

State aid: Commission endorses tax reductions for the free zone of Madeira for the period 2007-2013

The European Commission has approved under EC Treaty state aid rules a scheme providing tax reductions worth €300 million until 2020 to companies setting up in the free zone of Madeira (ZFM) between 2007 and 2013. The granting of the aid is subject to requirements to create jobs and strict safeguards as to the implementation of the aid. The Commission was satisfied that the aid was intended to promote regional development in Madeira by enabling companies established in this outermost region to overcome their structural handicaps.

Competition Commissioner Neelie Kroes said "The aid will contribute to attract investment and economic activity to Madeira, supporting cohesion in the EU and regional development in this outermost region."

The ZFM comprises an industrial free zone, an international services centre and an international shipping register. New companies licensed to carry on business there between 1 January 2007 and 31 December 2013 will benefit from a reduced tax rate of 3% in 2007-2009, 4% in 2010-2012 and 5% in 2013-2020.

Access to the scheme will be restricted to companies which meet specific eligibility criteria, based on the number of permanent jobs created. The tax benefits will be limited by a ceiling placed on the taxable base per company which ranges from €2 million (where less than three new jobs are created) to €150 million (where more than 100 new jobs are created). The companies involved will have to start business within a fixed time limit (six months in the case of international services and one year in the case of industrial or shipping activities), beyond which they will lose their licences.

Admission to the ZFM is also restricted to the activities included in a list drawn up by the Portuguese authorities on the basis of the statistical classification of economic activities in the EU. As under the previous scheme, authorised by the Commission on 11th December 2002 (see [IP/02/1849](#)), financial and insurance intermediary activities, financial and insurance auxiliary activities and "intra-group services" (coordination, accounting and distribution centres) are explicitly excluded.

The Commission has assessed the aid in the light of the Regional Aid Guidelines for 2007-2013 (see [IP/05/1653](#)). Under the Guidelines, Madeira is fully eligible for regional aid until the end of 2013.

The fiscal advantages provided by the scheme are qualified as operating aid, which is generally prohibited under EU state aid rules. However, Article 299(2) of the EC Treaty recognises the specific permanent handicaps of the outermost regions: remoteness, insularity, small size, difficult topography and climate, and economic dependence on a few products. Therefore, the new Regional Aid Guidelines allow operating aid for such regions as Madeira provided the aid is limited to offsetting the additional costs for pursuing economic activities in these regions.

The Commission's examination of the ZFM showed that the aid is targeted at specific handicaps of Madeira and is proportionate to the additional costs resulting from these handicaps. Moreover, in the past the measure has contributed positively to the regional development of Madeira.