: Population <50,000 inhabitants
- Category 2: Population between 50,000 and 100,000
- Category 3: Population between 100,000 to 250,000
- Category 4: Population between 250,000 to 1 million
- Category 5: Population >1 million population

In the following pages, we have used the first method because statistics were readily available, but the second method (using the size of the largest single island as a yardstick) would have the merit of being more precise, and of alleviating - to a certain extent at least - the problem of archipelagos<sup>1</sup>.

With regards to inshore islands which are statistically part of a mainland NUTS III area, it will be noted that but for some rare exceptions, these islands tend to have small or even very small populations, sometimes not exceeding a few hundred or even a few dozen inhabitants.

Therefore, it may be suggested to automatically include such islands in Category 1, with “earmarked” funding.

Last but not least, we do not question hereby the various thresholds suggested (50,000; 100,000; etc.), though their actual level could be discussed.

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<sup>1</sup> However, neither method give full justice to the case of an archipelago where a single very large island “swamps” a great number of little islands with very small population, and thus give an overall distorted impression (such as, in Greece, the case of Notio Aigaiio).

## **Advantages of NUTS III “Islands” Classification**

The CPMR Islands Commission has in the past expressed the view that to address the issue of islands, the best approach would be one taking into account the individual situation of each island. However, this method is complex and requires a considerable amount of data which is not always available, and this must be regarded as a long term prospect.

Therefore, the use of NUTSIII areas as a method of classification presents a number of advantages.

- It is immediately applicable with existing statistics
- It covers all island regions (subject to provisions being made for the inshore islands);
- Population size reflects to a large extent limited market, lack of economies of scale, need for more public services, etc;
- The subdivision of large islands in NUTS III allows differentiating – to a certain extent at least - coastal urban areas (large population) from rural & often mountainous hinterland (small population).

Regarding the last point, it must be borne in mind that many islands are also sparsely-populated areas, or, to a varying extent, mountainous areas on part of their territory.

Criss-crossing the delineation of island areas with those of mountainous or sparsely-populated areas would reflect more adequately the realities of territories which are concerned by an accumulation of “specificities”.

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A few of examples may be provided to illustrate these points, as well as some of their limitations:

# Orkney

Orkney Islands are a NUTS III area with a population well below <50,000 people. Therefore, they classify in Category 1.

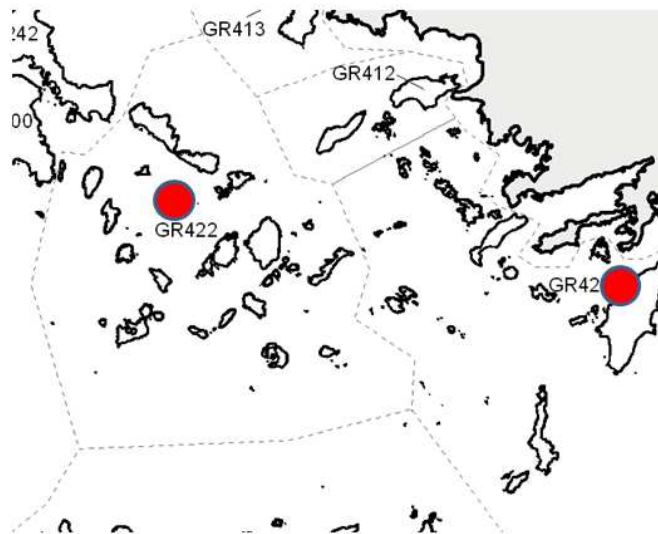


NUTSIII	Population	Category
Orkney Islands	19,875	1

However, taking the overall NUTS III population does not always reflect accurately the realities of archipelagos. In Kyklades, the 111,000 population is scattered amongst 33 inhabited islands, the largest of them being Syros (30,000). In Dodekanissos, the 195,000 population is scattered in 26 inhabited islands, but more than half of it is in Rhodos (120,000).

**Using the size of largest islands in a NUTS III area (rather than the overall NUTS III population), might be somewhat fairer, though not perfect:** At least Kyklades would then be in Category 1 instead of 3, but Dodekanissos would still remain in Category 3.

# Notio Aigaio



NUTS III	Population	Category
Dodekanissos	195,098	3
Kyklades	110,868	3



NUTSIII	Population	Category
GR431 <i>Irakleio</i>	299,698	4
GR432 <i>Lasithi</i>	75,411	2
GR433 <i>Rethymni</i>	80,766	2
GR434 <i>Chania</i>	150,408	3

Kriti is a large island with a mountain range spreading from East to West, and where most of the population lives along the northern seaboard, especially in the towns of Chania and Heraklion.

Ideally, the sparsely-populated mountain range should be considered separately, by using smaller LAUs. However, the use of NUTS III areas, though far less satisfying, makes it possible to apply some form of differentiation, and isolate the NUTS areas with a sizeable urban centre. The same observation applies to Sardegna.

## Sardegna

NUTSIII	Population	Category
ITG25 <i>Sassari</i>	334,656	4
ITG26 <i>Nuoro</i>	161,684	3
ITG27 <i>Cagliari</i>	557,679	4
ITG28 <i>Oristano</i>	167,941	3
ITG29 <i>Olbia-Tempio</i>	151,346	3
ITG2A <i>Ogliastra</i>	58,019	2
ITG2B <i>Medio Campidano</i>	103,436	3
ITG2C <i>Carbonia-Iglesias</i>	130,856	3

# Bretagne



NUTSII	Population	Pop. in islands	Category (for islands only)
<b>Bretagne (4 NUTSIII)</b>	<b>3,141,000</b>	c. 11,000	1

With regards to Inshore islands, which are too small to be NUTS III areas, and are therefore included in neighboring mainland NUTS III areas, they usually have a small or very small population, and could be regarded automatically as having Category 1 status.

**Practical implementation: using Island “grading” in the future Cohesion Policy**

The practical use of grading the various EU Islands according to their NUTS III demographic size is to provide a suitable framework to implement Cohesion Policy in these territories, bearing in mind the principle of proportionality.

It will be argued that if, as sometimes heard, the purpose of the EU Cohesion Policy is to enable EU Islands to “*unleash their potential*” (by developing endogenous industries, by exploiting natural assets or geographical opportunities, etc.) then such a policy should, in particular:

- complement the support of Structural Funds with a modicum of flexibility in the field of State Aid, to provide the private sector with the best possible environment to seize such opportunities,
- provide public authorities with the means to make islands more attractive, so as to retain population and activities,

**WHAT COHESION POLICY FOR THE ISLANDS?**

CONSTRAINTS	EU COHESION POLICY
Remoteness Limited or poor accessibility	Improve accessibility Reduce dependency on imports by promoting local production
Limited human and natural resources Environmental vulnerability	Investment in technologies allowing better use of existing resources. Meeting environmental challenges.
Heavy dependency upon mono-industry or limited number of industries	Diversification of activities
Seasonal economy (tourism)	Idem
Lack of economies of scale Small size of proximity market	Development of “niche” markets Support local processing activities enabling higher value exports
Higher cost of infrastructure and services	Limiting over-cost

It will be appreciated that what make the development of islands a special issue is the combination between the difficulties arising from accessibility, and all those related to size limitation.

All island regions, no matter their size, are confronted with such challenge, but it can be accepted that the size factor is a fair instrument for classification. For example inshore islands may be located relatively close to the mainland, but benefit from very little services because of their very small population. On the other hand, more remote, but much larger islands, whilst undoubtedly beset by the constraints of insularity, will benefit from a broader range of services because of their size.



Therefore, a mechanism based on the ideas raised in DG REGIO's document - that is, where the level of EU intervention would increase in reverse proportion to the size of NUTS III Island Regions - could be regarded as satisfactory. However, to have a significant impact, and not remain a mere symbolic gesture, this policy must be built from a minimal threshold of intervention, both in the field of Structural Funds and in the field of State Aid.

**Practically, this would mean:**

- That irrespective of their GDP/capita, all Islands would be at least included in the list of Intermediate Regions at minimum level (90%), so as to ensure that they receive a level of funding per capita reflecting the over-cost of infrastructure and services.
- That all islands would be at least covered by Article 107.3 c) for the purpose of State Aid, so as to enable them to deal with constraints such as limited market-size, lack of economies of scale, etc.
- That, on the basis of this "floor" level of intervention, a sliding-scale would be set, whereas the smaller an Islands NUTS III area would be, the more "intense" the level of EU intervention would be. Thus, the smaller islands would get more funding, as well as higher ceilings in the field of State Aid.

It will be stressed that the present proposal only deals with islands which are neither covered by Article 355 of the Treaty dealing with Outermost Regions, nor with islands which, because of their GDP/cap below 75%, are considered as "Convergence" Regions.

It is hereby assumed that on the basis of Article 355 specific provisions will be implemented for the allocation of Structural Funds to OMR, as it has been the case during the present programming period.

Also, OMR are automatically included in the framework of Article 107.3 a) for the purpose of State Aid.

**Convergence Regions automatically get the largest share of Structural Funds, and are covered by Article 107.3 a).**

## Present situation (abstract)

CATEGORY	Provisions with SF	Specific provisions with state Aid
Outermost Regions	+ special allowance	Automatic eligibility to 107.3 a) Specific rules
Islands $\geq$ 75% EU GDP/capita	Convergence funding	Eligibility to 107.3 a)
Other islands	Competitiveness & employment	Common rules apply for eligibility to 107.30 c), but for easier delineation rules.  Islands <5,000 inhabitants automatically in 107.3 c)

## Implementing Article 174

CATEGORY	Provisions with SF	Specific provisions with State Aid
Outermost Regions	+ special allowance	Automatic eligibility to 107.3 a) Specific rules
Islands $\geq$ 75% EU GDP/capita	Convergence funding	Eligibility to 107.3 a)
Other islands	Minimal level of funding = to at least 90% GDP per capita (intermediate Regions)	Automatic eligibility to 107.3 c)
Intervention scaled according to population size : Category 1: <50,000 inhabitants Category 2: 50' – 100' Category 3: 100' – 250' Category 4: 250' – 1 million Category 5: > 1 million	Modulated funding according to population size of NUTS III area  Regressive rate from category 1 to category 5	Modulated aid ceiling according to population size of NUTS III area  Regressive rate from category 1 to category 5 Higher “de minimis” ceilings on the same basis

## Overall impact in terms of population

In the current difficult circumstances, the political acceptability of the present proposal unavoidably rests upon the fact that it will be considered as “affordable” both in financial and political terms.

In other words, the population covered by the proposed measures must remain limited to avoid either unacceptable costs for the EU budget, or undue disturbance of the Regional Aids population ceiling.

### a) Impact of a “floor” level of intervention

According to our calculations, a policy that would grant automatic “Intermediate Region” status to all islands not already in that category (or above), and which would include these territories in the list of areas covered by article 107.3 c), would have a limited impact since it would concern some 3 million EU citizens.

By comparison, the population potentially covered by the “Intermediate Region” status (i.e. with a GDP/capita >75% and below 90%) totals close to 73 million people.

**Including these islands would only increase that number by some 4%.**

	A	B	C	D	E	F	G
1	Danemark	DK014	Bornholm	92	92	92	42913
2	<b>Grèce</b>	<b>GR43</b>	<b>Kriti</b>	<b>94</b>	<b>92</b>	<b>93</b>	<b>606274</b>
3	<b>Chypre</b>	<b>CY</b>	<b>Chypre</b>	<b>97</b>	<b>93</b>	<b>95</b>	<b>789269</b>
4	Suède	SE214	Gotlands län	94	99	97	57122
5	<b>Grèce</b>	<b>GR42</b>	<b>Notio Aigaio</b>	<b>113</b>	<b>111</b>	<b>112</b>	<b>305966</b>
6	<b>Espagne</b>	<b>ES53</b>	<b>Illes Balears</b>	<b>111</b>	<b>113</b>	<b>112</b>	<b>1045008</b>
7	<b>Royaume-Uni</b>	<b>UKJ3</b>	<b>Isle of Wight</b>	<b>115</b>	<b>116</b>	<b>116</b>	<b>139858</b>
8	<b>Finlande</b>	<b>FI2</b>	<b>Åland</b>	<b>145</b>	<b>143</b>	<b>144</b>	<b>27153</b>
9							
10	<b>Pays</b>	<b>Code</b>	<b>NUTS</b>	<b>2008</b>	<b>2007</b>	<b>Average 2007-2008</b>	<b>Total:3013563</b>

N.B.: These figures do not include Inshore Islands that are not Island NUTS III areas.

b) Impact of a “grading” mechanism resting upon the size of population at Island NUTS III levels.

A grading mechanism would see the smallest Island NUTS II areas benefiting the most, and the largest one benefiting the least. As said before, it would cover all islands not already covered by Article 355 of the Treaty, and not listed as Convergence Regions, namely, about 6 million people – this figure including the 3 million already listed as “Intermediate Regions because of a GDP/h between >75 and <90% of EU27.

It will be appreciated that the most “intense” measures would only concern a marginal population of some 300,000 people for the first category, and the next category only 400,000 – numbers which are hardly significant at EU level. Only the two following categories concern somewhat larger populations. No Island NUTS III area in that list has a population above one million.

Category	Population size of individual NUTS III “Island” areas (*)	EU population concerned by measure (*)
1	<50,000	312,504
2	50,000 to 100,000	412,324
3	100,000 to 250,000	2,077,763
4	250,000 to 1 million	3,189,761
5	>1 million	none

(\*) Islands other than Outermost Regions and Convergence Regions.

Not including small inshore islands belonging to a mainland NUTS III area, which could be considered automatically under Category 1.