

The state grants aid to small and medium-sized enterprises to help cover the costs of transporting products. Transport aid is granted to SMEs for transport starting in Lapland, Northern Ostrobothnia, Kainuu, North Karelia and South Savo. The 2003 state budget includes 3,364,000 euros for this purpose. Transport aid has been granted to about 250 companies a year, with the largest number operating in the wood and stone industries.

The purpose of the present audit was to find out how well the transport aid system works and produces the desired effects. Answers were sought particularly to the following questions:

- What effects is regional transport aid intended to have?
- What has been achieved with the help of aid?
- How well has the transport aid system achieved the desired effects? What factors have prevented or reduced effectiveness?

The Act on Regional Transport Aid is part of broader regional-policy legislation. The objective is to lower the additional transport costs of companies operating in remote regions, to improve opportunities to increase existing production in remote regions, to achieve new production and to raise the level of processing in existing and new production.

Government bills have provided scant information on the effects of the Act on Regional Transport Aid and subsequent amendments. Practically the only thing they have evaluated has been savings in transport aid appropriations. They have not evaluated how amendments affect companies' transport costs, production or level of processing or how they affect different regions and influence regional development possibilities, for example.

According to company surveys, the most significant effects of transport aid involve improving competitiveness and developing operations locally. Transport aid is not considered as significant when it comes to increasing production or raising the level of processing, which the Act on Regional Transport Aid includes as objectives. The smaller a company is, the greater significance it attributes to transport aid. Companies in Lapland and especially the Province of Oulu say that transport aid has a greater effect on operations than companies in other regions.

According to audit observations, transport aid has mainly gone to industries which are located near raw materials and take advantage of local natural resources, labour and skills. These industries are the same which regional financiers and developers have striven to promote. The most important thing for transport in these industries is cost effectiveness; transport costs are high and regional variations are large. The audit indicated that the focusing of transport aid has been appropriate on the above grounds.

There was no evidence that transport aid has distorted competition, nor has this risk been considered likely with the percentage of costs which transport aid presently covers.

On the basis of the audit it appears that administration does not know enough about the additional costs of companies operating in more remote regions or how much transport aid makes up for differences in costs over different distances. The audit indicated that the longer the distance, the lower the portion of transport costs is covered by aid. Cost differences between companies with different transport distances also appear large. More precise information on transport costs is necessary so that the transport aid system and the scaling of aid can be developed thoroughly to make the system work as effectively as possible.

The Act on Regional Transport Aid has been extended seven times. In five cases the extension has been for one or two years. The present Act is in force up to the end of 2003. The short-term nature of legislation has not provided adequate conditions for the thorough evaluation of the effectiveness and appropriateness of the aid system and the development of the system.

According to the EU's regional aid guidelines, operating aid must be limited in time and progressively reduced. An exception is aid intended partly to offset additional transport costs in sparsely populated regions. On this basis and since additional transport costs due to long distances are permanent in nature, consideration should be given to making the Act on Regional Transport Aid permanent.

The list of products which are eligible for transport aid has remained practically unchanged for two decades. The audit did not find that this had limited or hampered the promotion of new production, which is one of the objectives of the Act on Regional Transport Aid. The list of products includes a number of outdated or obviously unnecessary items, however. It also includes products for which transport aid cannot be granted according to the EU's Treaty. In these respects the list of products is misleading. In developing the transport aid system, the product list should be revised or consideration should be given to omitting the product list in its present form.

Transport aid is not available for air freight. On the basis of the audit an evaluation should be made of the significance of air freight for SMEs' products and how the inclusion of air freight in transport aid would affect the achievement of the objectives of the Act on Regional Transport Aid.

At the beginning of 1997 the number of regions in which transport aid can be granted was substantially reduced. Since then the Parliamentary Finance Committee has repeatedly called for the number of regions to be increased. The reduction was due to a decision of the European Commission on the basis of which the regions which can benefit from such aid are NUTS level II geographical units with fewer than 12.5 inhabitants per square kilometre.

In redefining regions in which transport aid can be granted, land area was used instead of total area, which also includes waters. The European Commission and Eurostat recommend the use of land

area but this recommendation is not mandatory. In general waters tend to lengthen transport distances rather than shorten them. Consequently it is justifiable to use total area as a criterion in determining which regions can benefit from transport aid. The Ministry of Trade and Industry should find out from the European Commission whether this is possible. This should be done promptly so that Parliament is aware of the Commission's position when it makes any changes in the regions eligible for transport aid and decides on the amount of transport aid as of the beginning of 2004.