

Regional Sustainability and Governance: The potentials of regional state aid

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Abstract:

The presentation of the conceptual level of regional economic policy making as well as the empirical examination of policy practice has shown that there is still a significant lack of integration of environmental and sustainability issues into other policy fields. Even for the federal province of Salzburg which has signed and drafted a number of environment and sustainability-related policy guidelines, many concrete policy instruments and programs do not account for integrative approaches. As a recommendation for regional policy makers, the cornerstones of a sustainability-compliant state aid program are drafted.

Keywords: regional economic policy, state aid, sustainable development criteria

1 Introduction

World-wide, governments spend more than 700 to 900 bn US\$ per year for state aid in the sectors agriculture, energy, water management and transport - spending categories that include potential harm to the environment (de Moor and Calamai, 1997). Myers (1998) even calculates subsidies of 1,400 bn US\$ that might be counter-productive and harmful to the environment.

While the mere sum spent on state aid might lead to significant distortions on markets - the economic literature is ambivalent regarding the economic effects of subsidies (see Getzner, 2004, for an overview and discussion) -, they pose a major challenge to the concept of sustainable development. The European Union is no exception in the vast subsidies jungle, with member states spending not less than 90 bn € per year (EC, 2001). However, the European Commission and the European Council have tried to limit state aid on two strands: On the one hand, state aid to companies is limited to payments not exceeding a certain amount where distortion of competition on markets is not to be expected. On the other hand, the European Union strives for the inclusion of ecological and social criteria that promote sustainable development (EC, 2001).

Sustainability criteria for providing state aid are not yet in force; however, sustainable development is a major development strategy at least since the European Council meeting in Gothenburg. The inclusion of ecological policies into other policy fields - i.e. the strategy of "integration" - is provided for since the European Council meeting in Cardiff. While the concepts for sustainable development and the inclusion into other policy fields seems to be clear in theory, practical policy making is often lags behind.

The current paper presents empirical evidence on the inclusion of sustainability aspects into regional state aid programs by discussing regional economic policies of the Austrian federal province of Salzburg. The "sustainability evaluation" of the regional state aids programs starts out with the conceptual level by analyzing the regional economic concepts and the guidelines on which state aid payments are based. Second, all subsidies paid to companies in Salzburg within 5 programs between 2000 and 2001 are explored regarding the inclusion of environmental criteria. Third, a proposal for promoting sustainable development on the regional level is presented.

2 Sustainability criteria at the conceptual level

On the conceptual level, the European Union has decided upon and provides a vast number of documents dealing with the definition and the implementation of sustainable development. For instance, the Environmental Action Program (EK, 2001; cf. ECF, 2001)) explicitly includes environmental aspects in other policy fields. The implementation of sustainable development is particularly considered to be a task of the regional authorities and institutions (European Environment Agency, 1997).

Sustainable development, anchored in numerous European Union documents, is also acknowledged as major strategy on the federal Austrian level. Many efforts have been undertaken to draft sustainability development plans and strategies (e.g. the "Austrian Sustainability Strategy"; Österreichische Bundesregierung, 2002). Commentators certainly criticize the practical implementation of sustainable development

concepts in policy making.

On the level of the federal province of Salzburg, the sustainability discussion does not seem to have reached policy makers. The regional economic development concept (Land Salzburg, 1997; Land Salzburg, 2003) only includes vague references to the importance of the environment as an economic factor, but falls far behind the integration of ecological issues into economic policy making. The economic concept of 1997 included "environment-oriented regional economic policy" as a policy field among others. However, this policy field was not detailed and did not list concrete policy initiatives to be taken. The concept of 2003 does not include any concrete environment-related policy fields and is, in this respect, clearly a step backwards.

The federal province of Salzburg has drafted a number of vertical state aid programs targeting the development of regional and small businesses, innovation and cooperation, as well as sectoral programs for aiding companies in the tourism sector. Table 1 presents the findings of a document analysis regarding Salzburg's guidelines for the allocation of state aid to companies. The table shows that environmental aspects in the design of the programs only play a very minor role; only one program (the program promoting energy saving investments) clearly accounts for environment-relevant criteria. Other important and relevant programs such as R&D, cooperation and networks, as well as regional subsidies based on the EU structural funds, do not include environment-relevant aspects.

Taking the conceptual level of regional economic policy making, the sustainability discussion does not seem to have reached the provincial (regional) levels of policy making. Neither the regional policy concepts nor the guidelines of the programs include sustainability aspects or criteria which can seriously be labeled "integration of sustainability/environmental issues into other policy fields".

3 Analysis of state aid practice

Between 2000 and 2001, 176 cases of regional subsidies to companies were analyzed to explore the relevance for sustainability targets. The dataset included all subsidies awarded in 5 programs. Depending on the definition of a "sustainability-promoting" project, different shares of all subsidy cases can be considered environment-friendly. Figure 1 shows, depending on definitions, between 13 and 75% of all projects might be labeled "environment-friendly".

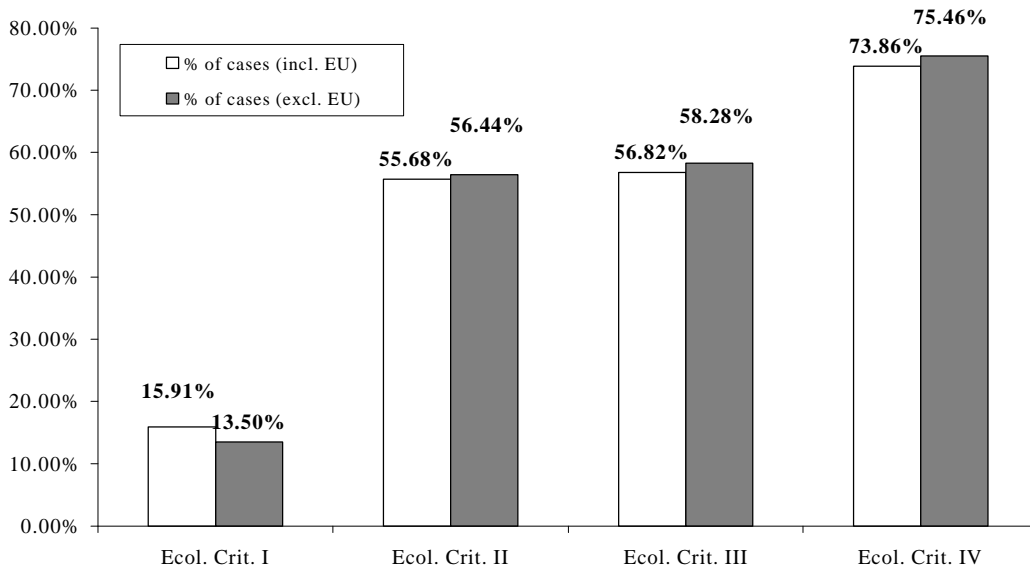
Figure 1: Shares of environment-friendly projects in Salzburg (see page 5)

Table 1: Environmental aspects in the guidelines of Salzburg's state aid programs

<i>Program</i>	<i>Ecology-relevant motivation</i>	<i>Ecology-relevant aims of the program</i>	<i>Ecological sustainability criteria</i>
1: Small businesses	NO	NO	NO
2: E-Business	NO	NO	NO
3: Local markets	MARGINAL	NO	NO
4: R & D	NO	PARTIAL	PARTIAL
5: Cooperation and networks	MARGINAL	MARGINAL	MARGINAL
6: Energy saving	YES	YES	YES
7: New entrepreneurs	NO	NO	NO
8: Regional subsidies (EU)	MARGINAL	MARGINAL	NO
9: Tourism	NO	NO	NO
10: Buildings	NO	NO	NO

Source: Getzner (2004, 72 f.)

Figure 1: Shares of environment-friendly projects in Salzburg

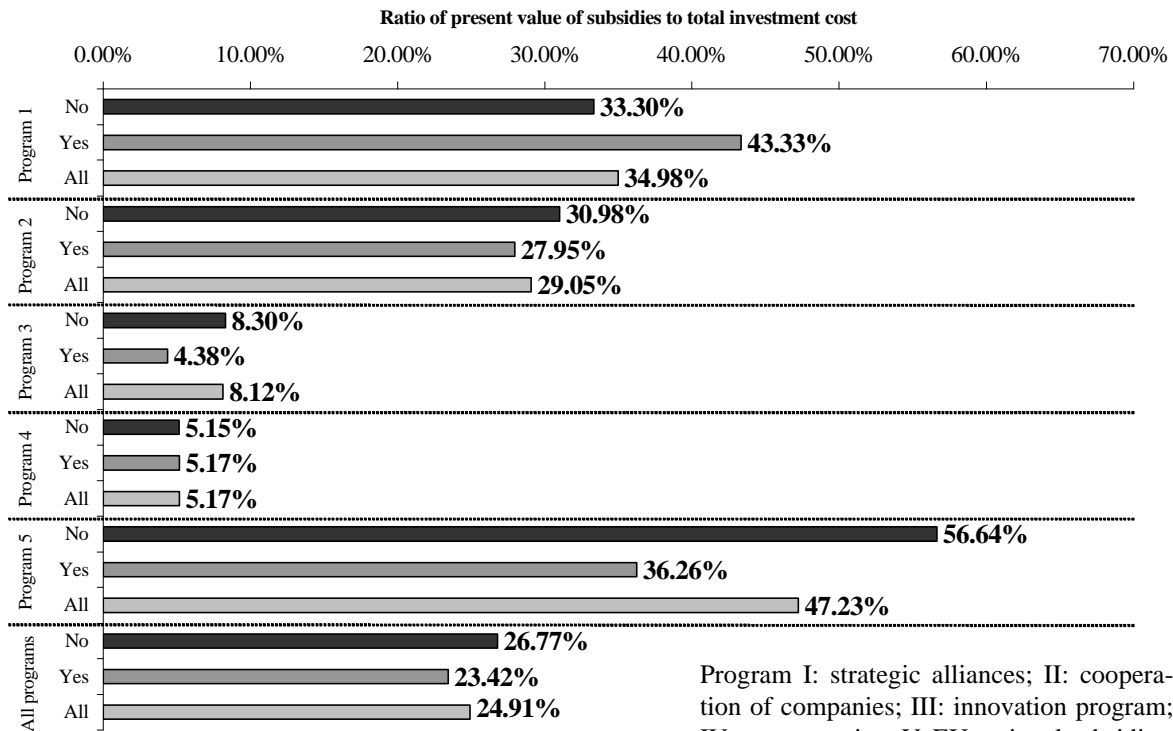


Source: Getzner (2004, 72 f.), based on the dataset provided by the regional government of Salzburg.

Ecological criterion I accounts for projects that include state aid targets that are explicitly related to the environment. Criterion II and III (in different weights) includes state aid cases whose description

of measures undertaken refer to environmental targets. Criterion IV is the widest ones labeling all cases based on the evaluation of the provincial government.

Figure 2: "Funding intensity" of projects receiving regional subsidies



Source: Getzner (2004, 99), based on the dataset provided by the regional government of Salzburg.

The most reliable criterion is no. II based on the description of measures taken. More than 50% of projects subsidized by the regional government have some environment-promoting element. However, it is important to analyze not only the number of cases but the extent to which different projects are funded. A measure for the "intensity of state aid" is the ratio of the present value of subsidies received to total investment cost. Figure 2 shows that, depending on the funding program, environment-friendly projects receive generally less state aid than projects without any ecological relevance. This result is somehow surprising in a number of ways:

- The federal province of Salzburg has signed the "Klimabündnis" declaration committing itself to a reduction of CO₂ emissions by 50% until 2010.
- Salzburg has also put sustainable development on the agenda of regional policies. However, integration of environmental aspects in other policy fields, such as promoting regional economic policies based on environmental criteria, has failed.

4 Proposals for a sustainability-promoting regional state aid program

The example of the federal province of Salzburg shows, that there are many ways to include environmental or sustainability criteria in the design of economic policies, particularly regional state aid. Taking regional programs of other Austrian provinces, the design of a coherent subsidies program might include the following elements:

- Ban of ecologically counter-productive projects;
- Ecological evaluation of projects and programs based on an easily administrable scheme;
- Inclusion of sustainability elements such as ecological criteria, economic viability and social balance.

Such a subsidies program might be embedded in a cleaner production program motivating companies to adopt sustainability policies. A new governance structure in the current context might mean increased participation of stakeholders in order to implement long-lasting relationships instead of paying one-off subsidies without any further examination of costs and benefits.

5 Summary and conclusion

The presentation of the conceptual level of regional economic policy making as well as the empirical examination of policy practice has shown that there is still a significant lack of integration of environmental and sustainability issues into other policy fields. Even for the federal province of Salzburg which has signed and drafted a number of environment and sustainability-related policy guidelines, many concrete policy instruments and programs do not account for integrative approaches.

This diagnosis is surprising in three regards: First, the public discussion on sustainable development is at least 15 years old, and concepts have been drafted since then. For instance, Austria has seen sustainability concepts at least since 1991, and Salzburg was on the forefront of drafting environmental policies. Second, Salzburg has itself committed to a number of environmental targets. Third, the design of environment-related subsidy schemes is a task which can be fulfilled rather easily compared to other policy fields. The lack of environmental and sustainability issues in regional economic policies can thus be considered no less than a failure of policy makers to achieve integrative approaches in regional policies (and politics?).

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