Revision of guidelines on national regional aid

Report written by
Metis (Herta Tödtling-Schönhofer,), and EPRC (Fiona Wishlade).
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List of abbreviations

CoR	Committee of the Regions
EC	European Commission
ERDF	European Regional Development Fund
ETC	European Territorial Cooperation
EU	European Union
EU12	Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Romania, Slovakia, Slovenia
EU15	Austria, Belgium, Denmark, Finland; France Germany, Greece, Italy, Ireland, Luxembourg, Netherlands, Portugal, Spain, Sweden, UK
GDP	Gross domestic product
GBER	General block exemption Regulation
GGE	Gross grant equivalents
LAU	Local administrative units
LIP	Large investment projects
LRA	Local and regional authorities
MS	Member States
NRA	National regional aid
Ppt	percentage points
PPS	Purchasing power standard
RBER	Regional block exemption Regulation
RAG	Guidelines on national regional aid
RDA	Regional Development agency
SAMI	State Aid Modernisation Initiative
SGEI	Service of general economic interest

1 Summary

The purpose of national regional state aid is to support economic development in less developed regions, but balancing such support against trade and competition distortions. The current framework follows a risk-based approach towards regional aid discipline. Regional aid maps are one of the cornerstones of RAG[1]. Whereas schemes meeting clear criteria (transparent, compliance with aid-ceiling and intensities of the RAG, incentive effect etc) are exempt from notification, large projects and schemes not meeting these criteria need to be notified to the EC and need approval. This approach has led to simplifications, but an increased burden of intelligence, reporting and publicity has been shifted to the national and regional level.

LRA are affected by the state aid regime in several ways: First, in less developed regions significantly higher aid ceiling are admitted and a wider range of aid schemes is possible. These maps are a major concern when it comes to new deliminations at the beginning of a new period, especially when regions lose a status and need to adapt to a different framework. However, throughout the current period, very little requests for changes have been raised.

Second, LRA may operate aid schemes – or implement projects supported by structural funds and thus need to ensure that state aid obligations are respected. In this position they have to be aware of the complex regulatory framework. Thus any reform of state aid needs to assess first the impact on specific territories through the designation of aid maps and second the impact on LRA in terms of transparency and fair conditions, manageable administrative effort and a technical reasonable approach.

Two types of aid are of interest: schemes and aid to individual projects.

Regional aid schemes amount to 0,8% of the GDP in EU 27. Still, surprisingly little information is available on the effectiveness and efficiency of spending. Obviously in absence of an obligation to conduct evaluations - like for structural funds programmes - public authorities are widely reluctant to apply the same rigour for national or regional public expenditures. From literature analysis there appears to be no systematic correlation between state aid and regional disparities. State aid is unevenly distributed across regions and over time and not proportionally granted to the most needy regions.

[1] Type a) - regions are defined by a very simple and straightforward criteria, GDP/capita in PPS measured in % of the EU average. (Aid intensities may be between 30 and 70%, depending on the size of the company and the level of GDP). For type c) regions the criteria allow for a flexible framework in respect to administrative units and indicators used. Intensities are between 15 and 35%.

63 regional aid schemes have been notified since 2007. From the perspective of LRA it is important to note that these schemes often have a sectoral approach, a fact that reflects the aid scheme framework. Multi-sector aid or other type of generic support for local enterprises is less frequent.

Under RAG 2007-13 **very large cases of aid** (large investment projects – LIP) are subject to case-by-case scrutiny by the European Commission. In practice, there are comparatively few such cases and the Commission raises no objections to the majority based on an initial screening of projects (in relation to the market share of the beneficiary and the potential increase in capacity in declining markets). If the Commission has concerns, it must open an investigative procedure before reaching a conclusion. This may involve proceeding to an in-depth 'balancing' of the negative effects of the aid on trade and competition and positive effects on regional development (jobs created, quality of jobs, knowledge spill-over etc) based on criteria set out in a guidance note.[2] To date, the Guidance has only been applied in very few instances.

LRA face specific problems related to state aid for **European territorial cooperation programmes**: projects are usually small enough not to distort any competition or trade. Still, operational practice has shown that the 26 categories of the GBER are not appropriate to define exemptions from notification in a cross-border or multi-country environment and the eligible aid intensities do not take account of the additional organisation costs of cross-border projects. Notification procedures involving different Member States prove to be very difficult.

An obviously successful example of flexibility was the **Temporary Framework** for state aid to combat the financial and economic crisis. State aid exemptions were mainly used to support SME and a few large enterprises. Most of the impact presumably contributed to support regional economies. In some Member States mainly regional authorities used these instruments to tackle consequences of the crisis.

RAGs are a major field for **controversial perspectives and conflicting views**. The consultation process reveals an obvious focus on the regional aid maps as the most tangible and comprehensible feature of the complex regulatory framework. Most responses show reluctance to substantial changes of the method, albeit there are many proposals for significant amendments. These refer to increasing the flexibility of the maps, a stronger emphasis on the employment situation, a wish to maintain the aid intensity, but smoothen the differences

[2] Communication from the Commission concerning the criteria for an in-depth assessment of regional aid to large investment projects [2009] OJ C 223/3.

between various regions. LIP are considered a s special cases that should still be eligible, as they create major employment effects, but the investment should be based on sound scrutiny. One major point is the criticism of the sectoral approach, which is outdated, given the European and national strategies towards smart, sustainable and inclusive growth.

In particular, the **revision of state aid** is taking place in a difficult economic climate. This has direct implications for policymaker attitudes towards support for business investment and for the budgetary capacity of regional policy. At a practical level, differences between and within Member States in the depth and duration of the recession have rendered EU-wide measures of GDP per head rather volatile, with direct implications for the designation of assisted areas which are largely based on EU averages. In consequence, a number of the same issues affect both domestic State aid policy as driven by the RAG as well as EU cohesion policy.

The most fundamental change proposed by the Commission (in a widely circulated but not published so called “Non-paper”) is arguably that regional investment aid would only be available to large firms if they are located in type a) regions. This is turn means that, for many countries, the function of the assisted area map is simply to determine where small and medium-sized firms can benefit from higher than standard rates of award.

It now seems clear that the Commission is aiming for coverage of around 42 percent of the population, though this figure has no real significance in itself. Indeed it could be argued that there is no real justification for reducing coverage as, even following enlargement, coverage remains significantly below 50 per cent of the EU population. Moreover, if regional aid in the type c) areas is limited to SMEs (and it remains to be seen if this is the outcome), there is arguably a case for raising this ceiling and allowing domestic authorities greater flexibility notably in the context of the economic crisis, but also reflecting the more limited competition concerns of support for SMEs.

Major changes will result not only from a change of rules but also from updated data. The latest figures on regional GDP(PPS) per head imply a substantial reduction in type a) region coverage. This in turn means that it is difficult to generalise about the impact on LRA since an updated data set is likely to result in some regions losing eligibility and others gaining it. Type a) regions would fall from around a third of the EU27 population to about a quarter of the EU27 population. However, reductions in coverage are not evenly spread: some MS would loose all type regions (DE, MT), some the capital regions (PL, RO, SI), where the latter are all above the 90 percent EU27 GDP(PPS) per head threshold.

The largest changes would affect type c) regions, where winners and loosers are equally distributed over Europe. Regions in some Member States rather benefit from the Non-paper method (most IE, followed by PT, PL, RO and FR), whereas Spanish regions lose dramatically, but also NE, AT, DK, DE and UK. FI and SE may further rely on the low population density indicators.

A more general point for LRAs is the emphasis on *relative* values in the regional analysis for the purposes of area designation under competition policy. This means that regions can be included or excluded from eligibility not because their *absolute* situation has changed, but rather their position relative to others. It can be argued that, while there is some justification for this approach in the context of EU Cohesion policy, this may be less justified in the context of regulating *domestic* policy.

In principle this study argues in favour of keeping the changes related to the map to a minimum and avoiding situations, where regions lose their type a) status even are not granted c) status.

Indicator always have shortcoming and – except for including the employment rate as labour market indicator instead the unemployment rate – the recommendation is rather to focus on flexibility of the delimination of type c) regions and improve the assessment of the impacts of LIF on regional development impacts and general welfare levels.

Regional aid has a significant part to play in the achievement of EU 2020 goals. Goals on low carbon / renewable energy are extremely ambitious, investments in the sector are very capital-intensive, both for R&D and for new production. Regional aid to encourage innovation and investment in the renewable energies and other sectors can be encouraged without distorting the market.

Aid to large enterprises can be delivered in a way which supports economic growth and boosts job numbers without damaging competition – where properly controlled and scrutinised, investment projects contribute far more to social and economic cohesion than they detract from free market principles. It is of course essential to control for deadweight and only support investments where these would not have gone ahead without support; where they provide wide economic and social benefits; and only to the value required for the investment to take place.However, it is important to ensure that investors are not engaged in ‘gaming’ different regions, and that the control should be that the investment would not have happened anywhere in Europe. There is a risk that in trying to stop this kind of ‘Intra-European’ competition, the ability of Europe to compete for investment against the rest of the world is put at risk.

Furthermore regions and member states should be encouraged to improve transparency and rationality in their aid schemes which involves the establishment (or improvement) of reporting and evaluation. The EC is asked to provide better a coherent and clear framework but also specific guidance for individual LRA in case of questions related to national regional aid, include ETC programmes and projects under GBER but keep the changes toward eligibility of regions to a minimum.

2 The scope of this paper

This working paper discusses the main elements of the current guidelines on national regional and related regulatory framework, the current reform of the state aid framework and the national regional aid from the perspective of local and regional authorities (LRA). Providing an assessment of the impact of the European regulatory framework for national regional state needs to start off from an understanding of the current framework, the current and planned changes and any criteria for judging the impact on LRA. It needs to be highlighted that the analytical framework for such an assessment is weak, due to a lack of empirical studies and evaluations of the impact of regional aid schemes on regional economies, and the impact of the regulatory framework on handling and reaping benefits of regional aid schemes for LRA.

This paper starts with a short description of the current regulatory framework relevant for LRA dealing with regional aid (chapter 2.1) and explains how LRA might be affected by NRA and suggests criteria, that are relevant for assessing the impact of the RAG (Regional Aid Guideline) and related rules on LRA (chapter 2.2). The following chapter 3 discusses current experiences with the RAG. Starting with a short review of the regulatory context (chapter 3.1) the regional aid map including the national flexibility for type c) regions is analysed (3.2.). A large part of RAG is covered by regional aid schemes. Based on the analysis of the scarce literature available on assessing regional aid schemes a short analysis of the notified aid schemes is given (3.3). Chapter 3.4 moves to the large subject of assessing regional aid for large investment projects, reviews a few of the recent cases and analyses the assessment method of the EC. The use of the temporary framework for crisis measures (3.5) and the special case of the border regions (3.6) highlight specific issues relevant for LRA. The results from the public consultation on the present RAG is reflected in chapter 3.7, based on an analysis of the comments from the various responding institutions.

Chapter 4 explains the background of the reform of RAG (chapter 4.1), the proposed changes as laid down in the non-paper (4.2). Furtheron it discusses the implications of the change of scope nd aid ceilings (4.3) and of the population coverage (4.4) to LRA. On the basis of tentative calculations with new data and according to the suggested rules the implications on the new maps for type a) and type c) regions are shown (4.5, 4.6 and 4.7). This paper concludes with an indication, which of the current rules work well and should be maintained and where and to what extent changes are recommended (chapter 5). In the annex a detailed comparison of the existing framework with the proposed changes by the Non-paper is provided (annex 1). Annex 2 includes a set of tables providing supplementary information to chapter 3 and 4 and finally, in Annex 3 a short summary of the previous CoR-Opinion on the current RAG 2007 -2013 is given.

2.1 Regulatory framework for national regional aid

National regional aid (NRA) is to support investment and job creation in the most disadvantaged regions in Europe and in the individual member States. The **guidelines on national regional aid (RAG)**[3] for the period 2007 to 2013 form the basic framework for disciplining regional aid. This determines the designation **of regional aid maps**, i.e. the regions designated under Article 107(3)(a) (the type a) regions), the population eligible under Article 107(3)(c) (the type c) areas)[4] , the criteria for selecting the type c) areas (a process undertaken at Member State level, but requiring approval by the Commission), the **maximum rates** applicable in all eligible areas as well as a range of other criteria concerning eligible expenditure, sectoral coverage and type of aid; aid ceilings related to the size of enterprises (small/medium/large) and the type of investment (large investments/start up enterprises)[5]. A specific EC guideline explains criteria for an in-depth assessment of regional aid to **large investment projects**[6].

"Enabling regulations" help to simplify state aid procedures:

- The **General Block Exemption Regulations for State aid** (GBER)[7] declare specific categories of state aid (e.g. SME, training, employment and regional aid, aid for the protection of the environment, the creation of small enterprises by women, research, development and innovation, risk captial aid) and specific conditions (transparency etc) – if fulfilled, compatible with the Treaty. Then this state aid is exempted from the requirement of prior notification and Commission approval. The Member State (MS) only has to submit information sheets on the implemented aid.

[3] COM (2006/1628) Commission Regulation (EC) No 1628/2006 of 24 October 2006 on the application of Articles 87 and 88 of the Treaty to national regional investment aid
[4] formerly 87 (3)(a) and (c)
[5] According to art 107 of the TFEU "The following may be considered to be compatible with the internal market: (a) aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment, and of the regions referred to in Article 349, in view of their structural, economic and social situation; (c) aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest;
[6] EC (2009): Communication from the Commission concerning the criteria for an in-depth assessment of regional aid to large investment projects. 2009/C 223/02
[7] Regulation No 994/98 of 7 May 1998,

- **The de minimis rule**[8] **states that** aid of no more than EUR 200 000 granted over a period of three years from is not regarded as state aid within the meaning of Article 107(1) TFEU and thus need not be notified to the EC.

Rules with horizontal objectives explain under which conditions state aid for environmental **protection**, for research and development and for rescuing and restructuring firms in difficulty.

To combat the economic and financial crisis the EC has launched a series of measures to enable fast reaction of the MS. Among this was the **"Temporary framework for State aid measures"** to support access to finance in the crisis[9].
MS were authorized to implement new instruments or modify existing schemes[10] immediately after notification (without notification of individual aid within the terms of the approved scheme). Such measures had to be temporary (originally intended until the end of 2010, but then were prolonged until the end of 2011), and were only to be granted to companies which were in difficulty due to the crisis. It allowed a lump sum of up to 500.000 € per undertaking (which was equivalent to an increase of the de-minimis clause).

The **Revision of RAG** takes place in context of severe budget constraints in most MS. Principally the regulatory framework remains unchanged, but there are some changes planned that might impact on the regional aid schemes significantly. Especially the scope and the intensity for granting state aid should be limited.

[8] It sets a ceiling below which aid is deemed not to fall within the scope of Article 107(1) TFEU and is therefore exempt from the notification requirement laid down in Article 108(3) TFEU. Such aid needs to be transparent, which implies that the amount can be calculated precisely in advance without needing to carry out a risk assessment. The regulation does not apply to aid for fisheries and aquaculture, the primary production of agricultural products, export-related activities, the coal sector, the acquisition of road freight transport vehicles or firms in difficulty, or to aid tied to the use of domestic over imported goods.
[9] OJEU no C83/1 of 7 April 2009
[10] According to Art 107 (3) (b) state aid may be compatible with the Treaty where it remedies a "serious disturbance in the economy of a Member State". The conditions were that the aid scheme needed to expire by end of 2010, that it was a horizontal scheme applying to all sectors of the economy and small as well as large enterprises and that the aid only was to be granted to initially sound firms, that entered into difficulties due to the crisis. MS were allowed to provide schemes to cover investments up to 500.000€ per undertaking (500k measure) over a period of 2 years. In fact this was not an increase of the de-minimis ceiling, but a new aid measure with temporary character. Furthermore MS were given the possibility to offer state guarantees, subsidized interest rates, soft loans for green products, risk capital, export credit insurance.

2.2 The role of LRAs in Regional Aid

Local and regional authorities may have different roles and functions within the state aid framework: First they are affected by the aid ceilings related to eligible areas (the “map”). If located in a type a or type c region economic entities may benefit from higher state aid. Thus a LRA has the opportunity (or the necessity) to pay higher amounts of subsidies in order to attract and support enterprises. Second LRA are affected as they are practitioners operating aid schemes (either directly or through delegated bodies like RDA) and thus need to apply the regulatory framework. If dealing with projects co-funded by structural funds, they need to ensure that state aid rules are respected. The level, to which LRA are involved in state aid also depends on the political-administrative system of the respective Member State and the amount of financial and legal competencies the regional level is endowed with. Several countries in the EU-15 have decentralised political-administrative systems such as Austria, Germany, UK, France whereas most of EU-12 countries reveal more or less centralised systems (Czech Republic and Poland are frontrunners in the process of decentralisation in the EU-12). The table below outlines the different implications of RAGs for national, regional and local level.

Table 1. The challenges of RAG for the national, regional and local level

Level	**Relation RAGs**	**Challenge**
National	Usually key authority and information hub as regards state aid Line ministries and agencies develop and implement aid schemes	Establish and negotiate map with EC, in particular in EU-15 - defining framework for c-areas Provision of sufficient capacities to guide work of institutions which develop and implement aid schemes at all levels (also for LRAs!) Transparent management of aid schemes Crisis management (economic, natural disasters etc)
Regional	*Decentralised and deconcentrated countries:* Developing and implementing aid schemes	In particular in case of c)-areas - negotiating position with other regions Transparent management of aid schemes
	Centralised countries: Mostly partial role in decision-making on granting aid (predominantly as part of EU	To raise the awareness on the issue of state aid at regional and local level (since regions tend to act as recipients rather than to

Level	Relation RAGs	Challenge
	Cohesion Policy)	provide guidance and support)
Local	Tailored aid schemes of cities Support local firms in access to aid schemes	Options to consult intended schemes or projects with experts at regional or national level Uncertainties about the application respectively the implications of several combined regimes (de minimis, GBER, RAGs, ad-hoc aid)

2.3 Criteria for assessing the regional aid rules

Criteria for assessing the impact of NRA need to relate to potential policy impacts on EU territories and on LRA. From a previous study on impact assessment the following factors[11] need to be taken into account when assessing a policy proposal:

Impacts on specific territories:

- Specific economic impacts on regions;
- Social impacts affecting equal access to services and goods, health or the involvement of relevant stakeholders;
- Environmental impacts that affect land use, transport, energy or any other similar impact on territories.

Impacts on local and regional authorities (LRA):

Here the considered impacts relate to the involvement of LRA in policy design, implementation, evaluation, the impact on local finances and the need to consider national competences. Above these generic criteria some further issues should be respected in relation to NRA:

- Transparent and fair conditions for all LRA, with a coherent and consistent set of rules that do not allow for exceptions due to the

[11] Tödtling-Schönhofer et al (2010): Impact Assessment at the CoR - Methodology and its implementation. Commissioned by the CoR/ DTC Unit 3 Networks and Subsidiarity under Contract CDR/ETU/198/2008

negotiation power of a Member State (not: depending on the exemptions a Member State is able to negotiate);

- Manageable administrative effort, that is proportionate to the potential detrimental impact of a subsidy to the internal market: rules on state aid have developed into a fragmented and complex legal framework, requiring specific legal expertise and effort, that might be little related to the potential market distortion;

- Reasonable approach, that takes account of the present stock of knowledge on social, economic and territorial cohesion and supports those public interventions that enhance smart, sustainable and inclusive growth in less developed regions and allows for development strategies tailored to the needs of the specific region.

3 Assessment of the current framework from the perspective of LRA

3.1 Regional aid principles

In recent years the EC has increasingly pursued a two-pronged approach to regional aid discipline. On the one hand, it takes a more relaxed approach to schemes meeting clearly specified criteria; on the other, large individual aids and certain types of measure are subject to scrutiny. In consequence the responsibilities of the Member States in relation to transparency, monitoring and reporting have increased – in part shifting the burden of policing regional (and other) aid to the national and subnational levels. In effect, the Commission's approach is calibrated according to its perception of risk to competition.

- In the 'low-risk' category are measures which meet the tightly prescribed criteria of the GBER, with the *qui pro quo* that the burden of policing falls largely to the Member States.

- In the 'medium-risk' category are measures which lack the transparency for exemption or which involve the subsidisation of ongoing costs; these require case-by-case scrutiny of the scheme, but not, in general, of individual awards under approved schemes.

- In the 'high-risk' category, and meriting individual analysis at the level of the firm, are very large awards, even when offered under schemes that are either approved or exempted, together with ad hoc awards offered independently of any aid scheme.

Overall, this regulatory architecture makes the **GBER** of prime important to LRA, alongside, of course, the basic structure imposed by the RAG. In order to fall within the scope of the GBER,[12] aid schemes must be 'transparent', must comply with the geographical coverage and aid ceilings of the approved regional aid map and aid must have 'incentive effect'. In addition, eligible expenditure must meet certain criteria, notably that investment be retained in the recipient region for at least five years (three for SMEs).

[12] The Regional BER applied to schemes put into effect between 31 December 2006 and 31 December 2008. The Regulation enabled schemes meeting certain criteria and whose legal basis cites the Regional BER to be exempted from prior notification and Commission approval. After 31 December 2008, the Regional BER was repealed by the GBER, but schemes already introduced under the Regional BER were unaffected and may remain in place until 31 December 2013. The remainder of this section outlines the terms of the GBER, which came into force on 29 August 2008.

Ad hoc aid which is used to supplement aid granted on the basis of transparent regional aid schemes, and which does not exceed 50 percent of the total aid, is also exempt from notification provided that the *ad hoc* aid fulfils all the criteria of the Regulation.[13] This provision enables, for example, a local authority to complement national level incentives (subject to the prevailing regional aid ceiling); however, it does not allow for the use of *ad hoc* aid independently, which must be notified and assessed on the basis of RAG 2007-13.

The following categories are **not exempted from notification** under the GBER and must be approved by the EC on a case-by-case basis prior to implementation:

- Non-transparent regional aid schemes or those not meeting the criteria with respect to incentive effect;

- Regional aid schemes targeted at specific sectors of economic activity[14] within manufacturing or services;

- Regional aid schemes which involve operating aid;

- Regional aid for large projects on the basis of existing schemes where the amount of aid exceeds the notification threshold – i.e. the amount that a €100 million investment could receive;

- *Ad hoc* aid, other than that which supplements exempted aid;

- Aid to firms which are subject to a recovery order following the award of illegal and incompatible aid.

Member States must provide summary information on schemes they deem to be exempted from notification within 20 days of implementation. The full text of the aid scheme must be published and the direct internet address of the publication provided. Regional aids to large projects (those involving eligible expenditure exceeding €50 million) must be reported within 20 days of aid being granted. Records of aid awarded under exempted schemes must be maintained (for 10 years); these must be sufficiently detailed for the Commission to establish that the conditions of the Regulation have been complied with. Last, the GBER provides for the monitoring of the implementation of the terms of the Regulation.

[13] GBER, Article 2(5).
[14] schemes targeting tourism are not considered specific

The de minimis facility is also important in the present context. This enables support below a certain level – generally €200,000 – to fall outside the scope of the State aid rules. This facility is likely to be of particular relevance to support provided by LRA, and especially to SMEs. A consultation of this has just closed, but the responses are not yet in the public domain.[15]

Though the rules have been simplified through the GBRD, the entire regulatory framework is very complex, as it implies a variety of different rules, is differentiated by sectors and size of companies and varies between regions. This implies that any practitioner dealing with NRA schemes (or schemes or projects supported by structural funds) needs to be aware of this complex framework. For smaller LRA lacking dedicated legal expertise this might pose substantial resource and capacity problems.

3.2 Regional aid maps

The delimination of areas is one of the most widely debated features of the RAG. The substantial degree of flexibility offered by the RAG 2007-2013 had been widely used by the MS.

Type a) regions are defined on the level of NUTS 2 units where the GDP (PPS) per head is less than 75 percent of the EU average (of the past three years). This method has been applied since many years, is simple, transparent and widely accepted. One problem that might occur is that the definition of convergence regions is slightly different and some deviations might occur (see also 4.5).

The method for defining type c) regions is more differentiated: The flexibility for specific national approaches includes the statistical units used as basis to designate larger, contiguous zones in case of c)-areas as well as the use of indicators in the designation of areas. Besides the factual approach based on indicators also different approaches to setting the framework for the internal negotiations had been proposed by the MS and accepted by the Commission. Table 3 in Annex 2 highlights differences among MS and challenges linked to the reasoning of the aid map using France, Italy and the United Kingdom.
The core of the Commission’s final decision is the detailed list of regions plus the aid ceilings in Gross-Grant Equivalents (GGE) applied to each region. The list separates regions designated for the entire period and those which fall under transitional provisions.

[15] http://ec.europa.eu/competition/consultations/2012_de_minimis/index_en.html

Largely speaking the current period shows that the maps form a stable framework. In total only three MS have claimed amendments to the map: France, Italy and Ireland. Table 4 in the annex outlines the amendments approved by the Commission.

3.3 Regional aid schemes

Across the EU a total of **10,3 bn EURO** p.a. has been spent on national regional aid in the period 2005 to 2007, a figure which has grown to 14,1 bn EURO p.a. for the 2008 to 2010 period, a time when the crisis hit Europe. This amounts to 0,8% resp. 0,11% of the GDP[16].

There are wide variations in the overall share of regional aid compared to the EU average: Regions in DK, NE, EE, LU, UK, FI, BG, BE, SE and AT receive much less regional aid compared to the EU average, where in most of these MS the relative amount also was reduced in the period of the crisis. Regions in GR, HU, CZ, SI, SK, FR, IE and PO receive regional aid which exceeds the EU average by more than 50%. The highest increases in the share of regional aid were seen in GR, MT, SI, HU and FR. The hardest cuts were made in SK, LV, BG and ES (see table 2.1 in Annex 2).

Surprisingly little information is available either on **evaluations** related to aid schemes or theoretical and analytical literature on the effectiveness and efficiency of national regional aid. Empirical studies reveal even contradicting evidence: some UK evaluations of regional aid schemes are broadly supportive of regional aid schemes due to the positive contribution to employment growth, although very little information on the performance of individual enterprise receiving aid has been done[17]. Another paper investigating micro-level data on state-aid and firm performance (in the Slovenian manufacturing sectors) rather found a negative and significant impact on static allocation efficiency. It seems that state aid has postponed the exit of firms and had a distortive effect on the market structure, as it supported the growth of the less efficient firms and thus shifted the burden of structural adjustment onto firms that managed without aid[18]

[16] Own calculation from Eurostat
[17] Hart M. Driffield N., Roper S., Mole K (2008): Evaluation of Regional Selective Assistance (RSA) and its successor, Selective Finance for Investment in England (SFIE). BERR. Department for Business Enterprise and Regulatory Reform. Occasional Paper No 2. UK
[18] Schweiger H. (2011): The impact of state aid for restricting on the allocation of resources. European Bank for Reconstruction and Development. Working Paper No. 127

Overview on notified schemes

In the period January 2006 to September 2012 a total 148 case have been notified[19], that refer to NRA. 63 out of these cases[20] are aid schemes.

A first analysis shows a strong focus on the sector of energy (11 cases) and an obvious majority on schemes which do either address several sectors or reveal no sectoral specification at all (28 cases). Under this category also some MS show quite distinct preferences in their approach: e.g. in Germany the instrument of guarantees has been widely applied whereas for example France and Hungary have focussed on tax benefits in their schemes.

Table 2.2 in the Annex presents an overview on the themes addressed by schemes which have undergone a notification procedure. It is based on a full list of all cases[21] falling under the provisions of the RAG.

From the perspective of LRA it is important to note that some of these schemes show a sectoral approach, a fact that reflects the aid scheme framework. Aid schemes, that support rather generic themes of enterprise development (like aid for green technologies, aid for ICT in production etc) do not show prominently among these notifications. However, for developing regions through smart, sustainable and inclusive growth such aid schemes might be much more relevant than sectoral support schemes (as notified).

3.4 Regional aid for large projects[22]

The compatibility of aid for large investment projects with the common market are defined through region-specific aid thresholds, where aid intensities are scaled with project size (down to one third of the allowed level).

A Commission communication[23] issued in 2009 lays down the detailed screening methodology: In case the actual aid exceeds 75% of the maximum aid ceiling,

[19] which are included in the database of DG COMP

[20] It is important to note that in several cases one case consists of several file numbers and sometimes also amendments to the initial scheme have been proposed and approved. However in the 63 cases presented in the table such reasons for double counting have been eliminated.

[21] List generated from the Case Search Engine on the website of DG Competition

[22] This chapter is based on an analysis of all cases of LIP notified between 2007 and 2011, based on the RAG 2007 – 2013, where the EC method of screening for market share and capacity increase was assessed in relation to identifying the most problematic regional state aid cases.

[23] EC (2009): Communication from the Commission concerning the criteria for an in-depth assessment of regional aid to large investment projects. 2009/C 223/02

and the market share of the beneficiary is above 25% or the capacity increase[24] is above 5% in an underperforming market, the EC has to perform a detailed screening. Exemptions are possible when the beneficiary creates new product markets[25]. The screening involves the assessment of the positive (jobs created, quality of jobs, knowledge spill-over etc) and the negative effects (distortion of markets and trade). Strict and rigorous criteria are used, which should result an assessment if positive effects (incentive effect, impact on regional development, aid being an appropriate tool or proportionate etc) can be established that outweigh any possible negative effects ("balancing").

Assessing regional impacts

The EC-method from 2009 has introduced significant innovations on key points such as proof of the incentive effect, which is relevant to relate the scrutiny of State aid to the Lisbon objectives[26]. The guidance paper increases the scope of the assessment and transparency and predictability. At the same time, it helps public authorities and companies to submit better substantiated regional aid projects.

Two examples show the screening by the EC before the 2009-communication: the first (Pirelli, IT) with a rather crude arguing in favour of the investor, the second (Gravel and stone, SK) with a rejection due to the nature of the project.

[24] The logic behind is the following: Capacity driven industries (such as shipbuilding, automotive or cement industry) require substantial investment and promise technological spill-over to a region. This attracts further investment and thus may build the nucleus of an industrial cluster. Therefore attracting capacity driven industries is a reasonable strategy of a regional development plan. However, not all of such capacity investments are linked to large investments, but rather seek cheap labour or low environmental standards. A subsidy driven capacity expansion may result in serious imbalances in the entire market. Furthermore what might be a capacity increase in one region may be a loss in another in the case of relocation. In case of rescue and restructuring, state aid may have distortive impacts as to slow down downsizing or changing productions and thus preserving the crisis

[25] As the BMW Leipzig (SA.32009) shows, however, this exemption may also induce circularity in the Commission's decision-making process, as a formal investigation may need to be opened to determine whether a new product market is in fact created (Friederiszick, 2012)

[26] A review of some of the decisions adopted in 2009 prior to the release of the 2009 Communication shows that the type of assessment carried out by the Commission remains rather stereotypical. The focus remains on compliance with the concept of single investment project, as well as on the calculation of market share and additional production capacity. The overall economic assessment remains relatively superficial and formalistic (Merola, 2010)

Box 1. Large projects screened by the EC prior to the 2009 communication

The first is ”an aid to the Italian tyre maker Pirelli[27] for an investment project to enlarge and improve an already existing production unit located in the Piedmont Region, in order to diversify its production and make it a specialised plant for innovative high-tech products (super-tyres for luxury cars). The Commission's assessment focused on the contribution of the project to regional development - particularly in terms of employment and the re-qualification of manpower - and acknowledged its link with some R&D activities that were planned by Pirelli within the same plant with a view to transforming it into a centre of technological excellence. However, the Commission then carried out a simplified and formal verification of the incentive effect and, although not entirely silent on the possible harm to rivals, simply stated that the rather low aid intensity permitted it to consider that the aid would not affect competitive projects” (Merola et al, 2010, p32f).

The second example is a decision concerning the Slovakian authorities’ project to grant investment aid to a firm engaged in the extraction and processing of gravel and stone[28]. The Commission refused to authorise the aid at issue on the basis that the counterfactual analysis indicated that no other location was possible for the projected investment, as the location of the site was determined by the availability of natural resources. In situations like this, the decisive factor for the assessment of the incentive effect is whether the beneficiary undertaking should proceed with the investment even in the absence of the aid; if this is so, it can be concluded that the aid would not contribute to regional development - as was the Commission’s opinion in the Slovakian case. According to Merola et al (2010, p 33) this case is the only example of a substantial and non¬formalistic verification of the incentive effect for projects subject to the notification obligation but falling outside the scope of the in-depth investigation regulated by the 2009 Communication.

The first case concluded applying the 2009- methodology is the **Dell Poland** case[29], It showed that the assessment now considers the aspect of re-location, but that the arguing still is very much focused on economic aspects and neglects overall welfare effects. The latter are especially relevant in case of relocation.

[27] Decision of 29 May 2009 in case N 381/2008, Aid to Pirelli Industrie Pneumatici S.r.l. (OJ C 284 of 25 November 2009, p. 11) – quoted in Merola et al (2010)

[28] Decision of 4 June 2008 in case C 57/2007, Alas Slovakia (OJ L 248 of 17 September 2008, p. 19)

[29] According to the Commission’s press release of 19 November 2009 “Portugal intends to subsidise the modernisation and integration of the two solo refineries in Portugal, mainly aimed at increasing the production of diesel (and, as a collateral effect, of naphtha) to the detriment of fuel oil production. The aid, which classifies as ad hoc aid granted in the form of a tax allowance, would be used to fund an investment project worth more than EUR 1 billion.

Box 2. Example for a large project screened with the 2009-methodology

The Dell Poland case involved the relocation of some existing production activities (manufacturing PCs and servers) from Ireland to Poland[30]. The aid was finally approved in September 2009. One of the problematic issues in the review process was the compliance with the 5% threshold in terms of capacity increase. The Polish authorities calculated the increase as a total in EEA (i.e. deducting from the capacity increase in Poland, the capacity reduction in Germany. But the Commission referred to the capacity increase by Dell Poland in this case, and not by the beneficiary as a Group.

The Commission indicated in this respect that capacity reductions at other production facilities cannot be taken into account if they do not form part of the investment project for which the aid has been notified, and are therefore not affected by the granting of the aid. This reasoning supposes that a capacity reduction in Ireland is totally unrelated to an increase in Poland. The Dell case raises also the issue of burden of proof. The EC supported the Polish authorities' view that the only relevant question for the verification of the incentive effect is whether the investment would have been located elsewhere had the aid not been granted. This is in line with the 2009-Communication (distinction between investment incentive and location incentive), but it remains questionable whether this is the most suitable policy approach. It seems that the EC has not carried out an analysis of the entire welfare effect and analysed the question of relocation, but just followed the Polish view. Furthermore the EC also followed the argument, that in a case of location incentive, the question whether competitors are likely to be affected by the investment is irrelevant, as the investment would have likely been carried out in a different location in the absence of the aid (Merola et al, 2010).

A recent judgement of the General Court in the **Propapier case** clarifies that the EC is required not only to prove compatibility with the criteria of the 2009 communication, but also needs to verify that the benefits for regional development outweigh the distortions of competitions and the impact on trade.

[30] Decision of 23 September 2009 in case C 46/2008, *Aid to Dell Poland*.

Volume and approach of the LIP cases

Friederiszick and Tosini (2012) have analysed 133 notifications under the RAG between 1/2007 and 6/2011 and found the following:

- Out of the 133 notifications under the RAG 38 involved LIP cases.
- In 10 of these 38 cases formal investigations were opened, in 7 (from the 10) cases, these cases were opened on the grounds of market screens[31].

In a comparision between these 7 cases to the 28 cases, where no formal investigation was opened, the following results were found: The group of 7 shows a 20% higher investment level, 27% higher aid amounts and 2,5%-points higher aid intensities and creates on average 19% more jobs. However, this group also shows a lower aid-effectiveness than in the comparator group. The duration from the notification to the opening of the formal investigation for the 7 cases and the duration from notification to final decision on the group of 28 seems to be broadly identical (9 to 10 months).

The authors suggest, that the incentive effect of aid project should play a more central role in the assessment of the measure, whereas the market screen – due to the lack of case specific relevant information should either be deepened (in order to provide reasonable results) or be abolished at all. For the first an increase in resources of the EC would be necessary.

In case the EC gets additional investigative powers, the market screen should be maintained, but the range of indicators should be broadened to include better

It has to be highlighted that the assessment of the EC now incorporates the positive impact of an aid project on a region in terms of welfare contribution focussing on aspect like creation of indirect jobs, quality of jobs, training related to them etc. So with the 2009-guideline the approach in the field of regional aid is more refined than previously, an aspect that is particularly important for LRA. However, there are a few **shortcomings**.

First, there is a discrepancy between GDP per capita as indicator demarking low regional development levels, and a method, that is more sophisticated from an economic standpoint. For instance, it has been observed that there is no direct correlation between the above indicator and the actual handicaps that investors

[31] Five of these were automotive cases (Audi Hungary Motor, Fiat Powertrain Technologies PL, BMW Leipzig, VW Sachsen), one Computers (Dell PL) and one Petroleum products (Petrogal PT). For the latter two the aid was approved, for the residual the investigation was still open by 7/2012.

must overcome to locate new projects in the assisted regions[32]. Labour and fixed costs can be lower in less developed regions and create locational advantages. However, there is no indication, that the GDP indicator is related to the aid ceiling.

3.5 Use of the temporary framework for crisis measures[33]

Between December 2008 and October 2010 the EC authorized 73 schemes under the Temporary Framework[34]. Most measures were the 500k (in 23 schemes). FR and DE made most extensive use of it. The total budget approved amounted to 81 bn Euro, less than 1% of the EU GDP, whereas the amount effectively used was estimated to be 21 bn Euro. The EC has ex-ante controlled the schemes, but ex-post monitoring has been hardly possible. Member States provided few details and in several MS (DE, IT, FI) schemes were implemented by regional and local authorities or public institutions. The EC Report on State Aid 2011 still states, that the number of beneficiaries has been very high and almost all have been SME. There were a few exceptions (NL – 40% of beneficiaries have been large companies, 33% in LV and 30% in CZ).

State guarantees were the second most used instrument (14 MS), with small amounts of beneficiaries, but again most of them were SME. Seven MS notified schemes for reduced-interest-rate loans. Some MS (e.g. DE) limited these to commercially active enterprises. Loans for green products and risk capital were less used.

Although the Temporary Framework was open to all sectors, some MS have used it in particular to support the automotive sectors. About 9 bn Euro of loans and guarantees were granted in favour of the 6 manufacturers (Ford, Volvo, Saab, Opel, Peugeot, Renault). Although this sector was severly hit by the crisis, none of the big players exited the market. This may be partly due to the support through such temporary measures.

There is little analytical work yet done on the impact of these crisis-related measures. However, the analysis of the EC leaves arguments, that the Temporary Framework was used on the one hand to support SME and a few

[32] See K. Junginger-Dittel (2007), Economic and Legal Problems of Regional Aid to Larger Investment Projects, EStAL conference on The law and economics of European State Aid control, EStAL Institute/European School of Management and Technology, Berlin, 8-9 November 2007, quoted by Merola et al (2010)
[33] EC (2011): The effect of temporary State aid rules adopted in the context of the financial and economic crisis. Commission Staff Working Paper. October 2011
[34] CY was the only MS that did not use this temporary framework, while BG, EE, LV and SE adopted it, but did not grant any aid under it.

large enterprises. Most of the impact presumably contributed to support regional economies. In some Member States mainly regional authorities used these instruments to tackle consequences of the crisis.

3.6 Border regions – a special case[35]

European Territorial Cooperation (ETC) is an important objective of Cohesion policy. Projects co-funded by ETC programmes come from at least two different MS, pursue the Europe 2020 objectives and would not take place if left to the market. Such projects are usually small and affect the cross-border region. The likelihood of such projects distorting competition or trade is – given the scope of these programmes – limited to nil. Still, the co-financing rate of such projects often is 75 to 85% of total project expenditures. Reaching the private sector as final beneficiaries is one of the major challenges in such programmes. One of the hurdles of course, is the obligation of each Operational programme to ensure conformity with state aid rules.

A major problem constitutes the fact, that the GBER works relatively well for national and regional programmes (where the projects are usually carried out by a single beneficiary), where ETC programmes cannot utilize GBER in an efficient way. First ETC programmes are not organized along economic sectors, but focus on cooperation. Therefore most of the 26 categories of the GBRD cannot be applied. Second, in a cross border or multi-country environment aid schemes and guidelines differ on both/several sides of the border(s) and create an unmanageable amount of administration. Also the eligible aid intensities do not take account of the additional burden (and risk) involved when cooperating across the borders.

ETC programmes usually co-finance individual projects (not aid schemes). In order to receive approval from the EC an entire programme could be notified to the EC. However, in practical terms, such programmes cover more than one MS and one MS cannot notify measures in other countries. In case of parallel notifications different outcomes (like aid intensities) might create a confuse situation for beneficiaries.

Therefore it can be concluded that these problems pose serious obstacles to LRA, who are in most cases involved in the implementation of ETC programmes, either as managing authority, intermediary or beneficiary. It therefore needs additional provisions to allow aid for cross-border projects.

[35] Source: INTERACT (2012): Competition Meets Cooperation: Options to simplify state aid rules for ETC. www.interact-eu.net

3.7 Results of the public consultation on the current RAG

The public consultation process related to the reform of the RAG documents a vivid debate among various institutions at national, regional and local level. The debate helps to understand the concerns of policy-makers and practitioners who represent a broad variety of interests. This section seeks to highlight the most interesting points raised in the statements which have been published by DG Competition. Most responding institutions have used the questionnaire proposed by DG Competition[36].

RAGs are a major field for controversial perspectives and conflicting views. The consultation process reveals an obvious focus on the regional aid maps as the most tangible and comprehensible feature of a rather complex regulatory framework. Most responses show reluctance to substantial changes of the method albeit there are many proposals for significant amendments.

The established negotiation framework and the criteria for delimitation of areas are widely accepted, for the following reasons:

- For defining the areas at political level the general rules of the game for negotiations among the regions have been established;

- For the interpretation and implementation of the RAG – i.e. the translation of the provisions into aid schemes - the administrative staff has established communication channels and work routines.

Only one statement labels the current approach to mapping as clearly out-dated since it does not reflect the wide implications of the economic crisis and impedes quick (re-)action to incidence of crisis. It highlights that in particular the fact that the map is based on short period of indicator measurement and should be valid for a period of seven years is not effective. It proposes a completely new method e.g. along maximum amounts per capita (similar to de-minimis approach in agriculture).

[36] I.e. responses have been given in a standardised format which to some extent has an influence on the character of the response.

Key points related to the general approach of the RAG

Criteria defining the maps

From the perspective of the consulted public there are evident winners and losers in the proposed reform of the map. Small countries which have been considered and will be considered entirely under the type a) among EU-12 are perceived as winners whereas rather large countries which reveal considerable internal disparities see the current proposal as disadvantageous.

The crucial statements to the mapping of areas are:

- Large Member States (MS) with considerable internal disparities such as Spain, France, UK stress the point that national averages should be a determining factor and have the substantial role in designating non-predefined c)-areas (.i.e. the proposal for a stronger orientation on the EU context is refused by this group of MS;

- Institutions at national and regional level from Spain, France, Italy claim that persistent high unemployment rates should be a second criteria at least in the designation of pre-defined c)-areas but could be even for the designation of a)-regions; a further point raised by France is fair treatment for all regions which rank below 90% of the EU-average (not just the outgoing a)-areas);

- An obvious point is that institutions at all levels want to be visible on the map: LRAs tend to stress that NUTS-2 is inadequate to reveal the actual problems within regions and that NUTS-3 to NUTS-5 and a refined system of criteria would be far more adequate (which in the end means to allow a broader room for national systems to designate c)-areas);

- Spanish regions stress the need for a simplified method related to c)-areas which are not predefined: they propose the definition of a maximum amount of regional aid whereby granting authorities have to report respectively justify projects or schemes in regions along the criteria currently applied for this type of c)-areas.

Employment respectively unemployment as key indicator next to GDP

Unemployment should have a stronger weight in the delimitation of areas for regional aid. Employment is a cornerstone respectively a pre-requirement for socially inclusive growth as stipulated in the EU 2020 strategy. A number of institutions expressed doubts as to whether GDP as sole indicator properly reflects socio-economic problems. The phenomenon of jobless growth is fuelled by the strive for competitive industries and constantly increasing productivity levels. It is also mentioned that GDP growth does not necessarily imply increasing standards of living. Several respondents claim that RAG should be more streamlined to encourage job creation.

Aid intensity

Next to the maps also the aid intensity has raised major concerns in particular among institutions from EU 12 which perceive risks and potentially negative effects from the difference in aid ceilings between a)- and c)-areas. Proposals made in the statements comprise:

- Many statements from national as well as LRAs – in particular from EU-12 – have expressed concern about the intended lowering of aid intensity: the major argument is that lower ceilings would not allow to provide the incentive effect for investment in Less Favoured Areas;

- The maximum difference between aid ceilings of a) and c)-areas should be limited to 15%; high gradients might induce a disadvantageous competition between regions; This percentage[37] should also be applied in case of c)-areas or other regions bordering a)-areas.

Sectors and Large Enterprises

Who should receive aid? There is a tendency of LRAs to stress the need for maximum flexibility. A frequent argument is the need for flexibility in the aftermath of the crisis respectively in the wake of volatile economic developments expected. Another major focus of statements have been the role of sectors (in particular the exclusion of certain sectors from the RAG) and the exclusion of aid to Large Enterprises in c)-areas. The following lines of arguments have been put forward:

- The specific regimes for certain sectors are no more justified: for a large part the exclusion of certain sectors date back to an era where competition between MS was a key issue – now it is the EU's standing in a globalised context; given the regional potentialities all sectors might be of interest for the development of certain regions; transport sector and ship-building industries have been explicitly mentioned;

[37] I.e. 15% instead of 20% as proposed in teh Non-Paper

- Statements from Spain, France, Italy and UK stressed the fact that the possibility of support to Large Enterprises in c)-areas should be kept since these are crucial employers having a substantial role in the economic standing of certain regions and the abolishment of the option would tend to favour the migration of parts of production to a)-areas; Estonia raise the point of large community-owned enterprises which could be touched by this regulation;

- Several statements raised the point that the threshold of 250 employees for Large Enterprises is far too low.

Longer-term framework versus frequent revision

A rather controversial debate concerns the need for a mid-term review of the map respectively the timing of a possible review. Legal safety and accountability based on a long-term framework counterweighs the need for frequent adjustments due to expectable volatile economic developments on the other hand.The dominant line of argument claims for more flexibility in case of crisis: preferably this should be achieved through an increased flexibility for MS in handling c)-regions.

Factual problems from a practitioner's perspective

An important point to understand are the practical implications of working with the RAG guidelines and the interfaces between Cohesion Policy and RAG. The following sections presents most relevant issues based on interesting proposals which have been obviously contributed by practitioners.

Lengthy notification procedures as a risk for programme delivery

The EC stresses the need for innovative approaches in particular when it comes to SME support. Measures which are genuinely innovative pose a risk for the implementing authorities [such as Managing Authorities (MAs)] as long as the notification procedure of the measure is not completed. At the same time SF-Programmes are subject to automatic de-commitment if disbursement targets are not met in time (so-called n+2-Rule according to Reg. (EU) 1083/2006, Article 31.2).

Incentive effect: thorough project assessment required

Current RAG stipulate in point 38 that, *it is important to ensure that regional aid produces a real incentive effect to undertake investments which would not* *otherwise be made in the assisted areas. 'Several* statements saw a major administrative burden in providing the required evidence for the incentive effect.

Regional aid guidelines and EU Cohesion Policy are closely interlinked. The incentive effect is a major common issue in both policy areas. It is often difficult to prove and the likelihood of deadweight effects increases with low aid ceilings. This might endanger two fundamental principles of Cohesion Policy, additionality and concentration.

The thorough ex-ante assessment of projects should be a building block to ensure additionality and concentration of aid. Screening of LIP involve in most cases a thorough assessment of economic facts. In case of notified schemes with low aid ceilings the initial assessment of the project is quite likely to have the character of a highly standardised and formal exercise. This is understandable from the point of view of efficiency but it poses a risk for effectiveness of aid.
A very pragmatic proposal is to go for the rather simplified view taken on this issue in the GBER, Article 8 which – so to say – pre-defines the major aspects of the incentive effect.

Current regime as impediment for a cross-sector approach

Another cornerstone of Cohesion Policy is the encouragement of a coordinated cross-sector approach. From a sectoral perspective the current regulatory framework for regional aid is strongly fragmented. Developing aid schemes with a cross-sector approach could become quite difficult in handling and management. A major point of criticism is the focus of the RAG on material investment and the construction of the whole regime along this key element. Thus the contribution of the RAG to EU 2020 will have clear limits since EU 2020 stipulates socially inclusive and ‚green' growth and a general reinforcement of RDTI.

Need for more precise definitions related to implementation

Practitioners in managing and implementing aid schemes require definitions that are simple to apply and that allow for transparent decision-making without requiring legal expertise in a large number of cases. In several statements the need for more precise definitions has been raised:

- sectors which fall under different regimes should be defined along established and unified systems such as the NACE codes – this would be a major help in determining critical cases (e.g. the demarcation line between agricultural production and food processing) or the actual scope of the transport sector;

- eligible cost under investment aid should be defined more explicitly as well as replacement investment deserves a detailed explanation (such points might sound trivial but are essential when being confronted with severe time constraints in the assessment of individual projects and the need to comply with national and Community law, .i.e. for example national eligibility rules on ERDF plus the RAGs without being sure that all cross-checks have been made by the authorities drafting these provisions …).

4 Proposed changes of the RAG and possible impact on LRA and EU regions

4.1 Background to the reform of the Regional Aid Guidelines

The process of reforming the Regional aid guidelines for the post 2013 period has been underway since late 2010. DG Competition began by sounding out Member States regarding their views on the operation of the guidelines. This was followed up with a workshop in March 2011, primarily involving representative of national authorities, which considered virtually all aspects of the guidelines. Member State were encouraged to share domestic experiences, especially in the field of evaluation and incentive effect, and to comment on the detailed functioning of the rules and how they could be improved.[38] Most Member States responded over the course of 2011. The extent to which national authorities will have involved LRA in this process varies widely between countries. Towards the year end, DG Competition outlined its thinking in a so-called Non-paper[39] intended as the basis for discussion at a first multilateral meeting held in February 2012.

Essentially distinct from this process, a public consultation was launched by DG Competition on 24 January 2012, asking for responses by April. Importantly, however, this consultation posed *general* questions on the functioning of the rules, rather asking for reactions to the Non-Paper, which, although circulating widely, has not formally been made public. Reponses to the consultation are available online, and include a number of submissions from LRA.[40]

There are several important contextual factors to the reform of the RAG. In particular, the revision is taking place in a difficult economic climate. This has direct implications for policymaker attitudes towards support for business investment and for the budgetary capacity of regional policy. At a practical level, differences between and within Member States in the depth and duration of the recession have rendered EU-wide measures of GDP per head rather volatile, with direct implications for the designation of assisted areas which are largely based on EU averages. In consequence, a number of the same issues

[38] These responses, as well as some possible options for the reform of the guidelines were covered in Wishlade, F (2011) Setting the scene for Competition Policy control of Regional aid 2014+, European Policy Research Paper no 80, EPRC, University of Strathclyde, available at: http://www.eprc.strath.ac.uk/eprc/documents/PDF_files/EPRP_80_Setting_scene_for_CP_control_of_regional_aid_2014+.pdf
[39] DG Competition (2011) Revision of the Regional aid Guidelines – Non-paper from the services of DG Competition for discussion at the first multilateral meeting with experts from the Member States.
[40] http://ec.europa.eu/competition/consultations/2012_regional_stateaid/index_en.html

affect both domestic State aid policy as driven by the RAG as well as EU cohesion policy.

In addition, in May 2012 the Commission launched the State aid modernisation initiative (SAMI).[41] This is essentially a successor to SAAP[42] which had provided a 'road map' for reform over the 2005-9 period. SAMI provides for a re-focussing of State aid control against the backdrop of Europe 2020.[43] Accordingly, the *substantive* objective[44] of SAMI is "to foster sustainable, smart and inclusive growth in a competitive internal market." What is perhaps more interesting is the perception that "State aid control is crucial in order to improve the efficiency and effectiveness of public spending"; this is accompanied by an emphasis on the identification and targeting of market failure and the promotion of measures with 'incentive effect'. In practice, and as for SAAP,[45] the timing of the regional aid reform agenda is somewhat out of kilter with SAMI. As a result, it is unclear what the impact of reconsidering / redefining concepts like incentive effect will be on regional aid.

4.2 Key changes implied by the Non-paper proposals

The DG Competition Non-paper issued to the Member States in December 2011[46] was provided as the basis for discussions at the first multilateral meeting held on 8-9 February 2012. However, it explicitly does not cover all the aspects of the guidelines. In particular, the Non-paper notes that issues such as the form of aid, eligible expenditure, cumulation rules, notification thresholds and compatibility assessment rules would be covered during subsequent stages of the review process (to date, nothing further has been issued on these aspects). In practice, with the exception of the notification thresholds and compatibility assessment (in relation to large investment projects), most of the excluded items are fairly uncontroversial.

[41] European Commission (2012) EU State aid modernisation – SAM, COM(2012) 209 final, 8 May.
[42] European Commission (2005) State aid action plan, COM(2005) 107 final, 7 June.
[43] European Commission (2010) Europe 2020: a strategy for smart, sustainable, inclusive growth, COM(2010) 2020 final, 3 March.
[44] There are three stated objectives. The other two are: to focus Commission ex ante scrutiny on cases with the biggest impact on the internal market while reinforcing Member State cooperation in enforcement; and to streamline the rules and provide for faster decision-making.
[45] This led to the GBER being adopted after the 2007-13 Regional Aid Guidelines were in place and some inconsistencies between the two.
[46] The Non-paper was followed-up by a letter dated 27 January which detailed a number of errors in the Non-paper.

The main focus of the Non-paper is on the determination of assisted area coverage. As noted elsewhere,[47] this is the most contentious aspect of regional aid control but discussion of this topic was almost entirely absent from the March 2011 workshop mentioned above. In consequence, some insight into DG Competition thinking on this was eagerly anticipated. The most significant elements of the non-paper may be summarised as follows (for a detailed comparison see also Annex 1):

- Scope: restriction of regional aid to large firms located in type a) regions only; in type c) areas only SMEs would be eligible. This is arguably the most fundamental change since it would end the use of investment aid to large firms, except in the type a) regions.

- Coverage: reduction in coverage to an initial ceiling of 42 percent of EU27 population (down from 42 percent of EU25 population, plus Bulgaria and Romania, equivalent to around 45.5 percent of EU27 population in 2007-13).

- type a) regions: abolition of the 'statistical effect' category; economic development areas (former type c) areas now over the type a) region qualifying threshold) are retained, but only for ex-type a) regions with GDP per head below 90 percent of the EU27 average.

- type c) area coverage: the allocation of the remaining type c) population quota distributed according to the share of regions with GDP below an EU threshold or unemployment rate above an EU threshold; previously national averages were used. Safety nets apply only to some countries, rather than being universal, as at present.

- type c) area designation criteria: adjustments are made to how type c) area maps may be drawn by Member States.

- Rates of award: lower rates of award are applied across the board (zero for large firms in type c) areas).

The sections that follow provide an overview of the each of these changes in turn and its implications for the Member States and the LRA within them.

[47] Wishlade, F (2011) Setting the scene for Competition Policy control of Regional aid 2014+, European Policy Research Paper no 80, EPRC, University of Strathclyde, available at: http://www.eprc.strath.ac.uk/eprc/documents/PDF_files/EPRP_80_Setting_scene_for_CP_control_of_regional_aid_2014+.pdf

4.3 Scope and aid ceilings

The most fundamental change proposed in the Non-paper is arguably that regional investment aid would only be available to large firms if they are located in type a) regions. This is turn means that, for many countries, the function of the assisted area map is simply to determine where small and medium-sized firms can benefit from higher than standard rates of award.[48] As will be seen below, the latest regional GDP(PPS) per head data imply a substantial reduction in type a) region coverage.

The impact of this change would vary between localities depending, among other things, on: industrial structure; the extent to which regional aid is used to support investment cycles in existing firms; and the use of regional aid to influence potential mobile investment or to attract inward investment.

The justification for excluding large firms given in the Non-paper is that deadweight is higher among large firms than SMEs (although only one of the studies cited in the paper is concerned with regional aid – the remainder deal with R&D aid).

Also in connection with the treatment of **large projects**, the non-paper proposes a cap on eligible investment of €500 million (beyond which no further investment could be aided within a single project). In practice, this would affect few projects, but it could be argued that it has the potential to damage EU competitiveness for exceptionally large internationally-mobile projects. Again, therefore, the impact on LRA would depend first on whether they were classified as an type a) region and second, whether the LRA is likely to be competing for extremely large mobile projects.

The Non-paper proposes a general **reduction in aid ceiling**. The proposal is summarised in Table 4, which compares the current position with the non-paper proposals. In practice, direct comparisons cannot readily be made since EU GDP per head refers to EU25 in the current period, but EU27 in the next. Nevertheless, it is evident that the reductions suggested, in respect of large firms especially, are significant. Most significant of all, of course, is the proposal that it would only be possible to support large firms if they are located in type a) regions. In general this leads to lower differences between different regions is thus is favourable in terms of fairness and in terms of avoiding competition between regions just based on aid intensities.

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[48] Under the GBER, SMEs are eligible for general investment aid throughout the EU, but higher rates apply in the designated ‘a’ regions and ‘c’ areas.

Table 2. Proposed award rates in the non-paper

Region type	Large firms, %		Small/medium firms, %	
	Proposed	Current	Proposed	Current
type a) regions<45% EU GDP per head	35	50	45/55	60/70
type a) regions>45%<60% EU GDP per head	30	40	40/50	50/60
type a) regions>60%<75% EU GDP per head	25	30	35/45	40/50
Ex-type a) regions<90%	-	30/40	25-35	40-60
Standard type c) areas	-	10/15	20/30	30-50
Non-assisted	-	-	10/20 (GBER)	10/20

Note: The Non-paper mentions four year transitional arrangements for former type a) areas gaining type c) status, but does not specify award rates. No mention is made of former type a) areas not gaining type c) status. OMR with GDP per head below 75 percent of the EU average would benefit from a rate bonus of 10 percentage points; for OMR with GDP exceeding 75 percent, the bonus would be 5 percentage points.
Source: Assembled by EPRC from Non-paper and 2007-13 Guidelines.

4.4 Coverage

Initial overall coverage ostensibly remains the same at 42 percent of the population. However, the population base has changed, so that in effect this represents a further reduction in coverage: for 2007-13, the initial population ceiling was 42 percent of the EU25 plus Bulgaria and Romania, which amounted to around 45.5 percent of the EU27 population (but rising to 46.6 percent once safety net coverage was added). It now seems clear that the Commission is aiming for coverage of around 42 percent of the population, though this has no real significance in itself. Indeed it could be argued that there is no real justification for reducing coverage as, even following enlargement, coverage remains significantly below 50 per cent of the EU population. Moreover, if regional aid in the type c) areas is limited to SMEs (and it remains to be seen if this is the outcome), there is arguably a case for raising this ceiling and allowing domestic authorities greater flexibility notably in the context of the economic crisis, but also reflecting the more limited competition concerns of support for SMEs.

Several points are worth making about the data to be used in the analysis. First, the Non-paper proposes that GDP data for 2008-10 should be used. This would not, all else being equal, be available until March 2013. Second, it not clear what data would be used for defining EU Cohesion policy intervention –the Cyprus Presidency aims to complete the negotiations on the Multiannual Financial Framework by end 2012, implying the use of 2007-9 regional GDP per head data for Cohesion policy; there are therefore potential implications for policy coherence. Third, the Non-paper does not specify what period the regional unemployment rate data should cover. Historically, this data has become available a year earlier than regional GDP data, implying that 2009-11 data would be used, if GDP data for 2008-10 were used. Last, it is important to note that the depth and timing of the economic crisis has varied between localities, with the result that data are more volatile and outcomes likely to be more sensitive to the impact of updating. This in turn means that it is difficult to generalise about the impact on LRA since an updated data set is likely to result in some regions losing eligibility and others gaining it. This in turn raises the issue of whether a mid-term review might be appropriate and if so what form that might take.

A more general point for LRAs is the emphasis on *relative* values in the regional analysis for the purposes of area designation under competition policy. This means that regions can be included or excluded from eligibility not because their *absolute* situation has changed, but rather their position relative to others. It can be argued that, while there is some justification for this approach in the context of EU Cohesion policy, this may be less justified in the context of regulating *domestic* policy.

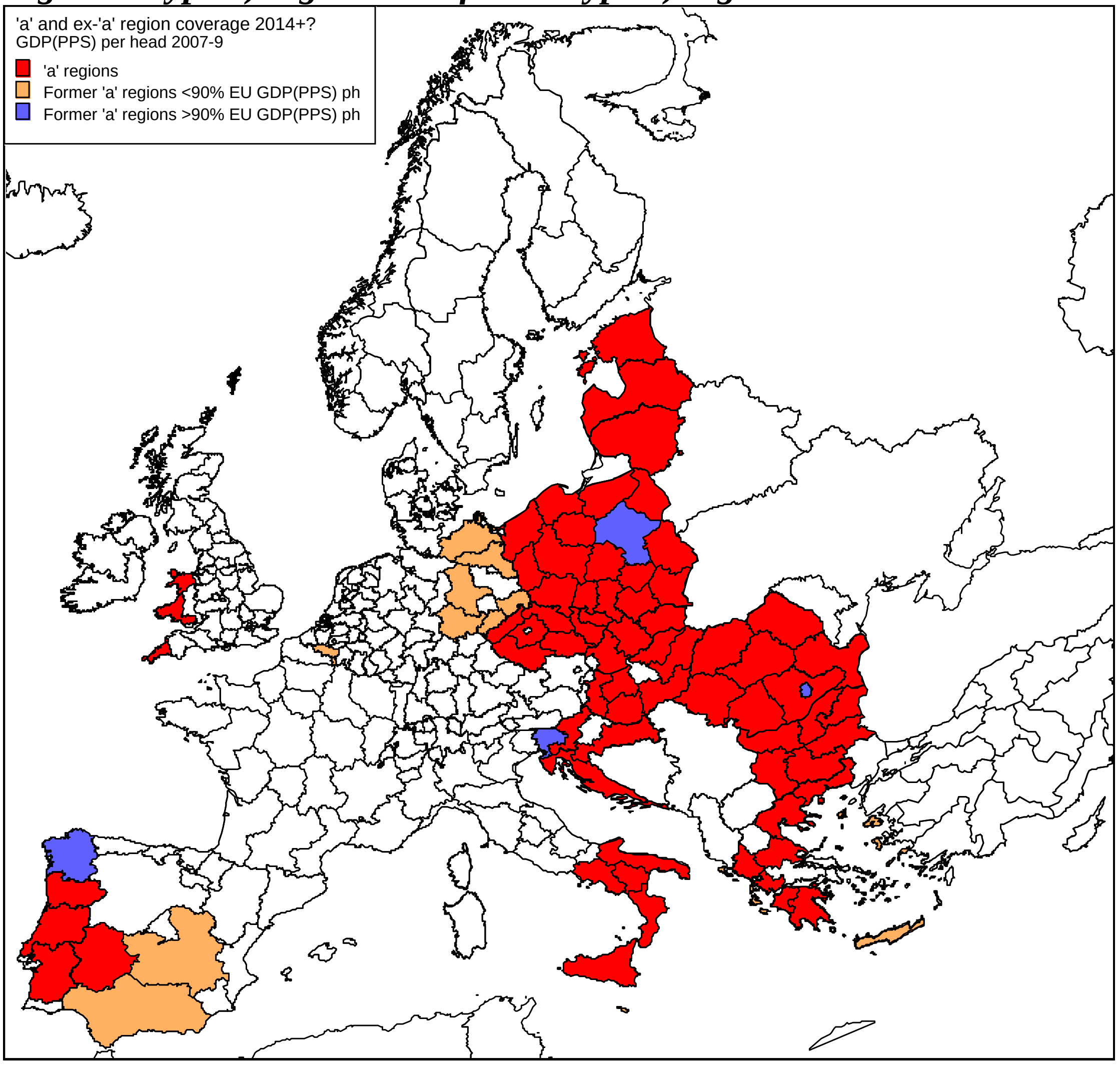
4.5 Definition of type a) regions

The Non-paper proposes that the basic definition of type a) regions should not change. As such type a) regions would remain NUTS 2 regions where GDP(PPS) per head is less than 75 percent of the EU average on the basis of the latest three years data (see also section 3.5 above), together with the Outermost regions (OMR), irrespective of whether they are below the GDP(PPS) threshold.

By contrast, there are significant changes proposed for regions *losing* type a) region status. First, the statistical effect category would be abolished. For 2007-13 this concerned regions which would have retained type a) status had it not been for the effect of enlargement from EU15 to EU25 on EU average GDP per head. Clearly, enlargement from EU25 to EU27 has a much more modest impact anyway.

More significant is the fact that former type a) regions are only proposed to be earmarked as type c) areas if GDP(PPS) per head is below 90 percent of the EU average. This is an important change since, previously, all areas losing type a) status were 'pre-determined' as type c) areas in the subsequent period (although it was up to domestic authorities whether they actually designated those regions). The outcome of applying this approach is illustrated in Figure 1.[49] This shows four regions Galicia (ES), Mazowieckie (PL), Bucuresti-Ilfov (RO) and Zahodna Slovenija (SI) losing type a) status and exceeding the 90 percent GDP per head ceiling.

Figure 1. type a) regions and former type a) regions 2014-20?



Note: Croatia is included in the map (two of the three regions qualify as type a) regions), but the basis for the calculation is EU27, not EU28.
Source: EPRC calculations from Eurostat data.

On the basis of 2007-9 data, the type a) regions would fall from around a third of the EU27 population to about a quarter of the EU27 population. However, reductions in coverage are not evenly spread. For most countries containing type a) regions (BG, CZ, EE, FR, IT, LV, LT, HU, PT, SK, UK), population changes notwithstanding, there is no difference in coverage between the two periods. On the other hand, in some countries the changes are significant. Germany and

[49] It is important to note that this map differs from the map in the non-paper in several respects. This largely reflects the fact that the calculations presented here use 2007-9 GDP data, whereas those in the non-paper use 2006-8.

Malta (a single NUTS 2 Member State) lose all type a) regions. Also significant, as noted, the capital regions of Poland, Romania and Slovenia would all lose type a) status and all three are also above the 90 percent EU27 GDP(PPS) per head threshold. In the case of Slovenia, it is worth mentioning in passing that the country was previously a single NUTS 2 region and is now split in two; had it remained a single region, Slovenia as a whole would have been under the 90 percent ceiling, though above the 75 percent threshold.

There is also a significant reduction in coverage in Spain where, on the basis of the latest data, only Estremadura retains type a) status. In Belgium Hainaut loses type a) status having only gained it in the 2010 review, giving the lie to the volatility of the data. The situation in Greece is more complex. Although Figure 1 suggests a loss in coverage, this relates to the period following the 2010 review which resulted in an increase in type a) coverage by 20 ppt (ie. from 36.6 to 56.6 percent of the population). This means that coverage of type a) regions in Greece in 2014-20 would still be higher than in 2007-10 (for more details see Table 6 in Annex 2)

4.6 Coverage of type c) areas

In the Non-paper proposals type c) area coverage comprises two elements, as under the 2007-13 RAG: first, predefined or ‘earmarked’ areas – those that are in effect ‘entitled’ to be classified as type c) areas; and second, coverage that is determined on the basis of regional GDP per head and unemployment rates, up to the overall initial ceiling determined by the Commission. In addition, as will be seen, a safety net is applied for some countries.

Predefined type c) areas

The type c) area population comprises two elements that are ‘predefined’. These are:

- Former type a) regions where GDP(PPS) per head remains below 90 percent of the EU average (see Figure 1); and

- Low population density areas – NUTS 3 areas where population density is less than 12.5 inhabitants per km2.

Overall, a relatively modest proportion of the EU population is predefined with type c) area status. In absolute terms, approaching 90 percent of the ‘predefined’ c area population is accounted for by Germany and Spain, but, with the exception of the United Kingdom, the population involved as a percentage of the national population is significant (for details see Table 7 in Annex 2).

Allocation of type c) population quotas

The population available for distribution among the Member States as potential type c) areas (ie. non-predefined type c) areas) is determined by the initial ceiling (42 percent), less the population classified as type a) regions (25.2 percent), the transitional type a) regions (4.8 percent) and the low population density regions (0.5 percent). This yields around 11.5 percent of the EU27 population as type c) areas, prior to the 'safety net', which is discussed below.

The non-paper provides for a *significant* change in the way in which the type c) area population is distributed among Member States. Specifically, RAG 2007-13 gives a distribution key whereby the share of type c) population is determined according to *internal* (ie. within the Member State) disparities in GDP per head and unemployment rates adjusted by the EU average: NUTS 3 regions that count towards the share are those where either GDP per head is less than 85 percent of the *national* average or the unemployment rate is 15 percent above the *national* average.[50]

In the Non-paper, it is proposed that the share of type c) population be determined by the shares of NUTS 3 regional population where: GDP(PPS) per head is below 90 percent of the EU average; or where the unemployment rate is 15 percent above the EU average.[51]

This detailed change in the distribution key has dramatic implications for some Member States. Some benefit from the Non-paper method:

- Most dramatically of all, in Spain the qualifying population increases more than threefold from 10 million to 31 million and its share of the type c) area population rises from 8.7 percent to 23 percent.

- Ireland also gains significantly with a markedly increased share under the Non-paper method.

[50] The national thresholds are themselves adjusted to reflect the situation of the Member State in an EU context. See Regional aid guidelines 2007-13, Annex IV for a full description of the current approach.

[51] The Non-paper does not specify which time period should be used for unemployment. Based on previous patterns of analysis by DG Competition, it has been assumed that unemployment rate data for 2008-10 would be used. However, this data is poor. There is no country for which there is a complete NUTS 3 data set for the period. DG Competition does not specify its approach to dealing with incomplete data. However, informally, it was been indicated that where NUTS 3 data are unavailable, NUTS 2 data are used. This approach has been replicated here.

- Portugal, Poland, Romania and France also gain under the Non-paper methodology, although the gains are not as significant as in Ireland and Spain.

By contrast, a number of Member States lose significantly, notably the Netherlands, Austria, Denmark, Germany and the United Kingdom. Finland would also lose, becoming, like Sweden, reliant on the low population density criterion for type c) area coverage.

Safety net provisions

The Non-paper also proposes a reform of the safety net provisions. For the current period, the principle is that no Member State should lose more than 50 percent of existing (ie. 2000-6) coverage.

For 2014-20, the Non-paper does not propose a universal safety net but instead one that would apply only to:

- Countries receiving support under the Greek loan facility or the European Financial Stabilisation Mechanism (EFSM) – Greece, Ireland, Portugal, to date.

- Countries where there is no NUTS 2 or 3 breakdown so that the distribution mechanism described above cannot be applied (Cyprus, Luxembourg).

Type c) area coverage outcomes

The outcome of the Non-paper methodology for distributing type c) area population is shown in Table 8 in Annex 2. As mentioned already, these calculations are based on 2007-9 GDP(PPS) per head and 2008-10 unemployment rate data (to the extent that this is available). The outcomes therefore differ from those in the Non-paper.

The impact of the Non-paper varies widely among countries:

- For seven Member States (BG, EE, LT, LV, MT, CZ, SK) there would be no change in overall coverage[52];

- Two Member States (BE, FR) would see an increase in coverage;

[52] In the Czech Republic and Slovakia there are small reductions in the population coverage owing to population decline in the ‘a’ regions; there is no ‘c’ coverage in the Czech Republic and Slovakia.

- Four countries (AT, DK, NL, SI) would have coverage cut by more than 40 percent of 2007-13 coverage;

- Four countries would rely on the safety to restrict cutbacks to 25 percent (CY, EL, IE, LU);

- Three countries would have coverage cut by between 15 and 25 percent (SE DE HU);

- The remainder would see cutbacks in the range 9.8 percent (PL) to 3.3 (ES).

These changes are essentially a function of four interrelated factors:

- the reduction in type a) region coverage owing mainly to economic change;[53]

- the exclusion of former type a) regions with GDP per head exceeding 90 percent of the EU27 average from predefined type c) area status;

- the use of EU GDP per head and unemployment rate averages in the type c) area distribution key; and

- the absence of a universal safety net.

The reduction in type a) region coverage from 33 percent to 25.2 percent increases the population available for type c) areas *even though the overall population coverage is also reduced*. The fact that some former type a) regions are not predefined as type c) areas (eg. Mazowieckie, Bucuresti-Ilfov) also serves to increase the type c) area population quota for distribution. However, the revised approach to distributing the type c) population tends to disadvantage Member States where unemployment is low compared to the EU average. However, it is important also to understand the rational for the Non-paper method for distributing the type c) area population: the use of *national* thresholds would result in coverage increasing by between ten and 27 percent of 2007-13 coverage in four (more prosperous) Member States (AT BE FR UK) while in some of the less prosperous countries coverage would decline by up to ten to 42 percent of current coverage (PL, RO, EL, HU, SI).

[53] A small proportion of the change owes to the statistical effect of the shift from EU25 to EU27 averages, but this is compensated for by the inclusion of such regions as predefined ‘c’ areas.

4.7 Designation of type c) areas

The designation of eligible areas is primarily a domestic responsibility, subject to Commission approval. However, the process is constrained by a range of parameters; these remain substantially unchanged in the Non-paper, but there are some proposed alterations to the size and definition of the 'building blocks' to be used. The criteria are identified as follows:

Criterion 1 (paragraph 30c of RAG 2007-13): contiguous zones of at least 100,000 inhabitants located in NUTS 2 or 3 regions which have either:

- GDP per capita below the EU average or
- Unemployment rate above 115 percent of the national average.

Criterion 2 (paragraph 30d of RAG 2007-13): NUTS 3 regions with population of less than 100,000 which have either:

- GDP per capita below the EU average or
- Unemployment rate above 115 percent of the national average.

Criterion 3 (paragraph 30e of RAG 2007-13): islands or other regions characterised by similar geographical isolation which have either:

- GDP per capita below the EU average or
- Unemployment rate above 115 percent of the national average.

Criterion 4 (paragraph 30f of RAG 2007-13): islands with fewer than 5000 inhabitants or other communities of less than 5000 inhabitants characterised by similar geographical isolation.

Criterion 5 (paragraph 30g of RAG 2007-13): NUTS 3 regions or parts thereof that are adjacent to type a) regions or that have a border with non-EEA/EFTA countries.

Criterion 6 (paragraph 30h of RAG 2007-13): contiguous zones of at least 50,000 inhabitants which are undergoing major structural changes or are in serious relative decline in relation to comparable EU regions.

Criterion 7 (paragraph 31 of RAG 2007-13): areas of at least 20,000 inhabitants which are relatively more in need of economic development than other areas. The Non-paper notes that this criterion only concerns SME projects involving eligible investment of less than €25 million.[54]

Where type c) area coverage is less than 1 million inhabitants, the non-paper proposes to lower the minimum population to 50,000 for Criteria 1 and 2 and to 10,000 for Criteria 6. This would appear to apply to Austria, Cyprus, Denmark, Finland, Greece, the Netherlands, Hungary, Luxembourg, Portugal, Romania and Slovenia.[55] The aim is clearly to increase flexibility in the case of countries with very low coverage.[56] Even so, the scale of the population involved is, in some cases, very small and it may be doubted that meaningful maps can be drawn at this level.

The Non-paper also seeks to improve the 'concentration' of aid by specifying that, in general, assisted area maps must be composed of entire LAU 2 units;[57] where part LAU 2 are used, these should contain 75 percent of the minimum population requirement (ie. 75 percent of 100,00 or 20,000). A consideration of the approaches used for the 2007-13 maps (see Table 9 in Annex 2) suggests that this is not likely to be a major constraint for most countries, but that it may nevertheless prove to be an obstacle in some countries, and especially in the case of urban areas.

Overall, it is fair to argue that the type c) area designation criteria in RAG 2007-13 have been less contentious than those in the previous guidelines (covering 2000-2006), which were extremely contentious and highly constraining for domestic regional policies. As such, it is broadly to be welcomed that the proposals involve continuing to apply the same criteria. That said, from the perspective of the LRAs, the approaches to area designation vary widely between countries – in some it is essentially a top-down activity, in others there is extensive consultation with the various tiers of government. These domestic arrangements are, however, largely beyond the purview of the Commission.

[54] In principle, of course, the Non-paper specifies that only SMEs are eligible in 'c' areas.
[55] The Non-paper identifies Austria, Finland, Greece, Hungary, Ireland, the Netherlands and Portugal as being affected by this provision, but calculations in this paper are based on more recent data.
[56] The 2007-13 Guidelines make special provision for Cyprus and Luxembourg requiring either GDP per head less than the EU average or unemployment over 115 percent of the national average and a minimum population 10,000; this provision is not repeated in the Non-paper, though clearly there is scope to include similar provisions in the final draft.
[57] Local administrative unit. LAU2 corresponds to, for example, Gemeinden in Germany, communes in France, comuni in Italy and wards in the UK.

5 Recommendations

Based on the previous sections the following conclusions can be drawn in relation to the elements of the current framework of NRA:

In general is very important to maintain the basic principles of the RAG as they are widely accepted, understood and incorporated in the aid regimes. The results of the public consultation also show a general interest towards continuation. Any change in the maps of eligible regions raises the questions, that some Member States and regions will benefit and other will lose on the changes, where the loss maybe very little related to any material changes in the regions. From a policy perspective it is important to establish some principles to cushion such changes. The subsequent chapter provides some recommendations on those element of the current framework that should be maintained, suggest a few incremental changes and finally highlights the need for more profound changes related to the future framework.

5.1 Rules that should be maintained

The current regulatory framework **works reasonably well** in the following respects:

- The **risk-based differentiation** of procedures: the GBER is particular important for LRA as it enforces transparent aid schemes and alleviates administrative burden of notification in such cases.

- **Indicators** always have their shortcomings, and favour some and discriminate other regions. In general, there is little use in refining the indicator framework and thus replace one shortcoming through another one (with the exception of the labour market indicator, see below).

- The principles of **territorial coverage** (aid maps) should be maintained, as they counterbalance disadvantages due to location. This implies that outermost regions should keep their a)-status and regions losing their a) status, as well as regions with low population density, islands, border regions, declining regions and regions with specific local problems should be granted type c) status (above the regions defined on the basis of the method based on national averages).

- Also the differentiation of **aid ceilings** in small, medium and large sized enterprises should be maintained.

- Finally some obligations to establish a proper publicity and reporting requirement and keep aid schemes transparent is useful in order to improve the effectiveness of public spending.

It seems that the reaction of the EC through the temporary framework has been widely accepted and used. Though there is a general request for loosening up the state aid framework to better react to regional problems related to an **economic crisis**, there are theoretical and empirical concerns to cushion industries in crisis through state aid. Therefore a level of exemption as it has been used (to change temporarily the framework of state aid) should be maintained. Another issue is the possibility for regions to react to **natural disaster**: in this case it can be recommended to include such aid schemes under eligible aid on a temporary basis.

5.2 Suggestions for some smaller improvements

The following elements of the regulatory framework would benefit from **some smaller improvements**:

- The **transparency of the regulatory framework** as perceived from a LRA: the complexity of the regulatory framework with the NRA, the GBER, the de-minimis rules and the rules applicable for large projects still require some legal and administrative expertise that often might be not available in LRA. A practical guidance on rules and produces from the position of a LRA should be issued and a help-desk for LRA be made available by the EC. Also the CoR could engage in an advisory role towards its members.

- Very little evidence on the **efficiency and effectiveness** of regional aid schemes is available. Thus the reporting requirements should rather follow a result oriented than a compliance-oriented approach. This implies that the output and results of and aid scheme are monitored and the effectiveness and efficiency is assessed through an evaluation. Structural funds should support such evaluations of regional aid schemes, even if these are not co-financed. This measure would help LRA to implement their aid schemes more effectively and efficiently. Again, some assistance on methodologies, approaches etc. could be offered to LRA by the CoR. In general practices of monitoring and evaluation as used in Cohesion policies should be encouraged. Structural funds monies could be utilized for this type of improving evaluation capacities in NRA for the local and regional level. should be encouraged. In fact, an additional bonus could be applied for aids that undergo an evaluation with the results made public.

- **Aid ceiling** show large **differences** between different regions. Future maps should avoid differences that are higher than e.g. 15 or 20% between regions (although it is very difficult to substantiate such a figure) in order to prevent a subsidy race between regions.

- There is an inherent contradiction between the European strategy to support **innovative projects** through innovative financial instruments and the rules applied for state aid, the time span involved until approval, (and – if cofounded - the n+2 rule for structural funds). Thus experimental schemes and projects should be granted a specific status (e.g. no notification, even if they do not fall under the GBER, but an interim evaluation to prove success or failure and a limit in size).

- The present guidelines still have room for **simple modifications** that might enable practitioners to better implement and monitor aid schemes. These could e.g. include the definition of sectors that belong to different regimes through NACE codes (e.g. differentiating between agricultural production and food processing, defining the transport sector) or providing clearer definition of eligible costs. National authorities should be compelled to align the definitions between Cohesion policy and state aid.

- In terms of indicators there might be one exception from the quest for continuity as stated above. This relates to the “unemployment rate”. As unemployment rates do not measure under-employment and inactivity and this issue is increasing – the indicator should be replaced by the “**employment rate**”.

- Rather than changing the indicators the flexibility for the method of **deliminating areas** should be maintained if not improved, which mainly refers to **type c) regions**. In these cases the EC should define the overall aid ceiling per Member State and then leave it to the discretion of the Member State to provide a well reasoned and transparent method of defining the type-c) regions (including the statistical units used as basis to designate larger, contiguous zones as well as the use of indicators in the designation of areas). For that purpose national averages are more appropriate than EU averages, as structural and development problems are rather perceived as benchmark of national than EU levels. It is also difficult to argue that national and regional aid should be targeted solely to reduce disparities at EU level. This might be hard to be understood by the people in the regions.

- The **justification** for type c) regions still should focus on the employment and GDP level, but allow to consider specific regional problems like low youth employment, migration (in and out), an aging population, dependency on shrinking industries.

- For type a) regions an alignment with structural funds **convergence** regions should be achieved to simplify the framework.

- Aid ceilings should be more continuous graded to avoid too sharp differences between adjacent regions.

The 2006 guidelines and the method for screening **large projects** in 2009 laid the foundation for a profound analysis of LIP where distortive effects are counterbalanced with regional development impacts. This method should be maintained, but refined to achieve the following:

- More emphasis should be placed to identify – and prevent - cases of **relocation** within the EU territory, since these provoke a subsidy race without additional welfare gains at a European level. The benefit of one region may be outweighed by the detriment to another region. Only in cases, where re-location leads to an overall welfare increase (e.g. if a relocation from a densely populated region to a less developed regions generates benefits – though different ones – to both regions) or where an EU location competes with a location outside the EU a location incentive should be eligible.

- The method of checking regional aid for LIP should be refined to include criteria related to smart, sustainable and inclusive growth.

- **Member States** should be encouraged to apply the screening method for large projects, that fall below the threshold of EU notification, but are still substantial allocations of public funds. Through that a better allocation of national regional aid should be encouraged, gradually improving the efficiency of regional aid schemes.

- An **Ex-post assessment** of LIP through the EC as well as evaluations on the efficiency of allocation decisions on such large projects through national regional aid should be encouraged. Cohesion policy funds could be used to perform such assessments.

- In the absence of any better indicator for defining the eligible regions, it is more important to focus on aid projects that provide an **investment**

incentive. However, it needs to be highlighted, that less than 10% of the notified aid projects, which are already very rare, need an assessment by the EC method. This indirectly has lead to a decrease in the volume of aid to large investment projects.

- As projects realized in the framework of **ETC** (cross-border, transnational, inter-regional) constitute significant added value to the European integration process, but face substantial problems due to an incompatible state-aid framework, substantial improvements should be reached to attract private project promoters in this sphere of activities. Measures could be a general exemption clause in the GBRD, an increase of the de-minimis ceiling for ETC projects or specific notification and approval rules for ETC-programmes.

5.3 Substantial changes in the RAG and recommendations related to the proposed reform of the RAG

The ability to attract investment in times of austerity should be seen as an achievement, rather than a potential problem. With the recent contraction of the European economy, it is clear we have not seen the last of the effects of recession. In that economic context, withdrawing aid which boosts growth, particularly in our most disadvantaged regions, would be counter-productive.

The main discussion usually focuses around the maps, the aid intensity, treatment of large projects and further operational issues. However, these issues have been gradually solved through improving the flexibility of the framework, eliminating low-risk cases from notification and applying more profound assessments for the large cases.

There is another major point of criticism that also has been raised several times in the current discussion by national and regional stakeholders: The current regulatory framework for regional aid is strongly **fragmented** and has been developed along a sectoral logic and focuses on material investment. The **specific regimes for certain sectors** are no more justified: for a large part the exclusion of certain sectors date back to an era where competition between MS was a key issue – now it is the EU's standing in a globalised context; given the regional potentialities all sectors might be of interest for the development of certain regions; transport sector and ship-building industries might have explicit roles when modern technologies are applied.

With the focus on **smart, sustainable and inclusive growth** and the flagships projects state aid is challenged to support investments in these fields. Aid schemes are requested to react to the need of restructuring towards more RTDI-intense and low-carbon production, distribution and services, towards approaches more geared at territorial cohesion. Therefore it is much more the sectoral focus of the RAG and GBER that poses problems than the indicators and maps.

Therefore the GBER rather should focus on revising the regulatory framework for state aid allowing for more ambitious forms of support in future technologies and innovative solutions without distorting the market.

In respect to aid to large enterprises the non-paper suggests to abolish any **aid for large investment projects in type c-regions**. This is contested by a wide audience from national and regional authorities. There are good arguments (based on the low number of projects and the improved assessment method including relocation and regional development effects) to foresee the exceptional option for supporting large investment projects in type c) regions. Another argument in favour is the location decision of multi-national enterprises are rather taken on a global level (e.g. between Europa and China or India) and not so much between European regions (which should be eliminiated by the screening method). Therefore Europe should not weaken the regions competing for such global investment through too rigid competition rules.

Related to the **population ceiling** it now seems clear that the Commission is aiming for coverage of around 42 percent of the population, though this has no real significance in itself. Indeed it could be argued that there is no real justification for reducing coverage as, even following enlargement, coverage remains significantly below 50 per cent of the EU population. Moreover, if regional aid in the type c) areas is limited to SMEs (and it remains to be seen if this is the outcome), there is arguably a case for raising this ceiling and allowing domestic authorities greater flexibility notably in the context of the economic crisis, but also reflecting the more limited competition concerns of support for SMEs.

More significant is the fact that **former type a) regions** are only proposed to be earmarked as type c) areas if GDP(PPS) per head is below 90 percent of the EU average. This is an important change since, previously, all areas losing ‘a’ status were ‘pre-determined’ as type c) areas in the subsequent period (although it was up to domestic authorities whether they actually designated those regions). There is little argument to enforce such a reduction of the ceiling (where 5 regions would lose the a)-status). It rather would be better to justify towards local and regional authorities that ANY region losing a) status should automatically be granted c) status.

A rather general point for LRAs is the emphasis on *relative* values in the regional analysis for the purposes of area designation under competition policy. This means that regions can be included or excluded from eligibility not because their *absolute* situation has changed, but rather their position relative to others. It can be argued that, while there is some justification for this approach in the context of EU Cohesion policy, this may be less justified in the context of regulating *domestic* policy. This would be a supplementary approach assessing the status of regions, that fall out of type-a).

6 Annex

6.1 Annex1: RAG 2007 -2013 and changes proposed in the non-paper of the EC

General principles

	Rules for 2007 to 2013	Non-paper for EC
Overall population coverage	2007-2013: 42% of EU 25 (but 46,6% for EU 27); 1998 – 2006: 42,7% of EU 15	Equivalent: 42% of EU 27 (due to economic growth population coverage for regions below 75% GDP/person of EU average falls from 35,5% of EU 25 (2002 data) to 24,4 of EU 27 (2008 data)
Indicators for type a) regions	GDP in PPS 2006 to 2008 average for NUTS 2 level	GDP in PPS 2008 to 2010[58] average for NUTS 2 level; population data for 2010
Safety net		No MS may lose more than 50% of its population coverage[59]
Indicators for type c) regions	GDP/person in PPS as % of EU average (or national average???) Unemployment rate	Indicators are maintained – but updated; more orientation towards EU instead of national averages
Review	Mid-term review	Maintained (2017) – EC asks for comments

[58] Available from March/April 2013 onwards
[59] CY, GR, IE and LU would be mainly affected by significant reductions of the populations ceilings

__Territorial coverage - regional aid maps__

	Rules for 2007 to 2013	Non-paper for EC
Less developed regions (type a) regions)		
General	conditions are fulfilled if the per capita gross domestic product (GDP) of a NUTS II region is less than 75 % of the Community average (32,1% of the population)	Due to new calculation there might be a reduction from 32,1% to 24,4% of the population ➔ number of regions drops from 86 to 67
Outermost regions	regional aid for the outermost regions;	Maintained
Statistical effect	regions where per capita GDP exceeds 75 % of the EU-25 average because of the statistical effect of the 2004 enlargement[60]	Will not be maintained (as there are no comparable effects of enlargement)
	Rules for 2007 to 2013	Non-paper for EC
Regions type c), that are disadvantaged related to national average		
General	Exception in is intended for regions which are less disadvantaged than those referred to in paragraph (a)	All zones need to be composed of entire LAU 2 areas[61] in order to ensure demarcation of sufficiently compact zones
...economic development regions (transition from a) to c) status)	the regions in which per capita GDP was less than 75 % of the EU-15 average in 1998 but which no longer fulfil this condition for the period 2007-2013 (the 'economic development regions') ;	Regions designated as a) regions in the maps in 2011, but no longer eligible for type a) after 2014; only those regions, that are below 90% of EU average; aid intensity should be only 10% lower than 2011, from 2017 onwards adapted to type c)[62]

[60] 16 regions were designated as statistical effect regions, corresponding to 3,38% of EU 25 population; only five regions would be affected by the enlargement of BG, RO, CR (0,8% of population)
[61] Or LAU 1 areas if these are smaller; LAU 1 and 2 were formerly referred to as NUTS 4 and NUTS 5,
[62] Only 3 regions would be excluded from this rule (according to projections in the non-paper)

...low density	regions with a population density of fewer than 8 inhabitants per km2 at NUTS II level or fewer than 12 inhabitants per km2 at NUTS III level;	Density lower than 12 inhabitants per km2 at NUTS III level
...not predefined	regions with a population of more than 100 000 inhabitants (or islands) and which have either ▪ a per capita GDP lower than the EU-25 average or ▪ an unemployment rate higher than 115 % of the national average (where the population ceiling is derived from type a) regions and type c) regions, which are pre-defined);	Size: reduction to to 50.000; As the type a) and predefined type c) population coverage is lower, there should be a stronger weight to the EU context in the calculation: ▪ NUTS 3 regions with GDP > 90% of EU average (not: 85% of national average) ▪ an unemployment rate higher than 115 % of the EU average (not: national average) Gives more weight to the the regions with lower GDP levels
...islands	Islands (or other regions with geographic isolation) with fewer than 5 000 inhabitants;	Maintained
...border regions	NUTS III regions which are adjacent to a region that is eligible for support under Article 87(3)(a) or which share a border with a third country;	Maintained; To avoid border effects, aid intensity to SME may be increased by 5 or 10% (according to the c-status) in the case of a NUTS 3 (or smaller regions) being adjacent to a a) regions, so that the differential between the two regions does not exceed 20 %-points.

...declining regions	regions which have a population of more than 50 000 inhabitants and are in serious relative decline or are undergoing major structural change;	Reduction of size to 10.000
...local problems	regions with a population of more than 20 000 inhabitants which suffer from very localised regional disparities, below the NUTS III level, and wish to make use of regional aid for SMEs.	

Material scope

	Rules for 2007 to 2013	Non-paper for EC
Sectoral coverage	Activities in the following sectors are excluded: ▪ fisheries and the coal industry; ▪ the production of agricultural products referred to in Annex I to the EC Treaty; ▪ transport and shipbuilding; ▪ steel and synthetic fibres.	Improve relation (but maintain exclusion) between specific rules for agricultural products, fisheries and aquaculture sectors; transport sectors, coal industry; include regional aid for shipbuilding sector; for steel and synthetic fibres the EC asks for comments
Type of aid: ...initial investment aid	Initial investment aid – to all types of companies	The same
...Operating aid	May exceptionally be granted on a temporary basis in regions eligible for aid under Article 107(3)(a); but needs to be degressive and temporary; non-degressive and non-temporary operating aid only in outermost regions and low density areas	In a) regions operating aid will be limited to SME and conditions similar to current ones; Outermost regions: same rules as to day.

Aid ceilings differentiated by small, medium and large companies

	Rules for 2007 to 2013	Non-paper for EC
	In regions with x% GDP per capita of EU average – for large/medium/small enterprises; Aid ceilings may be increased by 20 % for aid granted to small enterprises and by 10 % for aid granted to medium-sized enterprises.	Reduction of aid ceilings in a) and c)-Type regions; Differentiation between large/medium/small enterprises is maintained.
... in regions type a)	Less than 75% GDP: 30/40/50% aid intensity	Less than 75% GDP: 25/35/45%.
	Less than 60% GDP: 40/50/60% aid intensity.	Less than 60% GDP: 30/40/50% aid intensity.
	Less than 45% GDP: 50/60/70% aid intensity.	Less than 45% GDP: 35/45/55% aid intensity.
....type a): outermost regions	These regions are eligible for a further bonus of 20 % if their GDP per capita is below 75 % of the EU-25 average and a bonus of 10 % in other cases.	Bonus for outermost regions maintained, but the level will be reduced to 10% and 5% respectively.
	20/30/40 % for statistical effect regions until 1 January 2011.	No maintained, as there are no statistical effect-regions.
... regions type c)	15/25/35 % as a rule;	-/20/30% Limit aid to SME; no aid to large enterprises, as there are more deadweight effects and a growing body of evidence suggests that regional investment aid is more effective if geared towards SME.

...specific exceptions	10/20/30 % for regions with both: a GDP per capita more than 100 % of the EU-25 average and an unemployment rate lower than the EU-25 average measured at NUTS III level.	-/25/35% to Ex-a regions with GDP below 90% of EU average; Increase in aid intensity (by 5 or 10% points) for regions adjacent to an a) regions.
For 'large investment project' with an eligible expenditure above EUR 50 million	50 % of the regional ceiling for investments between EUR 50 million and EUR 100 million. The aid ceiling is 34 % of the regional ceiling for investments of over EUR 100 million – i.e. adjusted aid ceiling according to size of investment.	Scaling down mechanism should be maintained, but with significant reduction of aid ceilings; only investment up to 500 mio is eligible for RSA[63].

[63] Between 1/2007 and 12/2011 34 LIP were decided, 9 of these were beyond 500 mio Euro

6.2 Annex 2: Tables

Table 3. Examples of approaches to designate eligible areas

Elements	Examples of approaches in large MS
Designation of areas (internal negotiation procedures)	France: A two step procedure was applied in defining the areas: firstly shares of the population ceiling had been assigned to regions according to a the pre-defined set of indicators; in a second step the regional administration had to elaborate a list of eligible zones. Italy: The selection of the assisted regions has involved both the regional and the central administrations in a bottom-up process. For distributing the available population ceiling between the Northern-Central regions, the Italian authorities applied an internal distribution key which was afterwards amended by a political compromise. The Commission accepted also the significant degree of continuity with the aid map 2000-2006. The fact that the majority of the designated areas are covered by long term economic planning instruments, in particular the 'territorial pacts' and the 'area contracts' was acknowledged in the decision.
Administrative units used	France: LAU 2 Annotation of France to the Commission: NUTS-3 in France are bigger than NUTS-2 in other MS; several NUTS-3 regions would qualify according to the criteria applied for statistical effect regions. It is important to highlight the strong disparities within NUTS-2 and NUTS-3 regions. Italy: Census areas (population census) The Italian authorities explained that if zones built-up of entire municipalities would have been used for the construction of the proposed areas, this would have resulted in a very limited number of c) –regions. It was felt that this would result in a disproportionate reduction in the assisted areas of the northern-central regions. Commission requested to demonstrate that, for all the proposed areas, the use of census areas does not seek to artificially separate industrial from residential areas.

Elements	**Examples of approaches in large MS**
	<u>United Kingdom: LAU 2</u> 205 zones defined on basis of wards (Local Authority Unit Level 2 (LAU2); these zones are not always following the boundaries of NUTS-2 or NUTS-3 but Commission acknowledged that the zones are contiguous and compact and meet minimum population thresholds as stipulated in the RAG; 45 out of these 205 zones have been proposed according to RAG, Par. 30c). The map represents a mix of entire NUTS-3 to zones defined on basis of wards (LAU2)
Key indicators used for c)-regions	*Indicators defined at level of the MS are important for large MS with a substantial part of c)-regions such as UK, Germany or France.* <u>France:</u> *Indicators for the mapping of regions:* ▪ Unemployment rate and employment trends; ▪ average tax revenues; ▪ economic vulnerability measured by shares of employees in industries and services and qualification levels. In addition a national safety net was applied in order to avoid disproportionate reductions or increases. *Indicators for the use of the population reserve:* In general the population reserve should allow to address economic shocks in smaller areas (in total 250,000 persons). The criteria are: ▪ significant job losses (500 and more in one year) in one sector or ▪ in up to three sectors amounting to at least 1.25% of all employed in the zone (in addition unemployment above average or employment trend below average). <u>United Kingdom:</u> ▪ employment rate: ▪ adult skills at Level 2 or above: ▪ incapacity benefit claimants: ▪ manufacturing share of employment.
Provisions of RAG applied	*It is important to be aware that in case of provisions RAG, Par. 30 e), and h) detailed arguments have to be provided, underpinned with statistical data.*

Elements	Examples of approaches in large MS
	FR: RAG Par. 30 c) e) g) h) and Par 31 IT: RAG Par 30 a), c), g), e), h) and Par 31 UK: RAG Par 30 a), c),g)
Aid intensities	United Kingdom: Authorities have proposed reduction of aid intensities for the economic development regions in two stages.
Regions with specific handicaps	FR: outermost regions (below 60% of EU-25 GDP average) UK: Northern Ireland

Source: DG Competition, Case Register

Table 4. Amendments to the regional aid maps

Country	Amendments	Comment
France	Use of population reserve; based on Par 30 h) of the RAG (major structural change) plus twice the amendment of existing zone based on Par 30 c) (adding parts to a contiguous area)[64].	Due to economic crisis, the criteria for the use of the population reserve had been pre-defined in the proposed approach to the regional aid map.
Italy	Request for amendment based on Par 30 h) and 30 c)[65].	Due to economic crisis.
Ireland	Inclusion of the NUTS-3 region Mid-West on basis of Par. 31 of the RAG (major structural change and rapid rise of unemployment[66].	Due to economic crisis.

Source: DG Competition, Case Register

[64] N186/2008 & N146/2010
[65] N117/210
[66] N130/2010

Table 5. Regional aid in % of GDP for the period 2005-2007 and 2008-2010

National differences to the EU average, EU =100

	2005-07	**2008-2010**	**change in %pts**
DK	2	0	-2
NE	8	2	-6
EE	20	8	-12
LU	32	11	-21
UK	38	12	-26
CY	40	17	-23
FI	46	22	-24
BG	81	23	-58
BE	41	29	-13
SE	53	32	-21
AT	33	40	7
RO	51	46	-5
LV	140	55	-85
IT	79	56	-23
PT	45	61	16
LI	57	97	39
ES	150	106	-43
DE	134	125	-9
MT	-	136	136
PO	127	153	26
IE	194	158	-36
FR	130	174	45
SK	291	178	-113
SI	157	241	85
CZ	296	324	28
HU	312	361	49
GR	187	492	305

Source: Own calculation on the basis of EUROSTAT

Table 6. Overview on notified NRA schemes between 1/2007 – 11/2012

Subject of scheme	**MS**	**Instrument**	**Number**
Food processing			*2*
Adding value to agricultural products	LV, RO	Grant	2
RDTI			*3*
Technological and scientific parks	ES	Grant, soft loan	1
RDTI Fund, Technology for SMEs	HU, DE	Grant	2
Tourism			*2*
Tourism Infrastructure	IE, FR	Tax-base reduc-tion (IE), Grant (FR)	2
Energy			*11*
Renewable energy	LV, EE, PL	Grant	4
Sectoral measure for energy	LT	Grant	1
Energy efficiency for district heating	LV	Grant	1
Modernisation energy networks	RO, PL, ES	Grant	5
Transport			*4*
Transport subsidy scheme (sparsely populated, islands)	FI, ES, SE, FR	Grant	4
Waste			*1*
Waste collection and separation	LV	Grant	1
Financial instruments[67]			*28*
Investment grants for several sectors	IT, PL, ES	Grant	3
Guarantee schemes	DE	Guarantee	5
Subordinate loan	DE	Soft loan	2
Tax benefits (not specified by sector)	IT, HU, FR, ES, BG	Tax benefits	9
Tax reduction for specific products produced on islands	PT	Tax benefit	3

[67] several sectors or not specified

Reduction of social contributions	FR	Fee reduction	1
Aid for newly created enterprises	MT, SI, ES, LU	Grant, interest subsidy[68]	4
Restructuring and crisis aid	ES	Grant, interest subsidy, soft loan	1
Operating aid	PT, SI	Grant	*2*
Total			***63***

[68] Only LU

Table 7. Type a) regions post-2013? (% of population)

	2011-13	2014-20?	Key changes
EU27	33.0	25.2	
BE	12.4	0.0	Hainaut loses type a) status
BG	100.0	100.0	
CZ	88.6	88.2	
DE	12.5	0.0	All DE regions lose type a) status
EE	100.0	100.0	
EL	56.6	44.2	Kentriki Makedonia, Ionia Nisia, Voreio Aigaio, Kriti lose type a) status
ES	36.2	6.9	Andalucia, Castilla-la-Mancha, Galicia lose type a) status
FR	2.9	2.9	
IT	29.2	29.1	None, but note that Basilicata gained type a) status at the 2010 review and retains it
LV	100.0	100.0	
LT	100.0	100.0	
HU	72.2	70.7	
MT	100.0	0.0	Malta loses type a) status
PL	100.0	86.3	Mazowieckie loses type a)status
PT	70.1	69.4	
RO	100.0	89.5	Bucuresti-Ilfov loses type a) status
SI	100.0	53.1	Zahodna Slovenija loses type a) status
SK	88.9	88.6	
UK	4.0	3.9	
AC1			
HR		62.2	

Note: Coverage of the type a) regions was revised from 2011 when the status of four regions – Hainaut (BE), Dytiki Makedonia and Kentriki Makedonia (EL) and Basilicata (IT) changed from statistical effect to full type a) region status; these figures reflect that change. Croatia (HR) is not included in the EU total but its designation is based on the EU27 GDP per head average at NUTS 2.
Source: EPRC calculations from RAG 2007-13, Communication on the review of the statistical effect regions, OJEU C222/2 of 17 august 2010 and Eurostat data.

Table 8. 'Predetermined' type c) area coverage (% of population)

	Former type a) regions <90% EU27 GDP(PPS) per head	Low population density
EU27	4.8	0.5
BE	12.1	
DE	12.9	
EL	11.8	0.2
ES	22.2	0.5
MT	100.0	
FI		18.3
SE		12.4
UK		0.4

Source: EPRC calculations from Eurostat data.

Table 9. Estimated type c) area coverage under the 'Non-paper' methodology

		Predefined type c) areas		Other type c) areas		2014-20?	2007-13
	type a) regions	ex-type a) regions	low pop dens.	type c) quota	Safety net	Total	Total
EU27	25.2	4.8	0.5	11.5	0.5	42.5	46.6
BE		12.1		14.1		26.2	25.9
BG	100.0					100.0	100.0
CZ	88.2					88.2	88.6
DK				4.8		4.8	8.6
DE		12.9		11.7		24.6	29.6
EE	100.0					100.0	100.0
IE				30.8	6.7	37.5	50.0
EL	44.2	11.8	0.2	3.2	15.6	75.0	100.0
ES	6.9	22.2	0.5	28.8		58.4	59.8
FR	2.9			20.7		23.6	18.4
IT	29.1			3.7		32.8	34.1
CY					37.5	37.5	50.0
LV	100.0					100.0	100.0
LT	100.0					100.0	100.0
LU					12.0	12.0	16.0
HU	70.7			5.1		75.8	100.0
MT		100.0				100.0	100.0
NL				0.4		0.4	7.5
AT				10.5		10.5	22.5
PL	86.3			3.9		90.2	100.0
PT	69.4			4.9		74.2	76.7
RO	89.5			3.8		93.3	100.0
SI	53.1			6.7		59.8	100.0
SK	88.6					88.6	88.9
FI			18.3			18.3	33.0
SE			12.4			12.4	15.3
UK	3.9		0.4	18.1		22.4	23.9

Notes: It is not clear whether Croatia would also have type c) area coverage.
Source: EPRC calculations from Eurostat data and RAG 2007-13.

Table 10. Non-predefined type c) area coverage and building blocks

	Non-predefined coverage 2014-20?	Building blocks used in 2007-13
BE	1,523,370	LAU2 and parts of LAU2 (Brussels)
DK	265,880	LAU 1
DE	9,609,067	NUTS 3; *Verkehrszelle* (Berlin)
IE	1,672,088	LAU 2
EL	2,121,400	n/a
ES	13,223,901	LAU 2; Census districts
FR	13,326,104	LAU 2; cantons urbains
IT	2,204,399	LAU 2; census areas
CY	300,000	LAU 2
LU	59,736	LAU 2
HU	516,127	n/a
NL	64,262	LAU 2; part Gemeenten
AT	881,548	LAU 2
PL	1,479,261	n/a
PT	517,817	LAU 2
RO	821,511	n/a
SI	135,665	n/a
UK	11,177,518	LAU 2

Source: EPRC calculations from Eurostat data based on Non-paper and Wishlade, F. (2007) All's well that ends well: Recent developments in EU Competition Policy and Regional Aid, EoRPA paper 07/4, EPRC, University of Strathclyde available at: http://www.eprc.strath.ac.uk/eorpa/Documents/EoRPA_07_Papers/EoRPA_07-4.pdf.

6.3 Annex 3: CoR Opinion on the revision of the guidelines for NRA (2005) – summary

The CoR Opinion[69] issued to the RAG endorsed NRA as an instrument that can be used by public authorities to develop their economic and business policy. The CoR asks for a better targeted state aid, where NRA shall offset market failures without distorting competition and help to reduce imbalances between areas. For improving competitiveness rather horizontal aid (R+D, environment, training, employment, SMEs, etc) are considered to matter. Therefore the **coordination of different rules** in relation to their aims and operations is very important.

Any revision of other state aid instruments must be carried out with a view to helping achieve the **cohesion objective** and contributing to a **lower overall level of state aid** at Community level. The Opinion asks for a grading within the reduction of aid ceilings in favour of the cohesion objectives and more sophisticated methods of cutting down the overall amount of state aid.

The GDP **indicator** is endorsed (for type-a regions), whereas for type c-regions the use of the **employment rate** as an alternative labour market indicators is suggested. Further indicators (such as the unemployment rate, population ageing and R&D capacity) could be used as supplementary information. The inclusion of coherent criteria relating to aid for **sectors** that play a key role in regional development is requested;

For type a) regions **coherence with convergence regions** is required (also including regions with statistical effect) to enhance policy integration.

In terms of eligible regions the Opinions asks for bonuses and the eligibility of **operating aid for other types of regions** suffering from natural, geographic or demographic handicaps (rural areas, areas affected by industrial transition, regions which suffer from severe or permanent natural or demographic handicaps, such as northernmost regions, island, border and upland regions). Regions suffering serious **economic crisis** should temporarily be eligible as type c) regions. Furthermore the CoR asks that regions should be classified according to their level of competitiveness, so that the horizontal aid can be received in a graded manner according to their levels of development and competitiveness.

Finally, the Opinion stresses the need for less prosperous regions and regions which suffer from severe or permanent natural or geographic handicaps to have a more favourable framework for the development of their services of general

[69] CoR (2005): **OPINION** of the Committee of the Regions of 7 July 2005 on the **Revision of the guidelines for regional State aids, COTER 037**

economic interest (SGI). Therefore the CoR requests that the exemption from notification of compensation for public services should be extended to include SGI that represent essential tasks of public authorities, especially provision of social housing, public hospitals, education and general social services. The EC should raise the notification thresholds, and notification should be ex post.

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