Greater Lincolnshire Local Enterprise Partnership 33T– Written evidence (LPF0009)

Question 1

Has the UK Government consulted with you in developing the UK's negotiating position on the level playing field?

Whilst the government has not consulted Greater Lincolnshire LEP on an individual basis with regard to the level playing field, our LEP welcomes the inquiry into the level playing field and state aid, and this recent approach to the LEP Network from the House of Lords EU Internal Market Sub-Committee to comment on this crucial topic. Regional aid remains of high importance to our area and the structure and criteria of the emerging Shared Prosperity Fund will need to take into account local economic factors when formulating a new UK-wide state aid policy. Our comments below highlight our views on current state aid restrictions and where we feel key opportunities might lie for change/reform.

What is the level playing field, and how does it operate in existing EU free trade agreements?

Whilst we understand and value the need for a common set of rules and standards to ensure that businesses in one country do not undercut competitors in others, we also are aware of the opportunity of helping to shape a revised EU market approach for the UK, making the most of emerging relationships around the food sector in particular with America, China and India.

We recognise the need to ensure that trade between the EU and the UK remains fair and competitive. Unlike Canada where provisions for a level playing field in their free trade agreement are limited, our close proximity to the single market will mean that the EU expects more assurances to allow for a continued 'level playing field' particularly around workers' rights, state aid, taxation, and the environment. The recent government commitments made to Northern Ireland in order to avoid regulatory checks will undoubtedly affect to what extent British industries in general are able to be subsidised. In terms of state aid for example, the UK may decide to introduce a less stringent regime on competition and to apply rules that make mergers or acquisitions of businesses easier.

It is extremely positive that the UK's Competition and Markets Authority (CMA) is well-respected amongst its international peers. The Greater Lincolnshire LEP supports the observation made by the Lords EU Internal Market Sub-Committee that 'this provides an opportunity to build on existing expertise and take a more innovative approach to tackling global competition enforcement challenges, such as dominant online platforms'. We also support the need for negotiation of a 'formal cooperation agreement'. LEPs will be keen to contribute to discussions on a UK-wide domestic state aid framework at the end of the transition period and to help advise on how a free trade agreement might specifically enable increased growth of key sectors across the UK, helping to bring to life priorities identified through individual Local Industrial Strategies.

As highlighted by the Institute for Government in February 2020 the 'UK's written statement on the future relationship with the EU rejects the need for strong legal commitments on the level playing field', it looks 'to avoid EU law being the basis of establishing common standards and does not want to be subject to the jurisdiction of EU institutions.'

What are the EU's goals with its state aid policies, and how might any planned reforms at EU level affect the UK's negotiations with the EU?

We acknowledge that one of the most difficult areas of negotiation with the EU is likely to be state aid. The EU will most likely want the UK to continue to follow their rules and may insist on the UK Competition and Markets Authority deferring to the Commission on state aid decisions.

The European Commission plans to prolong for two years seven sets of State aid rules, otherwise expiring in 2020. It has also carried out an evaluation of those rules and of other state aid rules to assess whether to further prolong them or update them in the future. This major reform of EU State aid rules began in 2013, the State Aid Modernisation, allowing member states to 'quickly implement State aid that fosters investment, economic growth and job creation, leaving the Commission to focus its State aid control on the cases most liable to distort competition.' The seven state aid rules the EU is looking to prolong are:

- General Block Exemption Regulation (GBER)
- De minimis Regulation
- Guidelines on regional State aid
- Guidelines on State aid to promote risk finance investments
- Guidelines on State aid for environmental protection and energy
- Guidelines on State aid for rescuing and restructuring
- Communication on important projects of common European interest (IPCEI).

The supporting evaluation work covers all the rules above and the additional following ones:

- Framework for State aid for research and development and innovation (RDI)
- Guidelines on State aid to airports and airlines
- Railways Guidelines
- Short term export credit Communication

The evaluation will involve internal analyses by the Commission, public consultations and studies prepared by external consultants or targeted consultations of specific stakeholders.

Whilst we would not necessarily wish to comment on all of the above, from a Greater Lincolnshire LEP perspective a prolonged tie in to GBER, De-minmis and regional state aid will continue to act as a detractor to business investment, limiting the levels of support available, not taking into account local viability issues and constraining potential inward investment opportunities from outside the EU.

The rule on promoting risk finance investments looks to encourage development and expansion of innovative and high growth businesses, therefore we agree with the principle that an efficient and effective risk finance market for SMEs is of extreme importance to enable companies to be able to access necessary funding at each stage of development.

With regard to corporation tax, the UK could decide to cut its already low rate further, thus potentially making the UK a more attractive place to base a business while still being able to trade with the EU on preferential terms. This would certainly help with ambitions for UK cluster developments in certain sectors and expanding our own markets beyond the EU.

On environmental protection the EU has legislated to raise standards across Europe. Those standards could however impose extra costs on UK businesses, and lower standards in the UK could give UK-based business a competitive edge or force the EU to reduce its own standards to be able to compete. There will be a fine balance to be addressed on this rule by government given the need for stringent but realistic environmental regulation that avoids 'cross-border pollution'.

The EU has also proposed a policy framework for climate and energy in the period from 2020 to 2030. The pillars of the 2030 Framework are:

- A reduction in greenhouse gas emissions by 40 % relative to the 1990 level;
- An EU-wide binding target for renewable energy of at least 27 %;
- Renewed ambitions for energy efficiency policies
- A new governance system and a set of new indicators to ensure a competitive and secure energy system.

No one would argue the importance of a framework being in place across the EU in this regard, indeed across the world. The key to this negotiation for the UK will be the level of restriction on competitiveness and in what context.

State aid guidelines for rescuing and restructuring firms in difficulty were updated in May 2012 by the EU and three objectives were introduced as part of the modernisation process:

- To foster sustainable, smart and inclusive growth in a competitive internal market;
- To focus Commission ex ante scrutiny on cases with the biggest impact on the internal market while strengthening the cooperation with Member States in State aid enforcement;
- To streamline the rules and provide for faster decisions

The second area is likely to be most contentious in these objectives. The level of scrutiny applied and where the final decision might be made on what happens in these circumstances will be crucial, particularly where there is the potential for severe impact on local economies i.e. British Steel, Scunthorpe and wide supply chain.

The Greater Lincolnshire LEP supports the fact that the Europe 2020 strategy identifies research and development as a key driver for achieving the objectives of smart, sustainable and inclusive growth. The headline target set by the Commission which required 3% of the Union’s gross domestic product to be invested in R&D by 2020 was not a concerning one. 'Prompting and supporting initiatives for more innovative, efficient and greener technologies, while facilitating access to public support for investment, risk capital and funding for research and development' is something that should definitely continue as the future level playing field is considered by government as is access to finance for R&D/Innovation.

What opportunities are open to the UK in formulating its own state aid policy, in particular for supporting wider UK Government objectives such as "levelling up" the country and meeting climate targets?

- Addressing viability issues and site value differentials across the UK through creating a more level playing field for investment
- Using the experience and expertise within our LEPs to help respond to business needs – providing the right funding and policy tools in the short-medium term to focus and co-ordinate Local Industrial Strategy delivery
- Encouraging more private investment by having a more flexible but fair state aid policy
- Easier and improved access to funding for businesses, more options available to consider
- Greater opportunities around regional delegation and support – reshaping regional aid
- Flexibility around support to businesses at risk - could prove easier to negotiate and instigate rescue packages, thus limiting economic shocks as a result of significant local job loses
- Enabling key clusters to grow – focus on what we are strongest at regionally with support of the recent Local Industrial strategy research
- Controlling where we focus our environmental and climate change policies, not in a detrimental way, but taking into account what might have the greatest impact without compromising UK business or the public – for example, with obvious changes in our weather patterns becoming apparent what can we do in the short-term to manage flood risk more effectively? Should the UK be creating regional water management plans with an environment agency overview that considers cross boundary water flows in more detail (managing water levels only in one place might cause greater problems for another).

Question 2

The Prime Minister's speech of 3 February 2020 suggests that, while the UK will maintain a subsidy control system after the end of the transition period, this will not necessarily be based on EU state aid rules.

What should the UK Government take into consideration in designing a new domestic system, especially as far as regional aid and the planned UK Shared Prosperity Fund are concerned? What opportunities or potential challenges do you foresee for a new UK system?

We would recommend that the Government considers regional differentials when determining what happens with regional aid in particular. What works for one place might be detrimental for another. For example, land values in the south are generally much higher than in the midlands and the north, and viability and flood risk issues are big concerns both for the LEP and its stakeholders and potential developers. It means that the public purse may need to intervene in certain areas more directly in order to stimulate market interest and subsequently enable the growth and new housing provision the UK requires.

The UK Shared Prosperity Fund has a difficult task to balance the expediency and an accessibility of Single Local Growth Fund with the complexity and sometimes restrictiveness of the existing ERDF programme. The former would benefit from a more cohesive structure nationally and the latter from a less stringent, more inclusive and timelier approval process.

A new UK system should look to enable and support innovative scheme proposals from the private sector. Yes the level of public investment into any company or site needs to be well managed, but circumstances can sometimes mean that without that catalytic public investment no change will ever take place even if the location itself is proven to be the right one. A good example being our Food Enterprise Zones, research confirms that they are ripe for early cluster growth, further investment (both public and private) and expansion, impacting nationally and internationally, if core investment into land acquisition, infrastructure, central hub structures and utility provision can be brought forward quickly.

What implications, if any, does the current uncertainty over the shape of a UK future state aid or subsidy control regime have for you?

Being a predominately rural area with a large amount of coastline and very active ports, subsidies for farming, fishing, renewables and international trade are of particular interest to us. The longer uncertainty continues both on subsidies and state aid the more problematic things are likely to become for a substantial number of businesses within our area. That coupled with severe flooding issues and economic fluctuation has already made survival for many of our businesses extremely difficult, and yet South Lincolnshire has the UK's largest food logistics cluster, is the centre of the Fresh Produce Industry and has a large number of the UK's leading processed foods companies. With the right support the UK food chain will continue to grow; sales are currently over £225billion, creating a GVA of over £120billion and employing four million people from farm to fork. South Holland District where one of our Food Enterprise Zones is located is the food chain capital of the UK, with 38% of its GVA derived from the industry compared to 3% nationally. It is therefore important we collectively do all we can to ensure that this opportunity for growth is not compromised.

Please also see earlier comments above.

12 March 2020