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EPRC POLICY BRIEFING

DRAFT REGIONAL AID GUIDELINES 2014-20

WHAT ARE THE PROPOSALS AND HOW MIGHT THEY AFFECT REGIONAL POLICIES IN THE MEMBER STATES?

Following over two years of preparatory work, on 14 January 2013 the Commission issued Draft Regional Aid Guidelines (RAG) for public consultation. The Draft RAG imply significant changes to regional aid in the EU, particularly regarding the spatial coverage of policy and the targeting of aid to large firms. This EPRC Policy Briefing¹ assesses the implications of the Draft RAG particularly in the light of updated GDP data published on 21 March 2013.

What's the background?²

The Regional Aid Guidelines provide a framework within which the European Commission authorises regional investment aid. Among other things, the Guidelines set the main parameters in terms of spatial coverage, criteria for designating assisted areas, eligible expenditure, aid intensities and special provisions for large investment aid. The current (2007-13) Guidelines³ expire end 2013.

DG Comp began to review the Guidelines in 2010. In December 2011, a so-called 'Non-paper' was sent to national authorities proposing significant changes, notably:

- the **exclusion of large firms** from regional investment aid, except in the so-called 'a' areas;
- a reduction in initial **assisted area coverage** from around 45.5 percent of the EU population to 42 percent; and
- a profound change in the principles underpinning the **allocation of 'c' area population** so that the methodology would cease to take account of regional disparities in relation to the *national* situation, and *EU averages alone* would be the benchmark.

Aspects of these proposals – most notably the exclusion of large firms from eligibility for aid in 'c' areas and the exclusive use of EU averages for assessing regional disparities - were contested by many Member States. The Non-paper was not made public, but a three-month public consultation

period began in January 2012, after which a period of further reflection eventually led to the publication of the Draft RAG in January 2013.⁴ The Draft RAG was also the subject of a public consultation which closed on 11 March 2013. The 2014-20 Regional Aid Guidelines are expected to be adopted by the Commission in May 'if all goes well'.⁵

What are the key changes proposed in the Draft RAG?

The Draft RAG is a relatively complete document (the Non-Paper only addressed limited aspects of the reform), but some elements, such as the precise dovetailing of the RAG with the General Block Exemption Regulation (GBER),⁶ remain to be defined. Importantly, while most regional aid will continue to be exempted from notification by dint of the GBER, the six-month transitional period after the expiry of the GBER on 31 December 2013 does not apply to regional aid.⁷ This means that regional aid cannot be offered after 31 December 2013 on the basis of the current maps. Compared with RAG 2007-13, the Draft RAG proposes both continuity and change. The key points are:

- **Large firms** would be eligible for regional aid in 'a' areas only; the map of 'c' areas would only determine the availability of higher aid rates for SMEs.
- The overall initial **population ceiling** for assisted areas would be 42 percent of the EU27 population. This is lower in absolute terms than now – the 2007-13 ceiling is 42 percent of EU25 population, plus Bulgaria and Romania – but see below.
- The **definition of 'a' areas** as NUTS 2 regions with GDP(PPS) per head below 75 percent of the EU average would be retained. The 'statistical effect' category would be dropped. The data to be used would be for 2008-10.
- The **coverage of 'c' areas** would comprise two elements: 'predefined' areas and 'non-predefined' areas. This is broadly as now, but the distinction is made more rigid.
- There would be **two categories of predefined 'c' area** (as now): (i) regions with 'a' status in 2007-13 that are now over the 75 percent threshold, but only if GDP(PPS) per head is below 90 percent of the EU average (*similar* to economic development regions now); and (ii) low population density areas. The population derived from predefined areas is non-transferable.
- As now, the **population of non-predefined 'c' areas** is calculated by subtracting the 'a' regions and the predefined 'c' areas from the initial ceiling. The population would be distributed between countries on the basis of both national *and* EU disparities in GDP per head and unemployment rates - a hybrid of RAG 2007-13 and the Non-Paper proposal.
- A **'safety net'** on total coverage would apply such that no Member State lost more than 50 percent of existing coverage (as now), and each would have a minimum coverage of 7.5 percent of the population. The safety net could have the effect of increasing population coverage beyond 42 percent.
- The actual **selection of 'c' areas** would continue to be undertaken by domestic authorities, based on parameters set in the RAG; some modest changes are proposed to these criteria.
- Most aid schemes and individual awards would be covered by the new GBER, but **four categories would require prior notification and assessment** against the RAG, namely: large investment aid (but the production capacity and market share 'filters' are dropped); investment aid targeted at specific sectors; aid potentially linked to a closure; and operating aid not covered by the GBER. The assessment criteria in the Draft RAG reflect the 'balancing test' applied to other forms of State aid.
- New **transparency** obligations are proposed, notably the online publication of award data, and there could be requirements for **evaluations** of some schemes.

While the public consultation closed on 11 March 2013, there will doubtless still be scope for national authorities to influence the outcome. In particular, it remains to be seen whether the proposal to restrict aid to large firms to 'a' regions will hold in its entirety. In a recent speech to the Committee of the Regions, Commissioner Almunia defended this element of the proposals.⁸ If implemented, it would herald a profound change in regional aid policies in many countries since the sole purpose of the 'c' assisted area map would be to determine those areas in which SMEs could receive higher aid intensities; in 'c' areas it would, among other things, end the use of regional aid for the attraction and retention of most mobile investment – with possible implications for how the assisted areas map is drawn. There is, however, an apparent shift in the Commission position on coverage - Commissioner Almunia indicated that the proposal to limit initial coverage to 42 percent of the EU population had been reconsidered and that a ceiling of 45 percent was justified.⁹

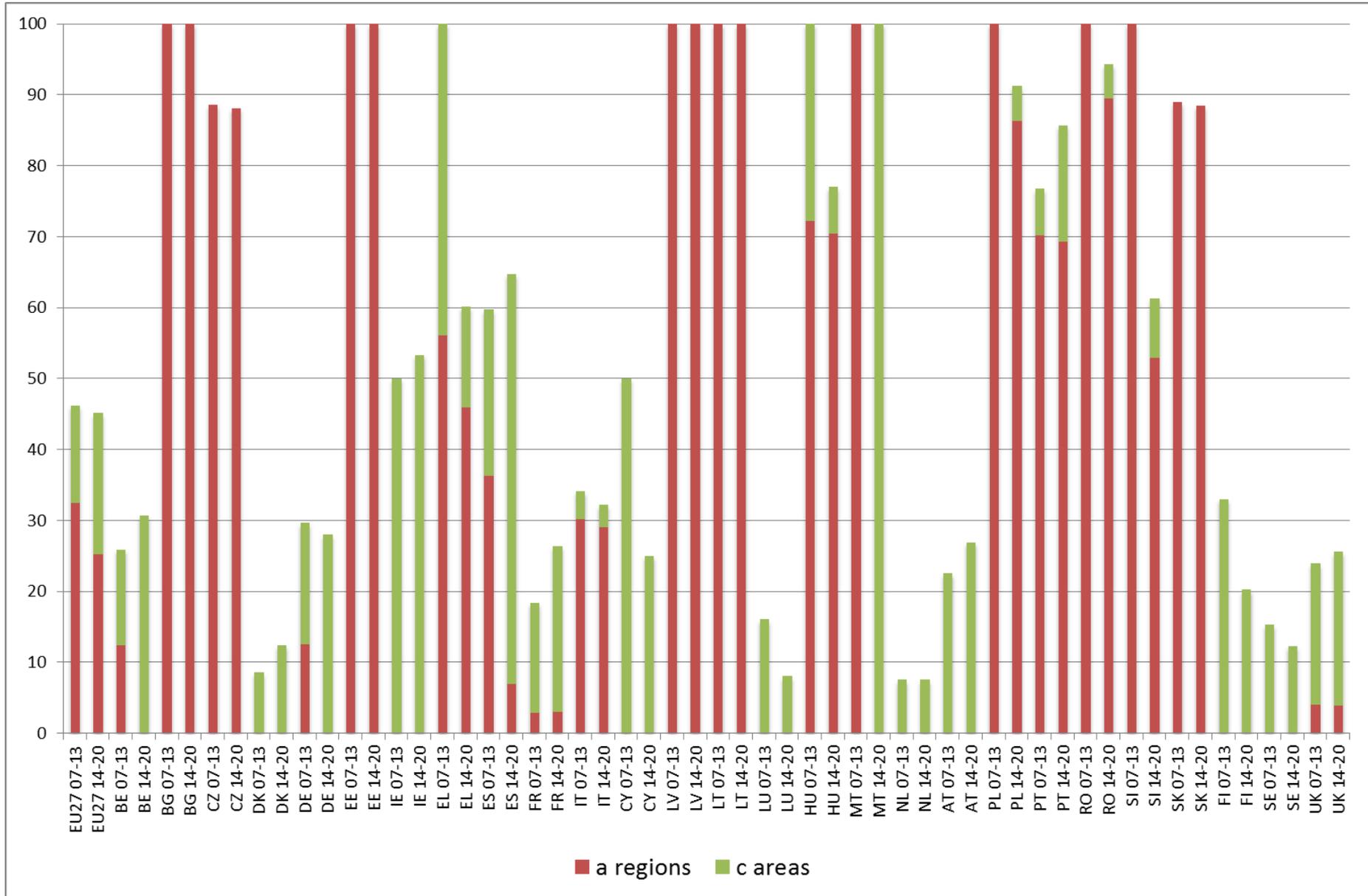
How might future assisted area coverage be affected?

One intriguing aspect to the reforms is that respondents to the 2013 public consultation could not know how the Draft RAG would affect assisted area coverage. This is because the Draft RAG proposes the use of 2008-10 regional GDP data, which was only published by Eurostat on 21 March 2013.¹⁰ Calculation of spatial coverage under the Draft RAG also relies on 2009-11 unemployment data; these have been available for some months, but have been subject to frequent revision. The results presented below (see Figure 1) aim to illustrate the impact of the changes implied by the Draft RAG. The calculations are based on the indications given in the Draft RAG, but take account of Commissioner Almunia's proposal to raise the overall population ceiling from 42 percent to 45 percent, as indicated above. These results are in no sense official figures (see also the 'cautionary remarks' below). Nevertheless, they provide a first indication of the impact of the Draft RAG on spatial coverage, ostensibly based on the data to be used under the 2014-20 RAG.

At the EU level, the most striking point to note is that, while overall coverage falls slightly, there is a pronounced shift in the *composition* of this coverage – with 'a' region coverage falling from around 33 percent to around 25 percent of the EU27 population and 'c' areas rising from around 14 percent to 20 percent.

At country level, patterns of change vary widely. In *relative* terms, the biggest 'losers' would be Cyprus and Luxembourg, which would see coverage halved, as both countries depend on the 50 percent safety net for coverage. In *absolute* terms, the biggest losers would be Slovenia and Greece, both of which would lose approaching 40 percent of existing coverage. Finland and Hungary would also lose substantial coverage, while Poland and Romania would see their capital regions excluded from the regional aid map for the first time. Sweden would see a reduction of around three percentage points. In Germany and Italy there would be more modest reductions in coverage. Note, however, that the outcomes for Finland, Germany and Italy may be distorted by data availability under the new NUTS boundaries – again see 'cautionary remarks' below.

Figure 1: Population coverage 2007-13 and 2014-20 (% of total)



Note: In fact, figures relate to 2011-13, i.e. following the 2010 review when Statistical effect areas were re-designated as 'full' 'a' regions or 'c' area.

Source: Own calculations from Eurostat data, RAG 20107-13 and Draft RAG 2014-20.

In some countries, there would be no change in overall coverage: Bulgaria and the three Baltic states would retain 100 percent 'a' region coverage; the Netherlands would rely on the minimum 7.5 percent coverage, (the same as current coverage); and Malta would have 100 percent coverage, but with 'c' area rather than 'a' region status. Coverage in the Czech Republic and Slovakia would be unchanged; the differences shown in Figure 1 are the result of demographic change. Croatia is not mentioned in the Draft RAG, but on the basis of the latest data would qualify as an 'a' region in its entirety.

At the opposite end of the spectrum, the biggest 'winners' in relative terms would be France and Denmark, which would see increases in existing coverage of over 40 percent. In absolute terms, the main gains would be in France and Portugal – where coverage would increase by around eight percentage points. Spain, Austria and Belgium would also see coverage increase by more than four percentage points; there would be more modest gains in Ireland and the United Kingdom.

Though it is striking that many of the more prosperous Member States might see an increase in coverage while many less prosperous ones would see a reduction, it should also be recalled that, under the Draft RAG, large firms would not be eligible for investment aid in 'c' areas - 'c' area maps would serve to determine only those areas in which the SME 'bonus' applies.

How does the Draft RAG fit with EU Cohesion policy?

Since the 1988 reform of the Structural Funds the relationship between Cohesion policy and Competition control of regional aid has been a source of tension. This has been especially so in context of the coverage of the assisted areas. The 'co-evolution' of these policy areas goes well beyond the scope of this briefing paper, but the Draft RAG appears to signal a shift away from earlier attempts to align the two policy areas. In particular, while Cohesion policy classifies regions on the basis of 2007-9 GDP data,¹¹ the Draft RAG proposes 2008-10 data. This results in some modest discrepancies between 'a' region and Less-developed region status: the Greek regions Peloponnisos and Voreio Aigaio have 'a' status on the basis of 2008-10 data, but were classified as Transition regions for Cohesion policy purposes. The three-way classification of areas as Less-developed (less than 75 percent of EU average GDP), Transition (between 75 percent and 90 percent); and More-developed (over 90 percent) is only partially reflected in the Draft RAG (i.e. in the 'predefined' 'c' status of former 'a' areas).

Somewhat oddly (but reflecting specific Member State concerns), the Council conclusions make explicit reference to the reform of the RAG and note that the Commission 'will ensure that Member States can accommodate the particular situation of regions bordering convergence regions'.¹² It remains to be seen how this will feed through into the final version of the RAG, along with the other (sometimes conflicting) demands from Member States and the output from the public consultation.

Some cautionary remarks on the data

The calculations in this paper use Eurostat population and population density data updated on 20 March 2013 and GDP and unemployment rate data updated on 21 March 2013; they are based as closely as possible on the indications given in the Draft RAG. In practice, however, undertaking these calculations is both challenging and constrained by data availability. For these reasons, the results presented here should be treated with considerable caution.

Of particular note, the latest release of the GDP and population-related data use the NUTS 2010 definitions.¹³ This involves boundary changes in several countries at either NUTS 2 or NUTS 3 or both (namely Germany, Italy, the Netherlands, Finland and the United Kingdom). By contrast, unemployment rate data are still based on the earlier (NUTS 2006) boundary set. For the countries and regions concerned there are therefore gaps in the GDP and unemployment rate data. Moreover, the Draft RAG gives no guidance on the treatment of former 'a' regions where the boundaries of the region concerned have changed.

More generally, although the Draft RAG specifies the use of NUTS 3 unemployment rate data to distribute the 'non-predefined' 'c' areas, in practice, the current unemployment rate dataset contains no NUTS 3 data. Indeed, since their publication in July 2012, these data have been subject to frequent revision. The reason for these revisions is unclear; importantly, however, they have entailed the inclusion then removal of NUTS 3 data for some countries! These data have always been incomplete,¹⁴ but the key point to note from the perspective of calculating regional aid coverage is that the outcomes are highly sensitive to the availability of NUTS 3 data; the results presented here could therefore change significantly should such data become available for some or all countries.

Further information

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² For a detailed review of the reform process see Wishlade, F. (2012) 'Non-Paper: Non-Starter or Non-Negotiable? EU Competition Policy and Regional Aid Control Post-2013', European Policy Research Papers, No 83, University of Strathclyde: http://www.eprc.strath.ac.uk/eprc/documents/PDF_files/EPRP_83.pdf

³ Guidelines on national regional aid 2007-13, OJ C 54/13 of 4 March 2003.

⁴ Available here: http://ec.europa.eu/competition/consultations/2013_regional_aid_guidelines/paper_en.pdf

⁵ Almunia, J. (2012) 'Reviewing the Commission's Regional aid guidelines', *Open Days – 10th European week of regions and cities*, 11 October, Brussels, available at: http://europa.eu/rapid/press-release_SPEECH-12-715_en.htm

⁶ Commission Regulation (EC) No 800/2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty, OJEU L214/3 of 6 August 2008

⁷ *Ibid*, Article 44(3).

⁸ Almunia, J. (2013) 'State aid reform and the new Regional State Aid Guidelines', speech to Committee of the Regions plenary session, 1 February, Brussels, available at: http://europa.eu/rapid/press-release_SPEECH-13-92_en.htm

⁹ *Ibid*.

¹⁰ The data are due for release between 15 February and 15 March each year, though in 2013 were not issued until 21 March. See: http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/EN/nama_r_e2gdp_esms.htm

¹¹ European Council 7/8 February 2013, Conclusions (Multiannual Financial Framework) EUCO 37/13 at para 6, available at: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/135344.pdf

¹² *Ibid*, para 57.

¹³ Eurostat (2011) *Regions in the European Union: Nomenclature of territorial units for statistics*, European Commission.

¹⁴ It is curious that the Regional Aid Guidelines have, since the 2000-6 version, specified data – NUTS 3 unemployment rates - that Member States are not legally obliged to supply to Eurostat.