To roll forward or roll back?
Regional Aid Control 2014+

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Preface

This paper reviews recent developments in State aid control and prospects for regional aid control post 2013. The paper was prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. EoRPA members currently comprise the following partners:

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United Kingdom
- East Midlands Development Agency (EMDA) on behalf of the English RDAs
- Department for Business, Innovation and Skills, London
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Disclaimer

It should be noted that the content and conclusions of this paper do not necessarily represent the views of individual members of the EoRPA Consortium.

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EXECUTIVE SUMMARY

Over the past year or so, the fall-out from the financial and economic crisis has continued to dominate the State aid control agenda. The volumes of aid approved in response to the crisis not only dwarf the amounts of aid awarded for other purposes, but also reverse the recent trend of stable or declining State aid expenditure. Nevertheless, as the European economy emerges from the recession, the focus has turned increasingly to exit strategies – particularly the coordination and termination of the various measures in place. At the same time, the new Commissioner for Competition, Joaquin Almunia, has outlined several areas where State aid is either due for reform and/or where it could contribute to wider EU priorities, but so far, regional aid has received little or no explicit attention. This may partly be explained by the continued dominance of the crisis measures on the DG Competition agenda, but it is also likely to be connected with the lack of progress on Cohesion policy reforms for the post-2013 period, itself hampered by discussions on budgetary and wider issues. Notwithstanding this, it appears that DG Comp is now giving consideration to how the State aid rules will apply to regional aid post-2013, though no formal consultations have yet been issued and there are no clear indications as to current thinking.

Against this background, the principal aim of this paper is to consider the future of the Regional Aid Guidelines. It begins with a brief overview of wider developments in State aid control and regional aid before exploring the options for reform of the Regional Aid Guidelines post 2013.

In looking forward, the paper sets out the impact of reapplying the 2007-2103 Regional Aid Guidelines for 2014+. This uses the latest GDP and unemployment data and assumes that EU27 (rather than EU25) will be taken as the reference point. The outcomes of this exercise call into question whether the existing method can be reapplied, and this for at least two reasons.

- Limiting initial coverage to 42 percent and retaining the same 'a' region criterion reduces the extent of the 'a' regions, but enlarges the scope of the 'c' areas, primarily to the benefit of many more prosperous Member States (eg. Austria, Belgium, France, Germany), while some less prosperous countries would lose (eg Cyprus, Spain, Greece, Hungary)

- In several countries, coverage would be halved and this for the second time in seven years (Ireland, Cyprus, Luxembourg, the Netherlands).

It is arguable that these outcomes undermine the legitimacy of the methodology, raising the question of what room there is for manoeuvre within the broad framework of the Guidelines. Three main variables could be the subject of negotiation:

- Overall coverage – expressed in terms of the initial ceiling (currently 42 percent of EU25) or the final outcome (currently 46.6 percent of EU27). Could the ceiling be raised?

- The statistical effect – this currently applies to regions excluded from 'a' region eligibility by dint of the statistical effect of enlargement from EU15 to EU25. Could the EU15 threshold be retained?

- The safety net – at present this limits reductions in coverage to 50 percent of previous coverage. Could the safety net be raised?

Moving away somewhat from a reapplication of the Guidelines, an alternative approach would be to replace statistical effect and economic development status with entitlement to 'c' area status for *all* regions with GDP per head between 75 percent and 90 percent of the EU average.

A general point to note is that, all other things being equal, a reapplication of the Regional Aid Guidelines for 2014+ would use GDP(PPS) data for 2007-9, a particularly volatile period in the EU economy, for which the regional impacts can only currently be guessed at. It seems likely that this will raise some issues about the appropriateness of the data, but a number of further questions are worth raising:

- Is a simple reapplication of the Guidelines viable? If not, which variables could be adjusted or is a more radical approach needed? What appetite is there for this?

- For many years the aid intensities set by the Commission were uncontroversial and tended not to bite often; is this likely to be so in the future?

- How much do national policymakers still really care about the future of their regional aid maps, and what underpins this concern?

- How are countries gearing up to the prospect of negotiating new maps? To what extent are preparations underway or are countries essentially in reactive mode?

1. INTRODUCTION

Over the past year or so the fall-out from the financial and economic crisis has continued to dominate the State aid control agenda. The volumes of aid approved in response to the crisis not only dwarf the amounts of aid awarded for other purposes, but they also reverse the recent trend of stable or declining State aid expenditure; in 2008 the volume of State aid was around *five* times the 2007 levels.

Nevertheless, as the European economy emerges from the recession, the focus has turned increasingly to exit strategies – particularly the coordination and termination of the various measures in place. At the same time, the new EU Commissioner for Competition, Joaquin Almunia, has outlined several areas where State aid is either due for reform and/or where it could contribute to wider EU priorities.[1] In particular, he has noted that the State aid guidelines adopted in areas such as training, employment, regional aid, research, environment and other horizontal objectives need to be reviewed and possibly revised. The role of Competition policy in delivering the objectives of Europe 2020, has also been highlighted. In this context, the State aid treatment of Services of General Economic Interest (SGEI) has received special attention, partly reflecting the reforms under the Lisbon Treaty;[2] a consultation on the application of the existing SGEI State aid framework ran from June to September 2010.[3]

Thus far, regional aid had received little or no explicit attention from the new Commissioner. This may partly be explained by the continued dominance of the crisis measures on the DG Competition agenda, but it is also likely to be connected with the lack of progress on Cohesion policy reforms for the post-2013 period, itself hampered by discussions on budgetary and wider issues. Notwithstanding this, it appears that DG Comp is now giving consideration to how the State aid rules will apply to regional aid post-2013, though no formal consultations have yet been issued and there are no clear indications as to current thinking.

Against this background, the principal aim of this paper is to consider the future of the Regional Aid Guidelines and, in particular, the extent to which it is feasible essentially to reapply the existing system. The paper begins with a brief update of recent developments in State aid control (Section 2), focusing on those related to, or involving, regional aid (Section 3). It goes on to consider the implications of reapplying the 2007-13 Regional Aid Guidelines for the 2014+ period at the EU level (Section 4) and for the EoRPA partner countries (Section 5). Section 6 considers some alternative scenarios for the post 2013 period. Section 7 concludes by highlighting some key issues for discussion.

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[1] Almunia, J. (2010) *Introductory remarks by Mr Almunia, Commissioner-designate,* European Parliament, Brussels 12 January.

[2] Alumina, J. (2010) *The role of public services in "Europe 2020",* CEEP Congress, Madrid 31 May, Speech 10/276.

[3] See: http://ec.europa.eu/competition/consultations/2010_sgei/index_en.html

2. RECENT DEVELOPMENTS IN STATE AID CONTROL

This section briefly reviews recent developments in relation to three main areas of State aid control: measures relating to the financial crisis; the temporary framework for the 'real' economy; and the operation of the general block exemption regulation (GBER).

2.1 Crisis measures

As already mentioned, the handling of State aid related to the financial crisis has dominated DG Competition's agenda since late 2008, and to some extent it continues to do so. As discussed in the 2009 EoRPA report on competition policy,[4] the Commission took four steps to address the financial crisis; all of these are temporary – in principle they are applicable until end 2010, subject to review – and based on Article 107(3)(b). The EFTA Surveillance Authority has taken equivalent steps in respect of the EEA Member States, Iceland, Lichtenstein and Norway.[5]

First, on 13 October 2008, the Commission adopted the so-called 'Banking Communication'.[6] This aimed to stop or prevent runs on financial institutions by setting out guidance on how Member States could support the banking sector in ways which were compatible with the State aid rules. Based on Article 107(3)(b), it provided for swift authorisation of support such as guarantees or recapitalisation, provided it was well-targeted, proportionate to the objective of stabilising the financial markets and contained certain safeguards against negative effects on competition – such as, for example, non-discrimination on nationality grounds.

Second, on 5 December 2008, the Commission adopted the 'Recapitalisation Communication'[7] which complemented and refined the Banking Communication. The Communication aimed to take account of the growing impact of the financial crisis on the 'real' economy, leading to even financially-sound banks requiring State capital in order to ensure adequate levels of lending to firms.

Third, on 25 February 2009, the Commission provided guidance on the treatment of what it termed 'impaired assets', such as underperforming loans, US sub-prime mortgage backed securities and other 'toxic' assets. The Impaired Assets Communication[8] addresses the

[4] Wishlade, F. (2009) *Crisis, what crisis? Business as usual for EU Competition Policy and Regional Aid Control*, paper prepared for the 30th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside on 4-6 October 2009, available at: http://www.eprc.strath.ac.uk/eorpa/Documents/EoRPA_09_Public/EoRPA_Paper09-5.pdf

[5] See: http://www.eftasurv.int/fieldsofwork/fieldstateaid/state_aid_guidelines/ Part VIII.

[6] *Communication from the Commission — The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis,* OJEU No. C270/8 of 25 October 2008.

[7] *Communication from the Commission — The recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition,* OJEU C10/2 of 15 January 2009.

[8] *Communication from the Commission - Treatment of impaired assets in the Community banking sector,* OJEU No C72/1 of 26 March 2009.

'clean-up' phase of financial institutions' balance sheets by outlining various mechanisms to ensure that foreseeable losses are disclosed and properly handled in order to restore confidence in the banking sector and enable capital to be used to resume normal lending in the real economy rather than as a cushion against possible losses.

Fourth, on 14 August 2009, the Commission adopted guidelines on restructuring aid to banks.[9] The Commission is dealing with a number of individual cases of bank restructuring, following on from rescue measures which were approved on condition that a restructuring plan would follow within six months. The guidelines aim to ensure the transparency and predictability of the Commission decisions.

Figure 2.1: Financial crisis measures by instrument

Member State	Guarantee schemes	Recapitalisation schemes	Liquidity intervention schemes	Asset relief intervention Schemes	Individual Cases
Belgium					274.5
Denmark	580	13.4			6.3
Germany	400	80		X	107.6
Ireland	376			54	25.6
Greece	15	5	8		
Spain	200	99	30		
France	265	23.95			62.2
Italy	n/a	20			
Cyprus	3				
Latvia	4.27				3.3
Luxembourg					7.32
Hungary	5.35	1.07	3.87	0.04	
Netherlands	200				56.2
Austria	75	15		x	0.5
Poland	4.62	4.62			
Portugal	16	4			0.5
Slovakia	2.8	0.66			
Slovenia	12		x		
Finland	50	4			n/a
Sweden	156	4.71			0.5
UK	381.87	62.79			405.6
TOTAL EU27	**2746.9**	**338.2**	**41.9**	**54.0**	**950.1**

Note: High figures for Denmark and Ireland are due to blanket guarantees for bank liabilities; for the total, certain elements are estimated as data are incomplete.

Source: European Commission (2010) *State Aid Scoreboard - Report on recent developments on crisis aid to the financial sector,* COM(2010) 255.

The position in the banking sector remains 'fragile', but the emphasis now is increasingly on finding mechanisms to wind-down support. The volume of support between October 2008 and March 2010 was very considerable: the Commission took 161 decisions for the financial sector based on Article 107(3)(b). Of these, 78 decisions related to some 40 financial institutions while 83 decisions concerned almost 40 schemes. The volume of intervention (schemes and *ad hoc* measures) amounted to €4,131.1 billion, *equivalent to almost one-*

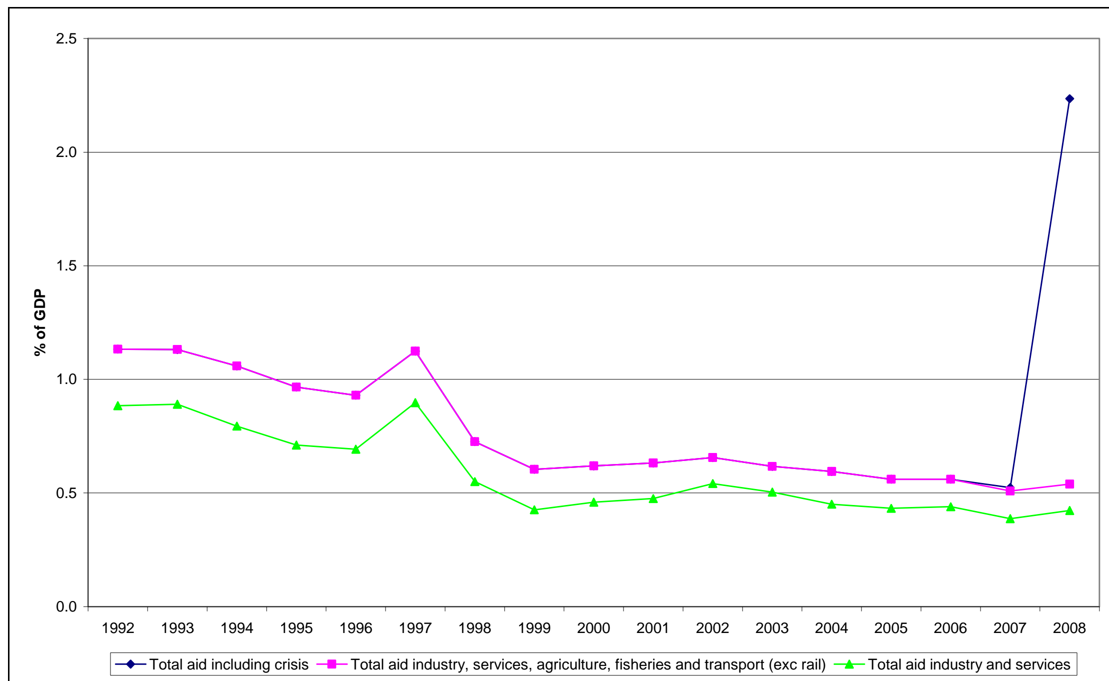
[9] *Commission communication on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules*, OJEU No C 195/9 of 19 August 2009.

third of EU27 GDP.[10] The breakdown of this intervention between countries and instruments is shown in Figure 2.1. This shows considerable variation between countries, with some (Bulgaria, Czech Republic, Estonia, Lithuania, Malta and Romania) not introducing any measures, and others, notably Denmark, Germany, Ireland, Spain, France, the Netherlands, Sweden and the UK having very significant exposure.

A parallel system of measures to regulate intervention in the banking sector was introduced for the EEA EFTA states (Iceland, Lichtenstein, Norway) by the EFTA Surveillance Authority (ESA). However, only Norway has notified a measure under these provisions, and this was not implemented until 2009 so that no expenditure had occurred in the EEA EFTA States by the time of the latest ESA Scoreboard.[11]

Although the potential exposure of the Member States under the various provisions is very significant, this does not equate directly with State aid, the real volume of which will only be known longer-term. Nevertheless, recent expenditure data already show that spending on crisis measures is having an impact on overall State aid expenditure trends, as Figure 2.2 indicates. This suggests that while State aid spending generally declined from the mid-1990s, then levelled-off, 2007 saw an abrupt upturn in spending with the onset of the financial crisis. It remains to be seen what the longer-term patterns of actual spend will be.

Figure 2.2: Long-term trends in State aid spending in the EU



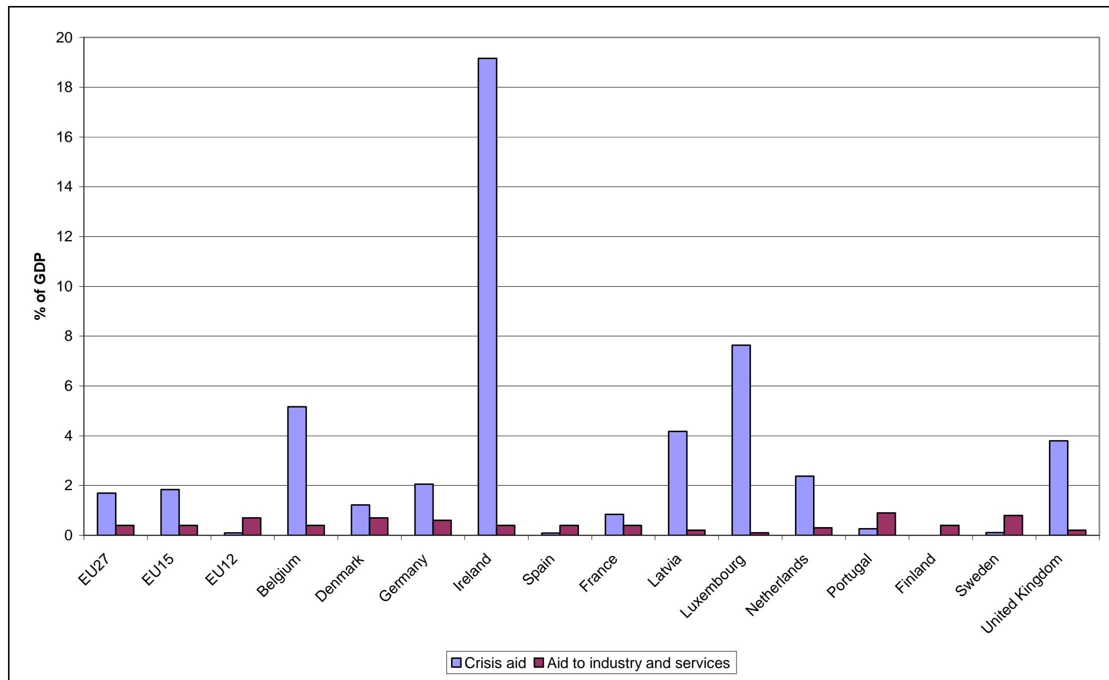
Note: Spending relates to EU15 from 1995, EU25 from 2000 and EU27 from 2002.
Source: DG Competition.

[10] European Commission (2010) *State Aid Scoreboard - Report on recent developments on crisis aid to the financial sector,* COM(2010) 255, 27 May 2010.

[11] EFTA Surveillance Authority (2009) *State Aid Scoreboard for 2008 for the European Economic Area EFTA States.*

Overall, Figure 2.2 suggests that State aid spending increased five-fold as a consequence of spending on the crisis. However, this sum conceals wide differences between countries; these are revealed in Figure 2.3, which shows that, while 14 Member States did not register any spending on crisis measures in 2008 (only those which did are included in the graph), spending in Ireland approached 20 percent of GDP, while spending in three others (Belgium, Latvia, Luxembourg) exceeded four percent.

Figure 2.3: Aid to industry and services and crisis aid as % of GDP (2008)



Source: DG Competition.

2.2 Temporary framework

In December 2008, the Commission adopted a Temporary Framework for State aid measures to support access to finance in the crisis.[12] As for the financial sector, the measures are based on Article 107(3)(b), which enables the Commission to authorise measures to "remedy a serious disturbance in the economy of a *Member State*" [emphasis added]. Reflecting this, some subnational governments (such as Scotland and Vlaanderen) had proposals for such measures turned down on the basis that the conditions in the 'economy of the *Member State*' constituted the underlying justification for any authorisation – although clearly there are also administrative benefits to the Commission in terms of the potential number of notifications. An equivalent package has been adopted by the EFTA Surveillance Authority in respect of EEA States.[13]

[12] The consolidated version including the February 2009 amendments is published as Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis, OJEU No C 83/1 of 7 April 2009.

[13] See: http://www.eftasurv.int/fieldsofwork/fieldstateaid/state_aid_guidelines/ Part VIII.

The framework has two main objectives: (i) to allow measures that unblock bank lending to firms and thereby guarantee continuity in access to finance; and (ii) to facilitate aid schemes that encourage continued investment, especially in sustainable growth. Proposed measures must be notified and approved by the Commission prior to implementation, but thereafter individual aid within the terms of the approved scheme can be offered immediately and without further notification.

Under the framework, a number of conditions apply:

- all measures apply only to firms which were not in difficulty on 1 July 2008; they may apply to firms which entered into difficulties thereafter as a consequence of the economic and financial crisis;
- all measures are applicable to 31 December 2010;
- approved temporary measures may not be cumulated with *de minimis* aid in respect of the same eligible expenditure;
- approved temporary measures may be cumulated with other compatible aid or with other forms of Community financing, provided that the maximum aid intensities in the relevant guidelines or General Block Exemption Regulation are respected.

The Temporary Framework comprises both new instruments and the (temporary) modification of existing instruments. The key forms of aid that can be authorised under the framework are as follows.

- a lump sum of up to €500,000 per undertaking:[14]
- State guarantees for loans at a reduced premium;
- subsidised interest rates;
- soft loans for 'green' products;
- risk capital;
- export credit insurance.

Since the introduction of the Framework, around one hundred measures have been approved by the Commission. These are summarised in Figure 2.4 along with the budgets committed, where this information is available.

[14] €15,000 for undertakings involved in primary agricultural production.

Figure 2.4: Measures approved for the 'real' economy (€m) as at September 2010

		€500K	Guarantee	Soft loan	Green prods	Risk capital	Export credit	Agric.
AT	Case	N47a/09 N317/09				N47d/09	N34/09	N11/10
	Budget	10000				25	n/a	1.2
BE	Case		N117/09				N532/09	N34/10
	Budget		1500				300	2.73
BU	Case							N108/10
	Budget							10.2
CZ	Case	N236/09		N237/09				
	Budget	1000		97				
DK	Case						N198/09 N554/09	
	Budget						n/a	
EE	Case	N387/09						
	Budget	n/a						
FI	Case	N224/09	N82b/09				N258/09	N141/10
	Budget	250	n/a				n/a	22
FR	Case	N7/09	N23/09	N15/09	N11/09	N119/09 N36/09	N449/09	N609/09
	Budget	n/a	n/a	n/a	500	n/a	1000	700
DE	Case	N668/8 N411/09 N299/09	N27/09	N661/8 N38/09	N426/09	N39/09	N384/09 N91/10	N597/09
	Budget	2050	6000	6750	n/a	50	n/a	100
GR	Case	N304/09	N308/09	N309/09				
	Budget	n/a	1000	1000				
HU	Case	N77/09	N144/09 N203/09 N341/09 N56/10	N78/09				
	Budget	n/a	1810.9	n/a				
IE	Case	N186/09						
	Budget	100						
IT	Case	N248/09	N266/09	N268/09	N542/09	N279/09		N706/09
	Budget	n/a	n/a	n/a	300	n/a		n/a
LV	Case	N124/09	N139/09 N670/09				N84/10	
	Budget	28.2	352.7					
LT	Case	N272/09 N523/09 N46/10					N659/09	N686/09
	Budget	100.1					29	n/a
LU	Case	N99/09	N128/09				N50/09	
	Budget	15	500				25	
MT	Case	N118/09						
	Budget	40						

....continued overleaf

Figure 2.4 continued

		€500K	Guarantee	Soft loan	Green prods	Risk cap	Export credit	Agric.
NL	Case	N156/09					N409/09 N14/09	N611/09
	Budget	n/a					n/a	2.81
PL	Case	N408/09						
	Budget	257.6						
PT	Case	N13/09						
	Budget	750						
RO	Case	N547/09	N286/09 N173/10 N478/09					
	Budget	225.1	400					
SK	Case	N222/09 N711/09						N707/09
	Budget	400						3.3
SI	Case	N228/09	NN34/09 N105/10				N713/09	
	Budget	n/a	1200				50	
ES	Case	N307/09	N68/10 N157/10		N140/09		N605/09	
	Budget	1400			100		n/a	
SE	Case		N80/09 N541/09					
	Budget		n/a					
UK	Case	N43/09	N71/10	N460/09 N257/09	N72/09			N71/10
	Budget	1192.3	9538.3	n/a	9538.3			23.9
NO	Case	235/09						
	Budget	n/a						

Notes: (1) Where a budget applies to several schemes, it is divided equally between them for the purposes of this table. (2) Where budgets are given in domestic currencies, these have been converted into Euro at Monday 20 September 2010.
Source: Compiled from: http://ec.europa.eu/competition/elojade/isef/index.cfm?clear=1

Figure 2.4 suggests that the uptake of the package by Member States generally has been high. By end June 2010, the Commission had approved measures in all but one Member State – Cyprus being the exception. However, there are wide variations in the use made of the Framework. Almost all countries have introduced schemes, or amended existing schemes, to take account of what is often termed the new *de minimis* ceiling of €500,000,[15] but this measure has not been taken up in Belgium, Bulgaria, Denmark, Romania or Sweden. Moreover, in both Sweden and Denmark quite a restrictive approach has been taken: the Danish response is limited to an export credit insurance mechanism; and in Sweden there

[15] In reality, this is a misnomer since *de minimis* aid falls outside the scope of Article 107(1), whereas the limited amount of aid under the Temporary Framework does not.

are no measures of general application at all, with the two guarantee mechanisms cited in the table being specific to Volvo and Saab respectively.

Several countries – France, Germany, Italy and the UK, for example – make use of most or all of the provisions of the Temporary Framework. However, use of some instruments is quite limited: only France, Germany, Italy, Spain and the UK have implemented the soft loan provisions for 'green' products; and only Austria, France, Germany and Italy are using the temporary risk capital facility.

The scale of intervention is difficult to assess. This is partly because the amounts to be committed were not always known when the schemes were notified and approved and partly because some schemes are open-ended and/or expenditure cannot be calculated *ex ante*. This applies, for example, to many of the French schemes, the precise operation of which has been adjusted in line with the framework and which involve concessions on taxes paid to local authorities, where lost revenue is later reimbursed by central government. A further complication is the lack of precise information about the budgets committed for guarantees; it is not always apparent whether the figures given refer to the total amounts guaranteed or to the aid element therein. Notwithstanding the gaps in the data available, overall expenditure under the framework appears to be significant, albeit with variations between countries.

Policymaker reactions to the temporary framework have been mixed. Some have considered the package to be something of a 'sell out', enabling generous support with very little in the way of constraints on eligible expenditure or other conditions, noting, for example, that €500,000 is a substantial sum in 'untied' aid at least for SMEs. Others have argued that the complexity of the package essentially discriminates against small firms who will be unwilling or unable to juggle the change in criteria and rates that will apply when the temporary package expires. Others still, especially at the subnational level, have bemoaned the complicated calculations required for setting award values, notably for soft loans, and have argued that this has undermined the usefulness of the package. A further issue has been the relationship between the Temporary Framework and Structural Funds programmes. In some countries (such as Finland and Austria), the Structural Funds programmes have been used to co-finance temporary measures, but this has not been widespread. This partly owes to the perceived lack of co-ordination between DG Regio and DG Comp, but also to the view in DG Regio that Structural Funds resources should not be drained in order to respond to essentially cyclical problems, a view shared by Italy, for example. More generally, there is evidence that some countries have experienced significant delays in implementation, partly owing to domestic administrative arrangements (and budgetary constraints), but also due to the complexity of the measures.

2.3 Operation of the GBER

As part of the rationalisation and simplification of the State aid rules presaged in the so-called State Aid Action Plan,[16] the Commission adopted a General Block Exemption

[16] European Commission (2005) *State Aid Action Plan – Less and better targeted state aid: a roadmap for state aid reform*, COM(2005)107 final, Brussels, 7 June 2005.

Regulation (GBER) in July 2008;[17] the GBER entered into force on 29 August 2008, replacing the individual block exemption regulations in SME aid, employment, training and regional aid and extending the policy fields to which the block exemption facility applies. This represented the latest stage of a process begun under the 1998 Enabling Regulation[18] which envisaged the possibility of block exemptions in a number of policy areas, namely aid for SMEs, R&D, training, environmental protection and regional aid. In practice, block exemption regulations were only adopted for SME and training aid (in 2001) employment aid (in 2002) and regional aid (in 2006).

The main purpose of the block exemption approach is to obviate the need for prior notification and approval of aid schemes in areas where the Commission has defined the circumstances in which it will find aid to be compatible with the common market. In other words, provided that a given measure meets the conditions set out in the Regulation, there is a *presumption* that the measure is compatible with the Treaty. The principal rationale for this approach is to reduce the administrative burden on the Commission which, in the past, had committed considerable resources to 'rubber stamping' aid schemes that national administrators had already taken care to ensure were in line with the Commission's published guidelines. There is a considerable incentive for administrators to design measures that comply with the GBER, since measures that do not meet the precise criteria have to be notified; this is a potentially lengthy process with an uncertain outcome.

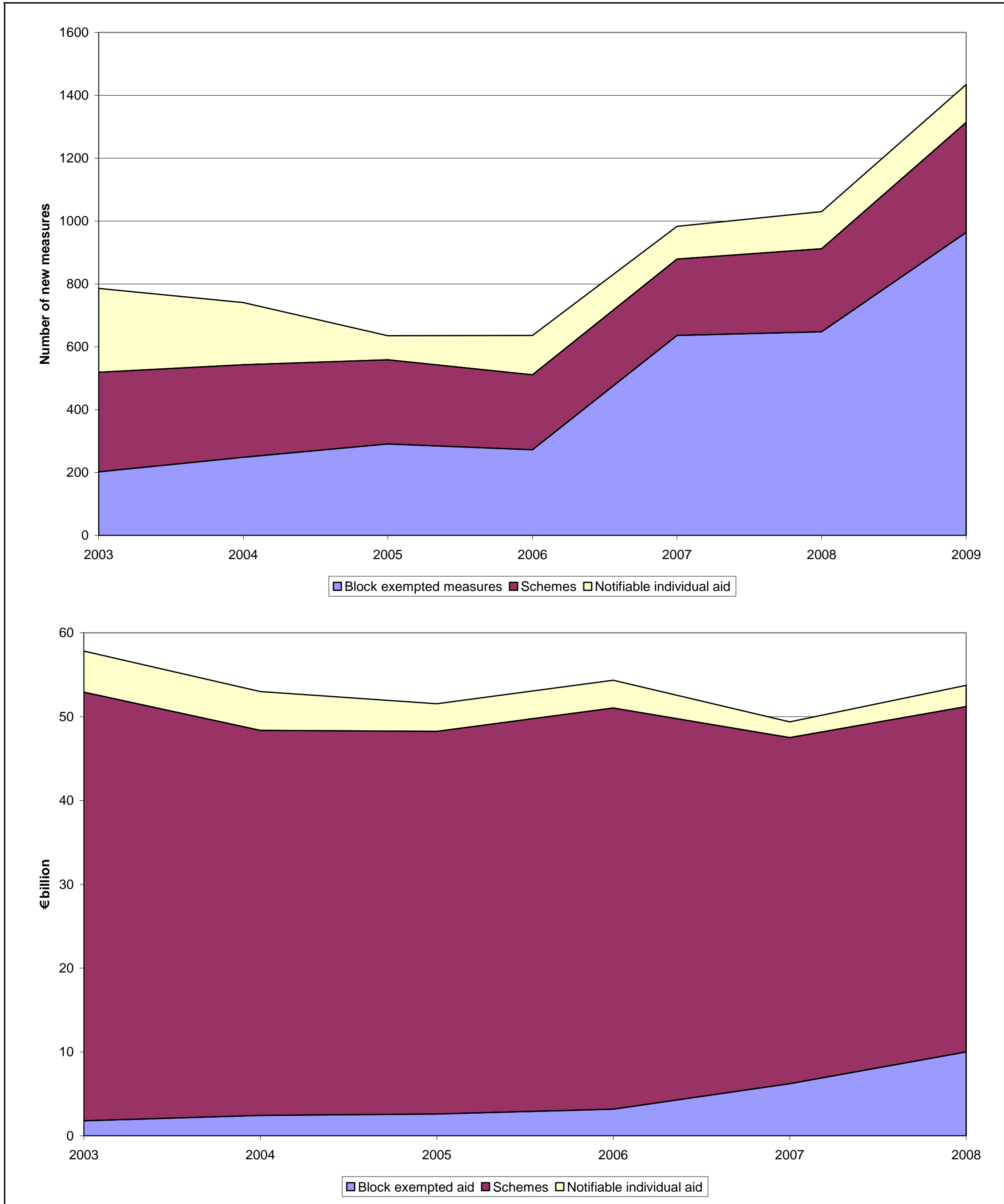
The GBER sets out the conditions, eligible expenditure and aid intensities for aid in a number of specified policy areas. This effectively proscribes quite tightly the types of measure and associated conditions to which the exemption from notification applies.

Data published recently by the DG competition suggest that the reform of the mechanisms for allowing State aid has, over time, had an impact on the proportion of measures scrutinised by DG Competition (see Figure 2.5). However, it is also of note that the overall number of measures has increased significantly, suggesting a fragmentation of policy instruments and/or a heightened awareness of the regulatory context for State aid. Nevertheless, around two-thirds of all measures were implemented under the block exemption provision in 2007-2009. In terms of expenditure, however, the perspective is somewhat different. By 2008 (the latest year for which data are available), block exempted schemes represented less than 19 percent of State aid expenditure in industry and services.

[17] RAPID Press Release (2008) *State aid: Commission adopts Regulation automatically approving aid for jobs and growth*, IP/1110/08 of 7 July; Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Article 87 and 88 (now 107 and 108) of the Treaty (General block exemption Regulation), OJEU No L 214/3 of 9 August 2008.

[18] Council Regulation (EC) No 994/98 of 7 May 1998 on the application of Articles 92 and 93 (now 107 and 108) of the Treaty establishing the European Community to certain categories of horizontal State aid, OJEU No L 142/1 of 14 May 1998.

Figure 2.5: Number of new measures and aid expenditure by level of scrutiny



Note: Crisis measures are excluded; data refer to aid to industry and services.
Source: DG Competition

The Commission's view of these trends is positive since it considers that the increasing use of the block exemption facility enables it to focus resources on the most distorting types of aid.[19] However, there are wide differences between Member States in the degree of uptake of the mechanism, as Figure 2.6 shows.

[19] Commission Staff Working Document accompanying the State aid scoreboard – Autumn 2009 Update, SEC(2009)1638 of 7 December 2009.

Figure 2.6: Uptake of the GBER by Member State 2008-9

Member State	Number of GBER forms submitted by Member States		Total Number of GBER forms
	2008	2009	2008 - 2009
EU27	194	963	1157
Belgium	2	19	21
Bulgaria	3	4	7
Czech Republic	23	37	60
Denmark	3	10	13
Germany	38	165	203
Estonia	7	18	25
Ireland	5	8	13
Greece	1	1	2
Spain	12	126	138
France	10	10	20
Italy	25	204	229
Cyprus	3	14	17
Latvia	5	8	13
Lithuania	8	12	20
Luxembourg	0	1	1
Hungary	0	20	20
Malta	3	7	10
Netherlands	11	28	39
Austria	11	41	52
Poland	1	114	115
Portugal	2	8	10
Romania	1	5	6
Slovenia	0	17	17
Slovakia	0	15	15
Finland	2	9	11
Sweden	0	4	4
United Kingdom	18	58	76

Source: DG Competition

There are also significant differences in the extent to which the various provisions of the GBER are used (see Figure 2.7). It is interesting to consider to what extent the provisions of the GBER effectively straightjacket and focus national approaches to the use of State aid, but early indications are that this has happened to only a limited degree. However, it would be premature to reach any firm conclusions about the reasons underlying this distribution.

Figure 2.7: Distribution of sub-measures under the GBER

GBER Objective	GBER article	GBER sub-measures		GBER sub-measures
		2008	2009	2008-9
Regional aid Scheme(Art.13)	13	65	254	319
Regional Ad hoc aid (Art. 13.1)	13.1	0	7	7
Aid for newly created small enterprises (Art.14)	14	11	23	34
SME investment and employment aid (Art.15)	15	61	228	289
Aid for small enterprises newly created by female entrepreneurs (Art. 16)	16	5	8	13
Investment aid to go beyond Community standards for environmental protection (Art. 18)	18	3	41	44
Aid for the acquisition of new transport vehicles which go beyond Community environmental protection standards (Art. 19)	19	1	20	21
Aid for early adaptation to future Community standards for SMEs (Art.20)	20	1	14	15
Environmental aid for investment in energy saving measures (Art. 21)	21	3	58	61
Environmental investment aid for high efficiency cogeneration (Art. 22)	22	3	35	38
Environmental aid for the promotion of energy from renewable energy sources (Art. 23)	23	4	62	66
Aid for environmental studies (Art.24)	24	2	36	38
Environmental aid in the form of tax reductions (Art. 25)	25	2	3	5
Aid for consultancy in favour of SMEs (Art. 26)	26	47	177	224
Aid for SME participation in fairs (Art. 27)	27	16	51	67
Aid in the form of risk capital (Art. 28 – 29)	29	4	13	17
Fundamental research (Art. 31.2.a)	31.2.a	8	51	59
Industrial research (Art. 31.2.b)	31.2.b	22	185	207
Experimental development (Art. 31.2.c)	31.2.c	23	180	203
Aid for technical feasibility studies (Art. 32)	32	5	73	78
Aid for industrial property rights costs for SMEs (Art. 33)	33	8	58	66
Aid for research and development in agriculture and fisheries (Art. 34)	34	3	27	30
Aid to young innovative enterprises (Art. 35)	35	7	26	33
Aid for innovation advisory services and for innovation support services (Art. 36)	36	7	47	54
Aid for the loan of highly qualified personnel (Art. 37)	37	5	22	27
Specific training (Art. 38(1))	38(1)	24	146	170
General training (Art. 38(2))	38(2)	33	224	257
Wage subsidies for the recruitment of disadvantaged workers (Art. 40)	40	9	37	46
Wage subsidies for the employment of disabled workers (Art. 41)	41	9	34	43
Aid for compensating the additional costs of employing disabled workers (Art. 42)	42	7	30	37
Total	**26**	**398**	**2170**	**2568**

Source: DG Competition.

More generally, it is interesting to note that, thus far, Member State reactions to the GBER are rather mixed. In many cases at both national and subnational level there is positive response to the flexibility and 'room for manoeuvre' offered. This is considered to be valuable, alongside the wider simplification agenda and the potential for accelerated procedures. It also provides a measure of order to the use of aids by subnational authorities. However, the feedback is not all positive. Some perceived the GBER as simply a compilation of existing rules providing no real benefit and still requiring considerable interpretation. Moreover, there is concern that the use of the GBER presents a significant potential risk notably in the context of possible audits of implementation. The GBER's 'newness' means that it is still regarded with a certain amount of scepticism. More generally, it is fair to say that the GBER is still too new to evaluate its impact.

3. RECENT DEVELOPMENTS IN REGIONAL AID CONTROL

Recent developments in the control of regional aid have been low-key. This is largely explained by the fact that the current Guidelines are mid-term, and DG Competition has yet to provide any indication of its thinking for the next period. There are, however, three issues worth noting: first, some minor adjustments to existing regional aid maps approved by the Commission; second, the expiry of the 'statistical effect provisions under the 2007-13 Regional Aid Guidelines; and third, the release of updated expenditure data on regional aid by DG Competition.

3.1 Changes to regional aid maps

Three countries have modified or sought to modify their assisted area maps in the last year. This takes advantage of the facility provide for in the Guidelines to change the assisted areas map mid-term, subject to the overall ceiling as a proportion of population.[20] In all cases the changes are, understandably, minor.

In **Ireland** the changes to relate to the designation of the Mid-West NUTS III area. The area was included in the map for 2007-13 on the basis of paragraph 31 of the Regional Aid Guidelines; in areas designated on the basis of this paragraph, aid is restricted to SMEs (large firms are ineligible) and is limited to eligible investment of less than €25 million. The amendment notified by the Irish authorities involved shifting the basis for the eligibility of the area from paragraph 31 to paragraph 30(h). Under this provision, where duly justified, Member States may designate areas with a minimum population of 50,000 which are undergoing major structural change or are in serious relative decline; there are no restrictions on the size of firm or investment eligible for aid. The Irish authorities argued that the Mid-West region was undergoing major structural change and facing a rapid increase in unemployment; these changes were exacerbated by the closure of the Dell plant in Limerick involving the loss of 2,000 direct jobs as well as a reduction in employment in the local economy. Alongside data relating to GDP and GVA, the Commission accepted these arguments.[21] The rate of award for the area remains at 30 percent for small firms and 20 percent for medium-sized firms; however, large firms are now eligible for aid at a maximum rate of 10 percent of eligible expenditure, and the ceiling of €25 million eligible expenditure no longer applies.

In **Italy**, the authorities submitted a request for four changes in designation. In the region of *Abruzzo*, it was proposed to extend the area covered on the basis of paragraph 30(c) of the guidelines to include parts of the commune of Capistrello; this did not involve any increase in population since the zone concerned has no inhabitants, but it was justified on the basis of the need to promote economic development and the attraction of new activities to the area. Two further changes were proposed in relation to areas designated on the basis of paragraph 30(h), under which areas with a minimum population of 50,000 and which are

[20] Regional Aid Guidelines.

[21] State aid N 130/2010 – Ireland: Amendment to the regional aid map for Ireland 2007-2013, COM(2010)4936 final of 20 July 2010.

undergoing major structural change, or are in serious relative decline, may be designated. First, in *Piemonte e Valle d'Aosta,* a small change was proposed involving swapping zones containing some 649 inhabitants for another area containing some 615, a net reduction of 34 persons; the justification for this lay in the economic and employment opportunities from the inclusion of these areas in the map and the alignment of the map with local economic development plans. Second, in *Abruzzo* the change proposed was simply to correct an error in the initial map which, largely owing to the earthquake in 2009, the local authorities had not had the opportunity to push forward; again the change involved swapping areas, this time with a net reduction of 31 inhabitants. The fourth change involved the designation of areas eligible only for SME aid; these are designated on the basis of paragraph 31 of the guidelines, and each area must involve a population of at least 20,000. Six such areas were designated for 2007-13 (two each in Tuscany and Lazio, and one each in Umbria and Marche). The recent change involves an adjustment to the Umbria zone, excluding 1,493 inhabitants and adding 1,496, a net increase of three persons. The justification for this was the protracted crisis affecting a major industrial group in the area and the need to intervene to address difficult economic and social circumstances. These changes and their justifications were endorsed by the Commission.[22]

In **France**, the changes have been more complicated. First, the French authorities have, for the third time, taken advantage of the population 'reserve' retained when the regional aid maps was originally designated. Second, in parallel, as in Ireland and Italy, mid-term changes to the map have been proposed to the Commission, but not yet approved.

The third use of the population reserve, which was approved by the Commission in July,[23] essentially exhausts the population which the French authorities had set aside for dealing with particular situations as they arose.[24] The use of the population reserve is subject to specific criteria, primarily relating to labour market issues. More specifically, in order to be considered for eligibility, areas had to meet two criteria, namely:

- A criterion related to the scale of the 'shock', this being either:
    - the loss of 500 jobs in one or more firms in the labour market area in a single sector within the last 12 months; or
    - the loss of jobs in up to three sectors representing at least 1.25 percent of the workforce in the labour market area.
- A criterion related to the 'vulnerability' of the employment area, this being either:
    - the rate of unemployment is higher than the national average; or

[22] State aid N 117/2010 – Italy: Modifica della carta italiana degli aiuti di Stato a finalità regionale, C(2010)4497 definitivo of 6 July 2010.

[23] State aid N 146/2010 – France: Carte des aides à finalité régionale pour la période 2007-2013 – Troisième utilisation de la réserve nationale de zonage, C(2010)4945 final of 20 July 2010.

[24] A population of 611 remains.

- o the rate of employment growth is lower than the national average.

A total of eight areas were put forward by the French authorities in April 2010 to use up the remaining population reserve. All of these were proposed as extensions to existing designated area under paragraph 30(c) and affected three areas in Lorraine and one each in Alsace, Basse-Normandie, Bretagne, Champagne-Ardenne and Picardie. The Commission approved the extension of all the areas on the basis that GDP per head in all the regions concerned is below the EU25 average, although it also took note of the national criteria outlined above.

In a separate exercise, the French authorities have also proposed mid-term changes to the map. However, the submission of these for Commission approval was delayed owing to regional elections. The designation exercise was conducted by the *préfets de région* on the basis of instructions issued by DATAR. The closing date for submissions was 11 June 2010 and the final proposals were then submitted to the Commission. Overall, the changes are expected to involve a population of around 200,000. However, a total of 10 regions (Aquitaine, Centre, Corse, Franche-Comté, Haute-Normandie, Lorraine, Pays-de-la-Loire) opted not to make any changes. The most significant changes have been proposed in Nord-Pas-De-Calais, partly in response to the impact of the crisis, and, in particular, the closure of the Total refinery with a loss of 380 direct jobs and a further 400 among suppliers. In general, though, the fact that the changes must involve substituting one area for another has probably limited the changes owing to the sensitivities involved.

3.2 Commission review of statistical effect regions

The 2007-13 Regional Aid Guidelines provided that regions where GDP(PPS) per head exceeded 75 percent of the EU average solely because of the impact of enlargement, would be subject to specific transitional provisions.[25] These so-called 'statistical effect' regions were to have 'a' region status until 31 December 2010. During the course of 2010, their situation was to be reviewed; those where GDP(PPS) per head had fallen below 75 percent of the EU25 average would continue to qualify as 'a' regions. The remainder would become 'c' areas, with an aid intensity of 20 percent of eligible expenditure (for large firms). The outcome of the review conducted by the Commission is summarised in Figure 3.1.

[25] 2007-13 Regional Aid Guidelines, para 18-20.

Figure 3.1: Status of statistical effect regions from 1 January 2011

	GDP(PPS) per EU25=100 2000-3	GDP(PPS) per EU25=100 2005-7	Status from 1/1/2011
Belgium			
• Hainaut	75.45	74.0	*'a' region*
Germany			
• Brandenburg-Südwest	77.45	84.1	'c' area
• Lüneburg	81.80	80.6	'c' area
• Leipzig	77.12	84.9	'c' area
• Sachsen-Anhalt	75.07	79.5	'c' area
Greece			
• Kentriki Makedonia	75.89	71.0	*'a' region*
• Dytiki Makedonia	76.77	73.8	*'a' region*
• Attiki	78.98	121.3	'c' area
Spain			
• Asturias	79.33	90.5	'c' area
• Murcia	79.37	83.6	'c' area
• Ceuta	79.64	91.4	'c' area
• Melilla	79.62	89.8	'c' area
Italy			
• Basilicata	77.54	64.9	*'a' region*
Austria			
• Burgenland	81.50	79.4	'c' area
Portugal			
• Algarve	80.05	77.7	'c' area
United Kingdom			
• Highlands & Islands	77.71	85.0	'c' area

Source: Rapid Press Release IP/10/976 of 20 July 2010.

As Figure 3.1 shows, four regions are set to retain 'a' region status, while the remainder will be 'downgraded' to 'c' areas.

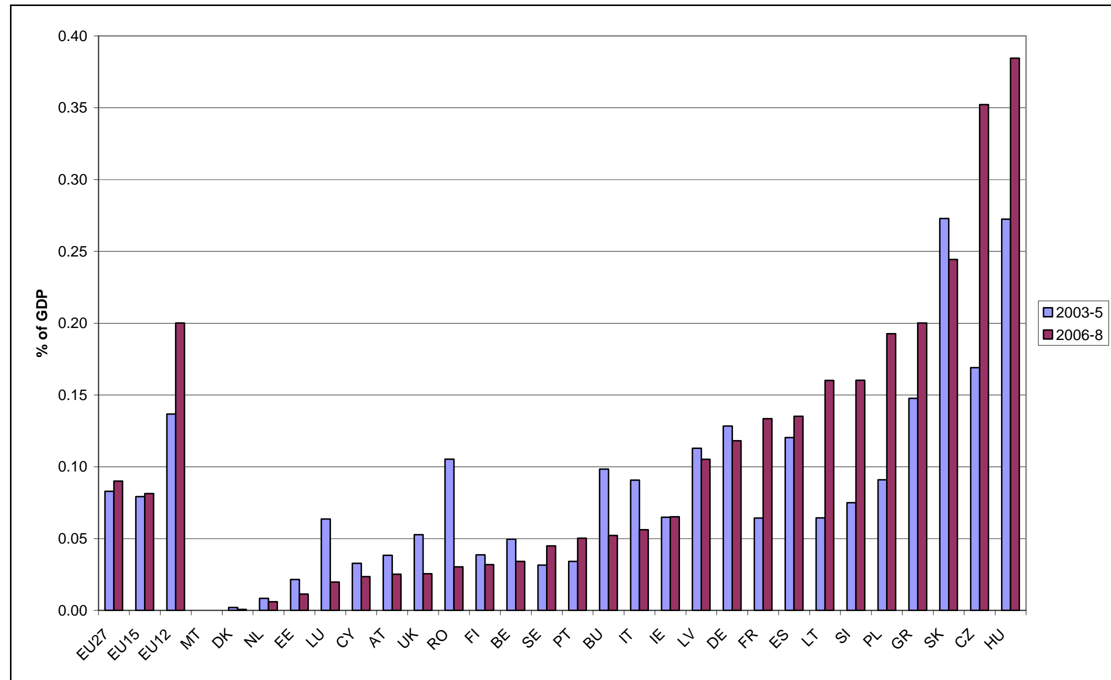
3.3 Recent data on regional aid spending

In autumn 2009, the Commission released data on State aid spending covering the period up to the end of 2008. These suggest a wide variation between Member States both in terms of absolute expenditure (as a proportion of GDP) and trends (comparing 2003-5 and 2005-8) – see Figure 3.2. For example, expenditure in Malta is recorded as zero while that in Denmark and the Netherlands is less than 0.01 percent of GDP (in both periods). By contrast, spending in Hungary and the Czech Republic exceeds 3.5 percent of GDP for 2005-8.

In terms of trends, across the EU27, there is a modest increase in expenditure from 0.083 to 0.09 percent of GDP. However, the increase is substantially larger in the EU12 (from 0.14 to 0.20 percent of GDP) than in the EU15 (from 0.079 percent to 0.081 percent). On the other hand, these aggregates conceal considerable differences between countries with France, Czech Republic, Poland Slovenia and Lithuania all showing an *increase* of more 100 percent between the comparator periods, and Bulgaria, Estonia, United Kingdom, Denmark, Luxembourg and Romania all showing a *decrease* of more than 40 percent. In practice, however, it should be stressed that these data are extremely difficult to interpret, especially in the absence of detailed information about the schemes to which they relate. Moreover, although in principle the data should contain only national expenditure (not EU

co-funding), in practice it is unclear whether all Member States strip out the Structural Funds in making their returns. In addition, it should be noted that the data are sensitive to national growth trends, as well as decisions about regional aid spending.

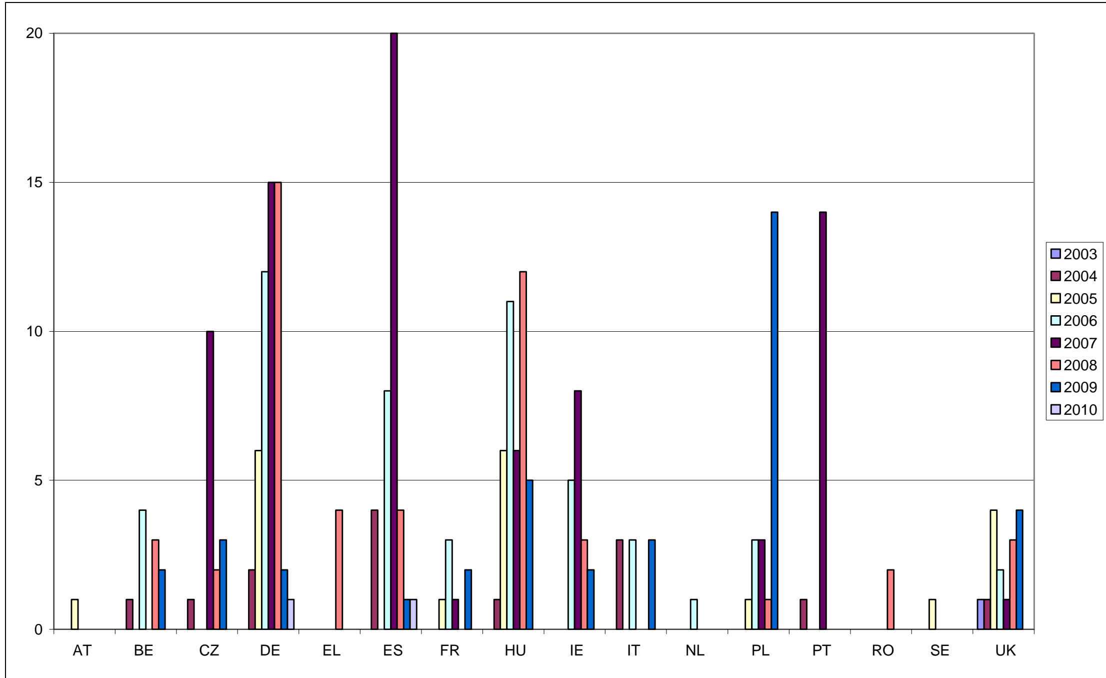
Figure 3.2: Regional aid as a percentage of GDP 2003-5, 2006-8



Source: DG Competition.

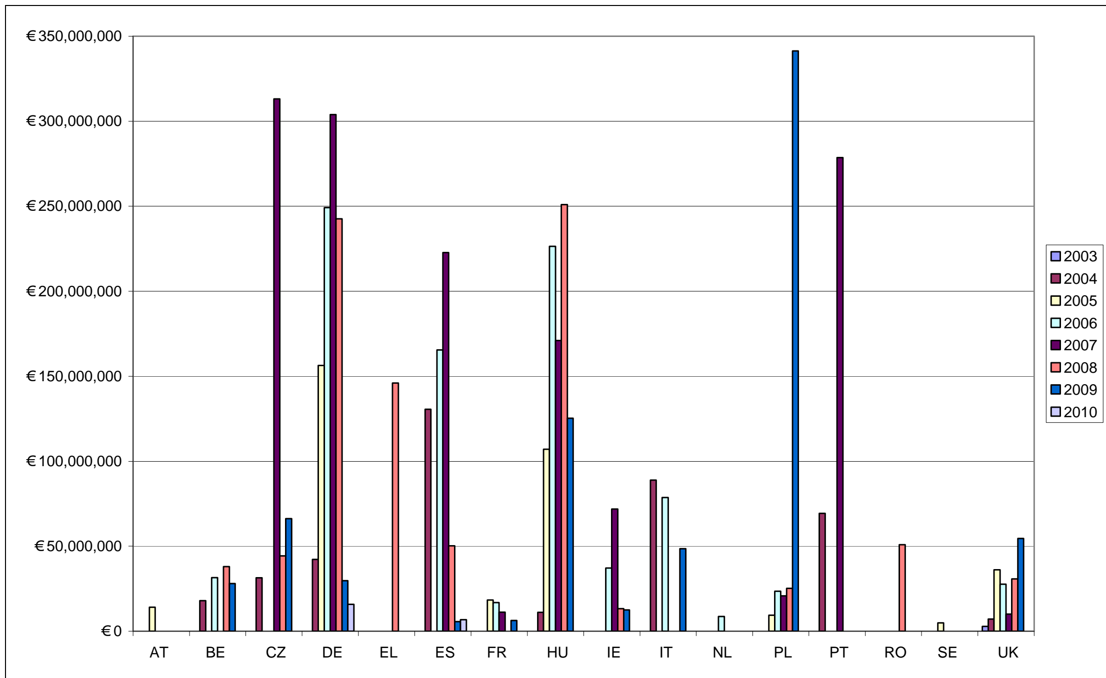
The Commission also produces data on regional aid awards to projects involving eligible investments exceeding €50 million (irrespective of the amount of aid). These data have been compiled since 2003, with Member States obliged to report the details of such awards for publication under the so-called transparency mechanism. Figure 3.3 shows the number of awards made to large projects in each Member State in which they have been reported. To date, some 254 awards have been reported (including two for 2010, for which the data are obviously incomplete). The total number of awards peaked in 2007, with 78 cases, followed by 49 in 2008 and 38 in 2009. Since the outset, more than half of all cases have been accounted for by three countries – Germany, Spain and Hungary. However, of the 38 cases in 2009, just two were in Germany and 14 were in Poland.

Figure 3.3: Number of awards to large projects



Note: As at 6 September 2010; do not include measures subject to Commission scrutiny.
Source: DG Competition.

Figure 3.4: Reported aid awarded to large projects (€, current prices)



Note: As at 6 September 2010; do not include measures subject to Commission scrutiny.
Source: DG Competition.

4. ROLLING RAG 2007-13 FORWARD: EU-WIDE IMPLICATIONS

The Commission has not, so far, provided any indications of its thinking on how regional aid control might be reformed. As a result, this section takes the existing Guidelines as its starting point, uses the most recent datasets available from Eurostat (February 2010) and integrates Bulgaria and Romania fully into the analysis. This section begins with a brief recap of the main principles underpinning the regional aid maps for 2007-13 (4.1), then considers the overall impact on *coverage* of reapplying the system (**Error! Reference source not found.**), and the implications for *award values*, again at the EU level (4.3).

4.1 Basic principles of spatial coverage under RAG 2007-13

The current basis for approving the assisted area maps of the Member States are the 2007-13 Regional Aid Guidelines.[26] This section describes the basic principles for determining the spatial coverage of regional aid under those Guidelines.

The underlying principle governing spatial coverage in the Regional Aid Guidelines is the "exceptional nature of regional aid" so that the Commission considers that the total population of the assisted regions should be "substantially" less than that of the non-assisted regions.[27] On this basis, the Guidelines *set the initial ceiling at 42 percent of the EU25* population, this being "similar" to the limit set for the EU15 in 1998 (42.7 percent).[28] However, the application of the safety net, which ensures that no Member States would lose more than 50 percent of its current coverage, raises the overall ceiling to 43.1 percent of the EU25 population or 46.6 percent of the EU27 population, with the accession of Bulgaria and Romania which have 'a' region status in their entirety.[29]

4.1.1 Coverage of 'a' regions

(i) 'Classic' 'a' regions

Article 107(3)(a) provides that "aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment" may be considered compatible with the common market. The European Court of Justice has held that this provision applies only to areas which are disadvantaged in relation to the Community as whole.[30] For its part, the Commission takes the view that GDP per head in purchasing power standards (PPS) "is capable of reflecting synthetically both phenomena

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[26] Guidelines on National Regional Aid for 2007-13, OJEU No C 54 of 4 March 2006.

[27] Paragraph 12.

[28] The ceiling was set at 42.7 percent, see: *National ceilings for regional aid coverage under the derogations provided for in Article 92(3)(a) and (c)* [now Article 107] *of the Treaty for the period 2000 to 2006,* OJEC No C 16 of 21 January 1999. However, it was exceeded by the inclusion of Northern Ireland *in addition* to the UK quota, instead of within it. The resulting total was around 43 percent, see: Figure 34, pp 205, Wishlade, F. (2003) *Regional State Aid and Competition Policy in the European Union*, Kluwer Law international, The Hague.

[29] Paragraph 13.

[30] Case 248/84 *Germany v Commission* [1987] ECR 4013 at 4042.

mentioned."[31] This seems a debatable interpretation both of the Treaty provisions and the statistical indicators: Article 107(3)(a) does not require low standards of living *and* underemployment to be present, but rather views them as alternatives; moreover, GDP(PPS) per head measures neither phenomenon. Nevertheless, it is clear that the Commission's view is now well-entrenched in State aid policy and practice and is further embedded by the use of the same indicators for Convergence regions under EU Cohesion policy. Accordingly, the 'a' areas for 2007-13 are defined as NUTS 2 regions where GDP(PPS) per head is less than 75 percent of the EU25 average for the period 2000-2.

(ii) Outermost regions

In addition, under the 2007-13 Guidelines, the seven Outermost regions (OMR)[32] have 'a' region status, irrespective of whether they meet the GDP per head threshold. Five of the seven are below the threshold, but Canarias and Madeira both had per capita GDP of around 88 percent of the EU25 average under the dataset used for 2007-13. In spite of the emphasis on 'coherence' between the two policy areas, Canarias and Madeira have 'Phasing-in' status under the Competitiveness and Employment strand of Cohesion policy, rather than Convergence status, although special additional budgetary allocations were made to all OMRs for 2007-13.

(iii) Statistical effect regions

Last, transitional arrangements were made for the so-called 'statistical effect' regions. These are regions with GDP per head above the *EU25* qualifying threshold, but which would have qualified as 'a' areas had it not been for enlargement (equivalent to Phasing-out regions under EU Cohesion policy); the qualifying threshold was 82.2 percent of EU25 GDP(PPS) per head. Significantly, not all of the eligible regions had 'a' region status in the pre-2000 period – namely: Hainaut (Belgium); Lüneburg (Germany); and Highlands and Islands (UK). Statistical effect regions will retain 'a' region status at least until 31 December 2010.[33] During 2010 the Commission was to review the position of the regions concerned on the basis of the most recent GDP data available (2005-7). Regions where GDP per head has fallen to below 75 percent of the EU25 average would retain 'a' region status; the remainder will become 'c' areas from 1 January 2011. As discussed earlier (see 3.2) Hainaut (Belgium), Basilicata (Italy), Kentriki Makedonia and Dytiki Makedonia (Greece) would gain full 'a' region status while the remaining statistical effect areas would have 'c' area status.

4.1.2 Coverage of 'c' areas

Article 107(3)(c) provides that "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" may be compatible with the common market. The European Court has confirmed that this provision is wider than Article

[31] Paragraph 16, footnote 19.

[32] Açores, Madeira, Canarias, Guadeloupe, Martinique, Réunion and Guyane.

[33] In the draft Guidelines the end date was 31 December 2009.

107(3)(a) and that it gives the Commission the authority to allow Member States to offer regional aid in areas that are disadvantaged in relation to the *national* average.

The Guidelines stress that, because the 'c' areas are less disadvantaged than the 'a' areas, their geographical scope and the aid intensity must be strictly limited and only a small part of the national territory may normally qualify for aid.[34] The determination of the coverage of 'c' areas is a two-stage process: first, the Commission sets a population coverage ceiling for each Member State; second, eligible areas are selected by the Member States, subject to approval by the Commission. In addition, there are transitional provisions for some areas which previously had 'c' status.

Overall 'c' coverage in 2007-13 comprises the following elements.

- *Economic development areas:* each Member State automatically received a quota equivalent to the population of areas that had 'out-grown' 'a' area status and were also beyond the threshold for statistical effect regions – in other words, regions that would have ceased to qualify as 'a' regions even without the impact of enlargement on EU average GDP per head. Northern Ireland was added to this group; although it was not an 'a' area in 2000-6, it was considered to have benefited from the same aid intensities as many 'a' areas.[35]

- *Low population density areas*: NUTS 3 areas with fewer than 12.5 inhabitants per km^2.

- *A population quota based on internal disparities in GDP per head and unemployment*: the remaining population (ie. 42 percent, less the 'a' areas, the economic development areas and the low population density areas) is distributed between the Member States. The formula for doing so is set out in the Guidelines[36] and follows the approach in the 1998 Guidelines. The principle of the method is to calculate the population of NUTS 3 regions where either GDP per head is more than 15 percent below the national average or the unemployment rate is more than 15 percent above the national average. However, these thresholds are adjusted to reflect the *national* situation in the EU context, so that, in more prosperous countries, the GDP per head disparity must be greater in order for a region to count towards the quota and in poorer countries the disparity required is less. The same applies to unemployment rates. For 2007-13, this adjustment meant that, for example, the GDP threshold for the Netherlands was lowered from 85 percent to

[34] Paragraph 22.

[35] Paragraph 25.

[36] Annex IV. It is described in detail in Wishlade, F. (2005) 'Plus ça change, plus c'est la même chose? Recent Developments in EU competition policy control of regional aid' *European Policy Research Paper* 58, European Policies Research Centre, University of Strathclyde, Glasgow.

77.2 percent of the national average, whereas the Greek threshold was raised from 85 percent to 99.5 percent of the national average.[37]

- *Safety net*: special provision was made to ensure that no Member State lost more than 50 percent of its total population coverage under the 2000-6 Guidelines. The application of the safety net raised the initial 42 percent ceiling to around 43.1 percent (excluding Bulgaria and Romania).

Provisions for the phasing out of 'c' areas were also included in the Guidelines. These enabled a proportion of previous 'c' areas to remain eligible until 1 January 2009. Coverage of the transitional 'c' areas together with the 'c' areas based on the quota and safety net provisions (see Figure 4.1) could not exceed 66 percent of 'c' coverage as at 31 December 2006 (excluding areas which qualify as statistical effect, economic development and low population density areas from 1 January 2007).[38]

4.1.3 Overall outcomes 2007-13

The outcome of the application of this methodology is illustrated in Figure 4.1. This shows that while 46.6 percent of the EU27 population falls within assisted areas, this is heavily skewed towards the 12 'new' Member States (hereafter EU12),[39] where 98 percent of the population is covered; by contrast, in the EU15, coverage is under one-third of the population.

4.2 Rolling RAG 2007-13 forward: implications for coverage

In the early negotiations of the 2007-13 Guidelines, the Commission had proposed a much more restrictive approach, with maps essentially being restricted to 'a' regions, outermost regions, those squeezed out of 'a' status by enlargement, and low population density areas; in other words, 'c' areas were largely to be abolished. Ultimately a softer line was taken, and all Member States retained the capacity to designate national assisted area maps, as illustrated above. It remains to be seen whether, in the upcoming negotiations, the Commission will attempt such a hard line once more.

The following assessment largely assumes that the key parameters for determining assisted area coverage will remain as for 2007-13, but adapts the method to the changed context, notably enlargement to include Bulgaria and Romania and the availability of more recent GDP and unemployment data.

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[37] Examples given in Annex IV of the Guidelines. Note also that, in practice, Greece is entirely covered by 'a' areas or economic development areas, which have 'c' status for the 2007-13 period.

[38] Paragraph 95.

[39] Hereafter EU10 refers to the countries which joined in 2004.

Figure 4.1: Coverage of assisted areas 2007-13 (% of population)

	'a' areas	'a' - Stat effect	'c' - Econ dev	'c' - low pop dens	'c' - quota	'c' trans.	2007-13 Total
EU27	**32.2**	**3.4**	**3.6**	**0.5**	**6.9**	**3.5**	**46.6**
EU25	**27.7**	**3.6**	**3.8**	**0.5**	**7.4**	**3.8**	**43.0**
EU15	**15.0**	**4.3**	**3.8**	**0.6**	**8.7**	**4.2**	**32.4**
EU10	**92.9**	**0.0**	**3.8**	**0.0**	**0.5**	**1.8**	**97.2**
EU12	**94.9**	**0.0**	**2.7**	**0.0**	**0.3**	**1.2**	**98.0**
BE		12.4			13.5		25.9
BU	100.0						100.0
CZ	88.6					7.7	88.6
DK					8.6	2.7	8.6
DE	12.5	6.1			11.0		29.6
EE	100.0						100.0
IE			26.5		23.5	25.0	50.0
GR	36.6	55.5	7.9				100.0
ES	36.2	5.8	16.1	0.6	1.1	12.4	59.8
FR	2.9				15.5	6.9	18.4
IT	29.2	1.0	2.9		1.0	5.6	34.1
CY					50.0	16.0	50.0
LV	100.0						100.0
LT	100.0						100.0
LU					16.0	5.1	16.0
HU	72.2		27.8				100.0
MT	100.0						100.0
NL					7.5	2.4	7.5
AT		3.4			19.1		22.5
PL	100.0						100.0
PT	70.1	3.8			2.8	19.2	76.7
RO	100.0						100.0
SI	100.0						100.0
SK	88.9					7.5	88.9
FI			4.9	18.8	9.3		33.0
SE			0.0	13.0	2.3		15.3
UK	4.0	0.6	7.3		12.0		23.9
EEA3				**29.4**			**29.4**
IS				37.7			37.7
LI							0.0
NO				29.1			29.1

Note: Transitional 'c' area coverage is not included in the total for 2007-13; the Iceland total applies from 2008-13, follows a reorganisation of the NUTS regions.

Source: Own calculations from: Eurostat data; Guidelines on National Regional Aid for 2007-13; *Icelandic regional aid maps authorised by the EFTA Surveillance Authority*, ESA Press Release PR(06)54; *The EFTA Surveillance Authority adopts new Regional Aid Guidelines for 2007-13,* ESA Press Release PR(06)18.

4.2.1 Key parameters and assumptions in 'rolling forward'

For the current period (2007-13), Commission calculations of coverage were based on GDP for 2000-2 and unemployment rates for 2001-3; the benchmark used was the EU25 average since the calculations were done prior to the accession of Bulgaria and Romania. Any future analysis would almost certainly be done on the basis of EU27. For the post-2014 period, other things being equal, it is reasonable to assume that GDP data for 2007-9 and unemployment data for 2008-10 would be used, this becoming available by February 2012;

at present, regional GDP data are available up to 2007 and regional unemployment rate data are available up to 2008.

For the discussion which follows, and the calculations on which they are based, the key working assumptions are:

- As for 2007-13, the ***initial coverage ceiling is 42 percent*** of the EU population, prior to the application of the safety net.
- Again as before, a ***safety net*** is applied such that, for 2014+, no country loses more than 50 percent of its 2007-13 coverage.
- ***GDP data*** for 2005-7 and ***unemployment data*** for 2006-8 have been used (compared to 2000-2 and 2001-3 under the 2007-13 Guidelines respectively).
- ***EU27*** is taken as the basis for all EU averages.
- As previously, the ***outermost regions*** have 'a' status irrespective of GDP per head.
- ***Statistical effect regions*** (those squeezed out of eligibility by enlargement) are those where GDP per head lies between 75 percent and 77.95 percent of the EU27 average – in other words, they are regions squeezed out of eligibility by enlargement from EU25 to EU27 (as opposed to by enlargement from EU15 to EU25, as previously). The implications of taking EU25 rather than EU15 as the benchmark are discussed further below.
- ***Economic development areas*** are former 'a' areas which have outgrown even the 77.95 percent threshold.
- The criterion for determining ***low population density*** areas remains the same (NUTS 3 areas with fewer than 12.5 inhabitants per km^2).
- The methodology for distributing 'quotas' of ***'c' area population*** between countries remains as outlined in the 2007-13 Guidelines.
- ***No transitional arrangement***s are made for areas losing 'c' status. This differs from the past approach, but in any event transitional 'c' area status was a late addition to the 2007-13 Guidelines and applied only for two years.

4.2.2 Overall outcomes

At a global level, rolling the methodology forward on the basis outlined above results in a *reduction* in coverage for all ***types*** of assisted area except for the sparsely-populated areas; outermost regions are, effectively, also ringfenced within 'a' region coverage. Detailed outcomes are illustrated in Figure 4.2 and may be summarised as follows:

- Overall coverage falls from 46.6 percent to 42.7 percent (after the application of safety nets). This outcome is essentially the consequence of applying the same initial ceiling – 42 percent of the population as previously - to a different population

base: whereas the previous ceiling was, in effect, 42 percent of the EU25 population *plus* Bulgaria and Romania, under this scenario, the initial ceiling applies to the EU27 population, effectively cutting population coverage by about four percentage points.

- For the EU15, coverage would fall from 32.4 percent to 28.9 percent.
- For the EU12, coverage would fall from 98 percent to 93.6 percent of the population.
- Outcomes for individual Member States vary widely, with some gaining coverage and some losing; in other cases overall coverage is unchanged, but there may be shifts between 'a' region and 'c' area coverage (with implications for rate maxima). More specifically:
    - Belgium, France and Germany would gain coverage;
    - coverage in Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Malta, Poland, Romania, Slovenia and Slovakia would stay the same; and,
    - in the remaining countries, coverage would fall.

The discussion that follows picks out the key trends and issues by assisted area type.

Figure 4.2: Assisted area coverage 2014+? (% of population)

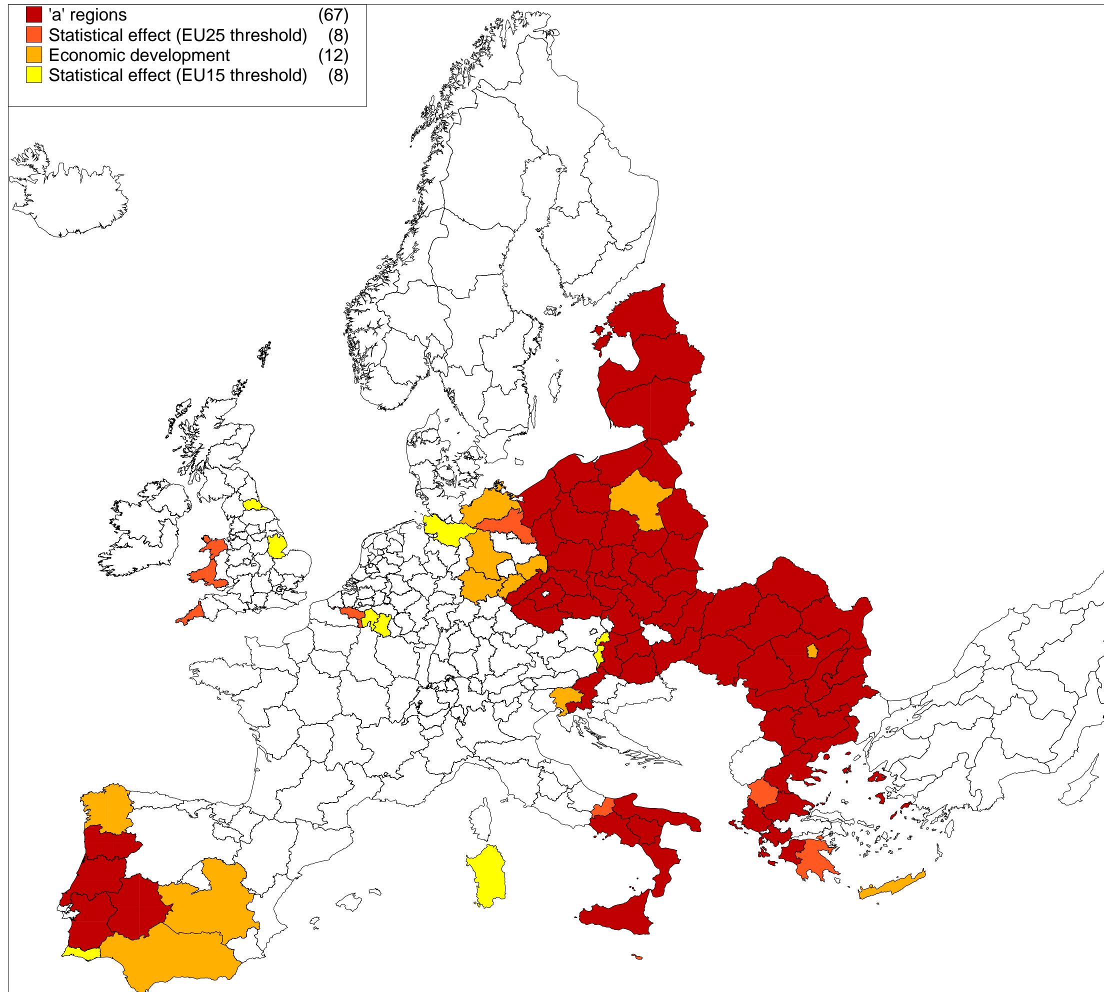
	a' Areas	Stat effect	Econ dev	Sparse pop	Other 'c' areas	Total
EU27	**24.9**	**1.3**	**6.3**	**0.5**	**9.1**	**42.7**
EU25	**20.7**	**1.4**	**6.2**	**0.6**	**9.7**	**39.1**
EU15	**8.8**	**1.5**	**5.8**	**0.7**	**11.3**	**28.9**
EU10	**83.8**	**0.6**	**8.2**	**0.0**	**0.9**	**93.6**
EU12	**86.2**	**0.4**	**8.1**	**0.0**	**0.7**	**95.4**
BE		12.2			15.9	28.1
BG	100.0					100.0
CZ	88.4					88.4
DK					4.9	4.9
DE		1.4	11.7		18.0	31.1
EE	100.0					100.0
IE					25.0	25.0
GR	42.8	7.9	5.4	0.2	2.8	59.1
ES	6.9		28.2	0.5	2.5	42.7
FR	2.9				16.1	19.7
IT	29.5	0.5			3.1	33.1
CY					25.0	25.0
LV	100.0					100.0
LT	100.0					100.0
LU					8.0	8.0
HU	71.3				5.0	76.3
MT		100.0				100.0
NL					3.8	3.8
AT					23.0	23.0
PL	86.4		13.6			100.0
PT	69.6				3.1	77.4
RO	89.6		10.4			100.0
SI	53.7		46.3			100.0
SK	88.7					88.7
FI				18.5	8.7	27.2
SE				12.6		12.6
UK		4.0		0.4	15.8	20.1
EEA3				**29.2**		**29.2**
IS				37.4		37.4
LI						0.0
NO				28.9		28.9

Source: Own calculations from Eurostat data.

4.2.3 Article 107(3)(a) areas

Under the scenario set out above the 'a' regions would be those where GDP(PPS) per head was less than 75 percent of the EU27 average – in this instance using data for 2005-7. This would result in a significant cutback in 'a' region coverage. For the EU27 as a whole, this would fall from 32.2 percent of the population to 24.9 percent. However, both old and new Member States would be affected, with coverage in the EU15 falling from 15 percent to 8.8 percent and in the EU12 from 94.9 percent to 86.2 percent.

Map 4.1: 'a' regions and transitional areas 2014+?



Source: Own calculations from Eurostat data and Regional Aid Guidelines 2007-13.

At the national level, however, the distribution of change is uneven:

- In Bulgaria, the Czech Republic, Estonia, France, Latvia, Lithuania, Hungary, Portugal and Slovakia, 'a' region coverage would remain unchanged.[40]
- In Greece and Italy, there would be modest increases in 'a' region coverage. In Greece, the region of Kentriki Makedonia which had statistical effect status from 2007, would regain 'a' status on the basis of 2005-7 data. The same is true of Basilicata in Italy.
- In the remaining countries, there would be a reduction in 'a' region coverage; moreover, few of the regions concerned would have statistical effect status:
    - Malta loses 'a' region status, but becomes a statistical effect region.

[40] There are small differences owing to demographic change, but the regions covered remain the same.

- For Spain, the reduction is dramatic, with Andalucía, Galicia and Castilla-La Mancha losing eligibility, leaving only Extremadura and Canarias (which has OMR status) as 'a' regions, resulting in a reduction of 'a' region coverage from 36.2 percent to 6.9 percent.

- In Poland and Romania, the capital city regions of Mazowieckie and Bucuresti-Ilfov are above the 'a' region threshold, resulting in 'a' region coverage falling from 100 percent to 86.4 percent and 89.6 percent respectively.

- In Slovenia, which was wholly eligible for 'a' region status, the split into two NUTS 2 regions results in one, Zahodna Slovenija, ceasing to be eligible for 'a' region status; the other, Vzhodna Slovenija, containing some 53.7 percent of the population, remains eligible.

- In Germany, 'a' region coverage would fall from 12.5 percent of the population to zero, with Brandenburg-Nordost, Mecklenburg-Vorpommern, Chemnitz, Dresden, Sachsen-Anhalt and Thüringen all losing eligibility, and only Brandenburg qualifying as a statistical effect region.

- In the UK, Cornwall & the Scilly Isles and West Wales & the Valleys - which together contain four percent of the population - would lose 'a' region status, but would be classed as statistical effect regions.

4.2.4 Outermost regions (special case 'a' regions)

As noted above, it is assumed that the Outermost regions would have automatic 'a' region status, as before, irrespective of whether they meet the GDP per head threshold. In practice, three of the four French OMRs meet the threshold anyway (Martinique would be a statistical effect region), as would the Açores, but Canarias is significantly above the threshold with GDP of 93 percent of the EU27 average, as is Madeira at 97 percent.

4.2.5 Statistical effect (transitional 'a' regions)

Statistical effect regions in this scenario are those where GDP(PPS) per head is between 75 and 77.95 percent of the EU average, this being the impact of the accession of Bulgaria and Romania on the EU25 75 percent threshold. Coverage of statistical effect regions falls significantly under post 2014 projections – from 3.4 percent of the EU27 population for 2007-13 to 1.3 percent using GDP data for 2005-7. This is essentially the consequence of the narrow band of eligibility for the statistical effect. Of crucial importance, if the benchmark for statistical effect status were taken as those regions with GDP between 75 percent of the EU27 average and 75 percent of the *EU15* average, then statistical effect coverage would have risen to 7.4 percent of the population. This issue is discussed in more depth in relation to the impact of 'rolling forward' on individual countries.

Assuming that the statistical effect only concerns regions affected by enlargement to include Bulgaria and Romania, and therefore covers 1.3 percent of the EU27 population, statistical effect only concerns a minority of countries:

- In Malta and the UK, statistical effect coverage *increases*, reflecting the loss of 'a' region status for Malta as a whole (which is also a NUTS 2 region) and the 'downgrading' of Cornwall & the Scilly Isles and West Wales & the Valleys in the UK.
- In the following countries statistical effect coverage *declines*:
  - In Germany, coverage falls from 6.1 percent of the population to 1.4 percent, leaving Brandenburg-Nordost as the only eligible region in this category.
  - In Greece, coverage in 2007-13 is 55.5 percent of the population; looking forward, this would fall to 7.9 percent, a significant reduction, but this partly owes to the 'upgrading' of Kentriki Makedonia (over 17 percent of the national population) to full 'a' region status.
  - In Italy, Molise gains statistical effect status while Basilicata is 'upgraded' from statistical effect to full 'a' region status, resulting in a modest overall decline in population coverage under this head.
  - In Austria, Burgenland loses statistical effect status, the coverage of which would fall to zero; similarly, in Portugal, the Algarve, the only Portuguese region eligible, ceases to qualify.
- In Belgium, the Hainaut region remains eligible for statistical effect status on the basis of this scenario (although it has been 'upgraded' to 'a' region for the remaining period of the current guidelines, based on the EU25 average).

4.2.6 Economic development (earmarked 'c' areas)

Economic development regions are those which formerly had 'a' region status, but which have outgrown even the statistical effect threshold. Across the EU27, this category sees a significant increase in coverage, from 3.6 percent of the population to 6.3 percent. The increase is particularly marked in the EU12 where coverage rises from 2.7 percent to 8.1 percent of the population. As with the statistical effect, economic development status concerns only a minority of countries and its incidence varies widely:

- In a number of countries economic development coverage falls to zero, as regions which lost 'a' status at the end of 2006 now lose the economic development region status which followed it for 2007-13. These are:
  - Ireland (Border, Midland & Western)
  - Italy (Sardegna)
  - Hungary (Közép-Magyarország);
  - Finland (that part of Itä-Suomi which is not sparsely-populated);

  - UK (Merseyside and South Yorkshire). In addition, Northern Ireland was accorded economic development status as a special case. In these calculations it has been assumed that this would not be rolled forward, but obviously any such decision would be primarily political.

- In Greece, economic development coverage would fall from 7.7 to 5.4 percent of the population as Sterea Ellada and Notio Aigaio cease to be eligible for any special status, while Kriti is 'downgraded' from 'a' region to economic development status.

- In a number of countries economic development areas increase in coverage and account for a significant proportion of the population, typically for the first time:

  - Among the new Member States, the capital regions of Poland, Romania and Slovenia all lose 'a' region status and move directly into 'c' area status (ie. 'a' status is lost through growth, not the statistical effect).

  - In Germany, economic development coverage rises from zero to 11.7 percent, with the 'downgrading' of Mecklenburg-Vorpommern, Thüringen, Sachsen-Anhalt, Chemnitz and Dresden, while in Spain it increases from 16.1 percent to 28.2 percent with the downgrading of Galicia, Castilla-La Mancha and Andalucía from 'a' region status.

4.2.7 Low population density (earmarked 'c' areas)

Low population density areas are defined as NUTS 3 units where there are fewer than 12.5 inhabitants per km^2. There is a (very) modest increase in low population coverage under the scenario described in this paper. This is not due to demographic change, but rather to the fact that several sparsely-populated regions were previously covered by other designations at NUTS 2. The regions concerned are:

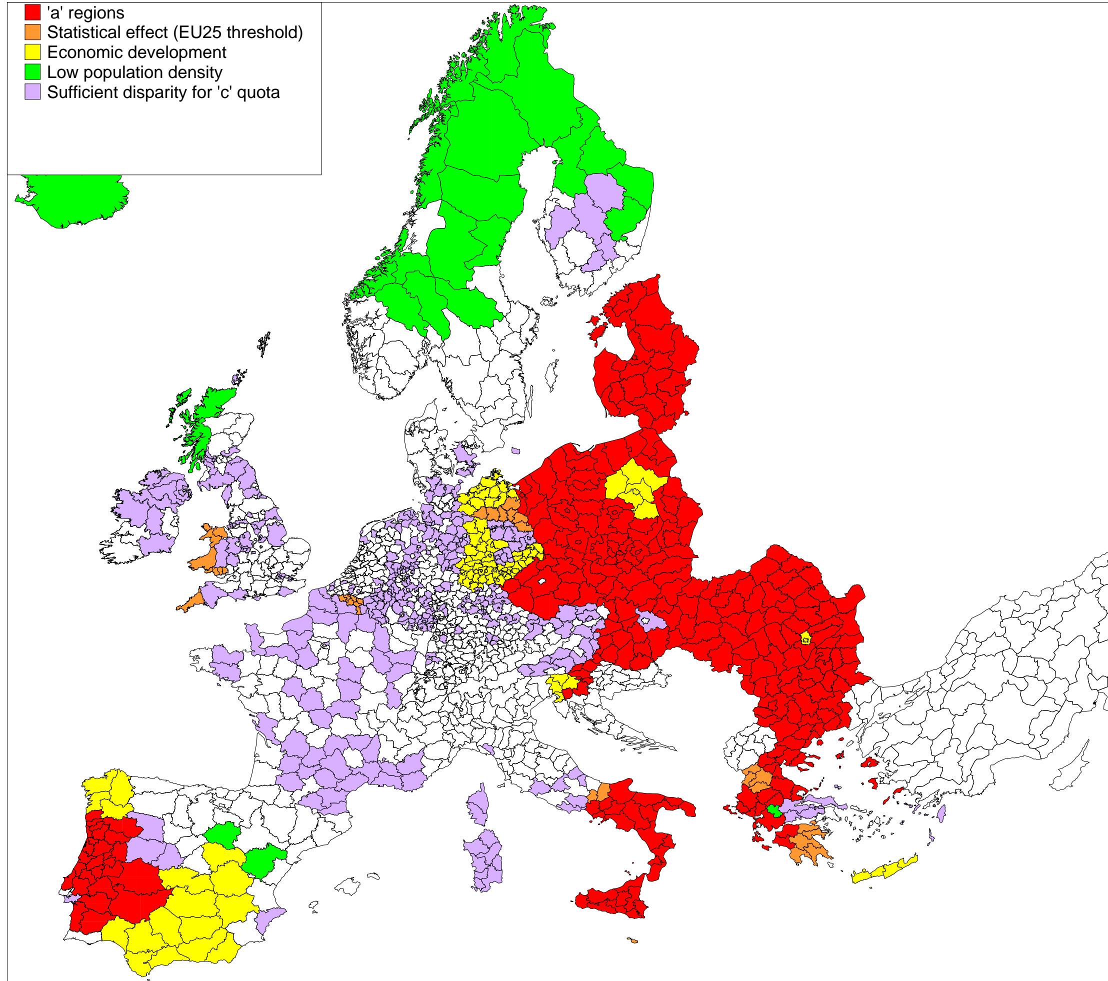
- Evrytania (Greece) – within an economic development area for 2007-13;

- Soria (Spain) - within an economic development area for 2007-13;

- and three UK NUTS 3 regions (Caithness & Sutherland and Ross & Cromarty; Lochaber, Skye & Lochalsh, Arran & Cumbrae and Argyll & Bute; and Eilean Siar) which are within a statistical effect region (Highlands & Islands) for 2007-13.

As previously, however, sparsely-populated regions remain heavily concentrated in Finland and Sweden within the EU27 and Norway and Iceland in the EEA. Indeed, for Sweden, Norway and Iceland, all assisted areas are accounted for by the low population density criterion.

Map 4.2: 'a' regions, 'c' areas and 'c' quota areas 2014+?



Source: Own calculations from Eurostat data.

4.2.8 Other 'c' areas - shares and safety nets

The coverage of 'c' areas as a whole is determined by two main factors under the 2007-13 methodology.

First, a decision about what the overall coverage ('a' regions and 'c' areas) should be; this is essentially a pragmatic / political decision on the part of the Commission, but, in the last two sets of Guidelines, it has sought a coverage target of around 42 percent. In both cases, this represented a significant cut in coverage in real terms.

The second factor is the population of the earmarked regions. This is subtracted from the overall coverage to produce a 'c' area population total for distribution among the Member States. A safety net is applied to ensure that no Member State loses more than a given proportion of its coverage; for 2007-13, the safety net was set at 50 percent. However, this figure, like the decision on overall coverage, is a product of politics and pragmatism; nevertheless, it has been retained as the basis for this analysis in the absence of other indications.

The first stage in determining the coverage of 'c' areas for any given country is to calculate its *share* of potentially eligible areas. As described above, this is a relatively complicated

process which involves: (i) adjusting national GDP per head and unemployment rate averages to reflect the national situation in the EU27 context; (ii) identifying regions where either GDP per head is more than 15 percent lower than the adjusted national average or the unemployment rate is more than 15 percent above the adjusted national average. The qualifying population for each Member State is used to generate a distribution key which is applied to the available 'c' area population.

The second stage involves applying a *safety net* - adjusting the resulting population coverage to ensure that no Member States loses more 50 percent of its existing coverage. Any adjustment will result in an overall increase in coverage with the initial ceiling (in this case 42 percent) being exceeded.

The first point to note about 'c' area coverage under these provisions is that it *increases* in relation to that in 2007-13 – from 6.9 to 9.1 of the EU27 population. This is mainly a consequence of the use of EU27 averages for determining 'a' region and statistical effect status. This results in the coverage of the 'earmarked' regions falling significantly – from 39.7 percent to 33 percent of the EU27 population, effectively 'releasing' a larger population for distribution as 'c' areas.

In considering the outcomes of the 'c' area quotas, four country groupings emerge:

- First, and most obviously, those which are unaffected by this process because the entire territory is accounted for by another designation, namely: Bulgaria, Estonia, Latvia, Lithuania, Malta, Poland, Romania and Slovenia.

- Second, in two Member States which are not wholly covered by another designation – the Czech Republic and Slovakia - 'c' area coverage is zero. This remains unchanged from 2007-13.

- Third, in a number of countries, 'c' area population under the share and safety net provisions increases in relation to 2007-13 – this is the case for Belgium, Germany, Ireland, Greece, Spain, France, Italy, Ireland, Hungary, Austria, Portugal and the UK. *However,* and of crucial importance, in the main this reflects a shift *between* eligible designations – ie. the loss of coverage under the 'earmarked' categories being partially compensated for by increased coverage at the share and safety net stage. Indeed, from this list, *only Belgium, France and Germany* see an overall increase in assisted area coverage.

- Fourth, several Member States lose 'c' area coverage under this scenario. These are Denmark, Cyprus, Luxembourg, the Netherlands, Finland and Sweden.

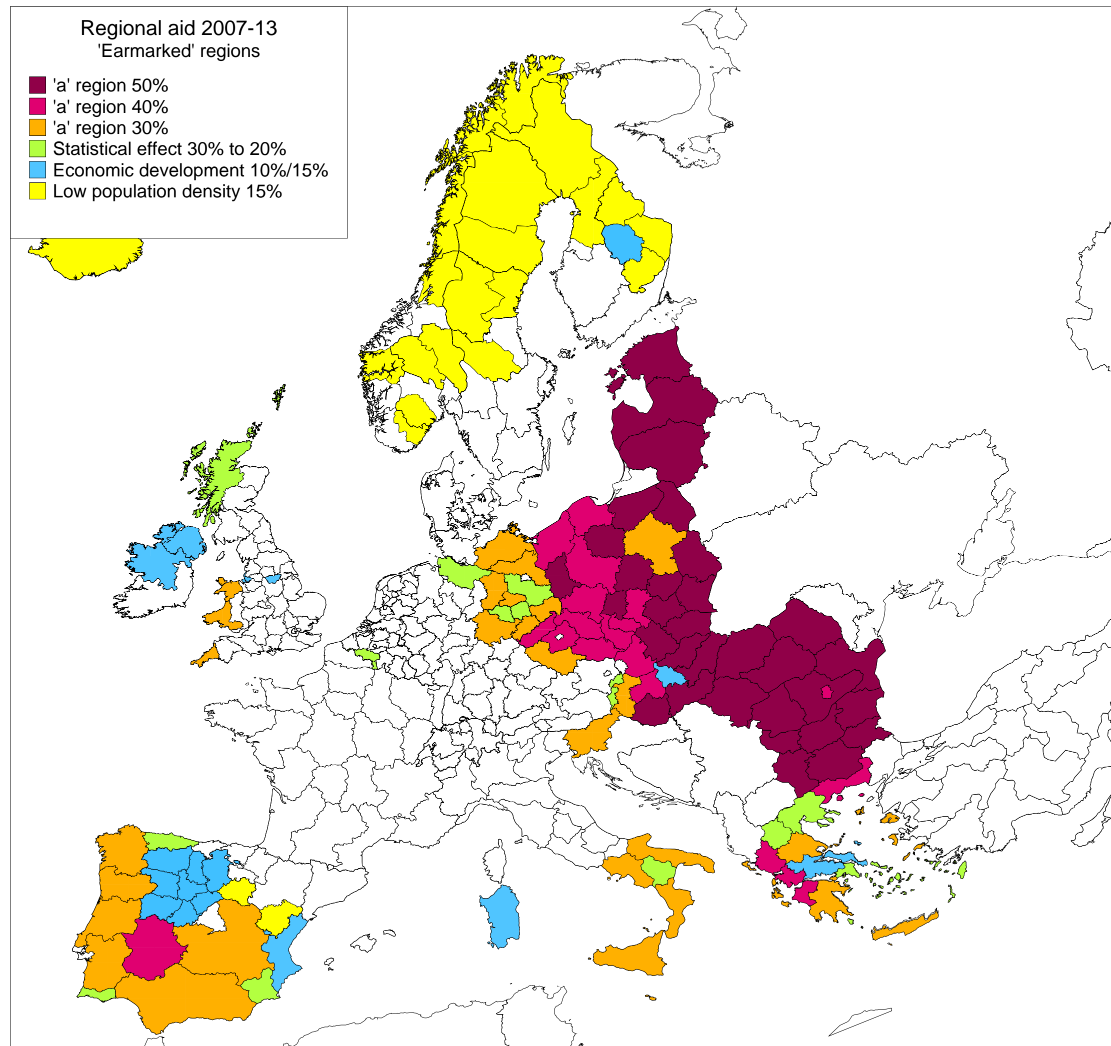
A further point to note is that, with the safety set at 50 percent of 2007-13 coverage, several Member States rely on this provision in order to maintain coverage. Cyprus and Luxembourg rely wholly on the safety net, reflecting the absence of NUTS 3 units below the national level; the Netherlands and Ireland rely on it to 'top up' coverage resulting from the quota process.

Last, it is worth noting that these calculations depend on the availability of GDP per head and unemployment rate data at NUTS 3. These data are patchy. Where no data are available for a given region, it cannot count towards the qualifying population for that Member State. Clearly, this situation can change and may affect other Member States. In particular, if data become available for a country where currently they are incomplete, then that Member State may increase its share of the population available for 'c' areas at the expense of others.

4.3 Rolling RAG 2007-13 forward: implications for award values

The 2007-13 Regional Aid Guidelines significantly reduced award maxima for regional aid. This occurred partly because the nominal values were reduced, but also because a shift from expressing values in net rather than gross terms was applied systematically.

Map 4.3: Rates of award 2007-13

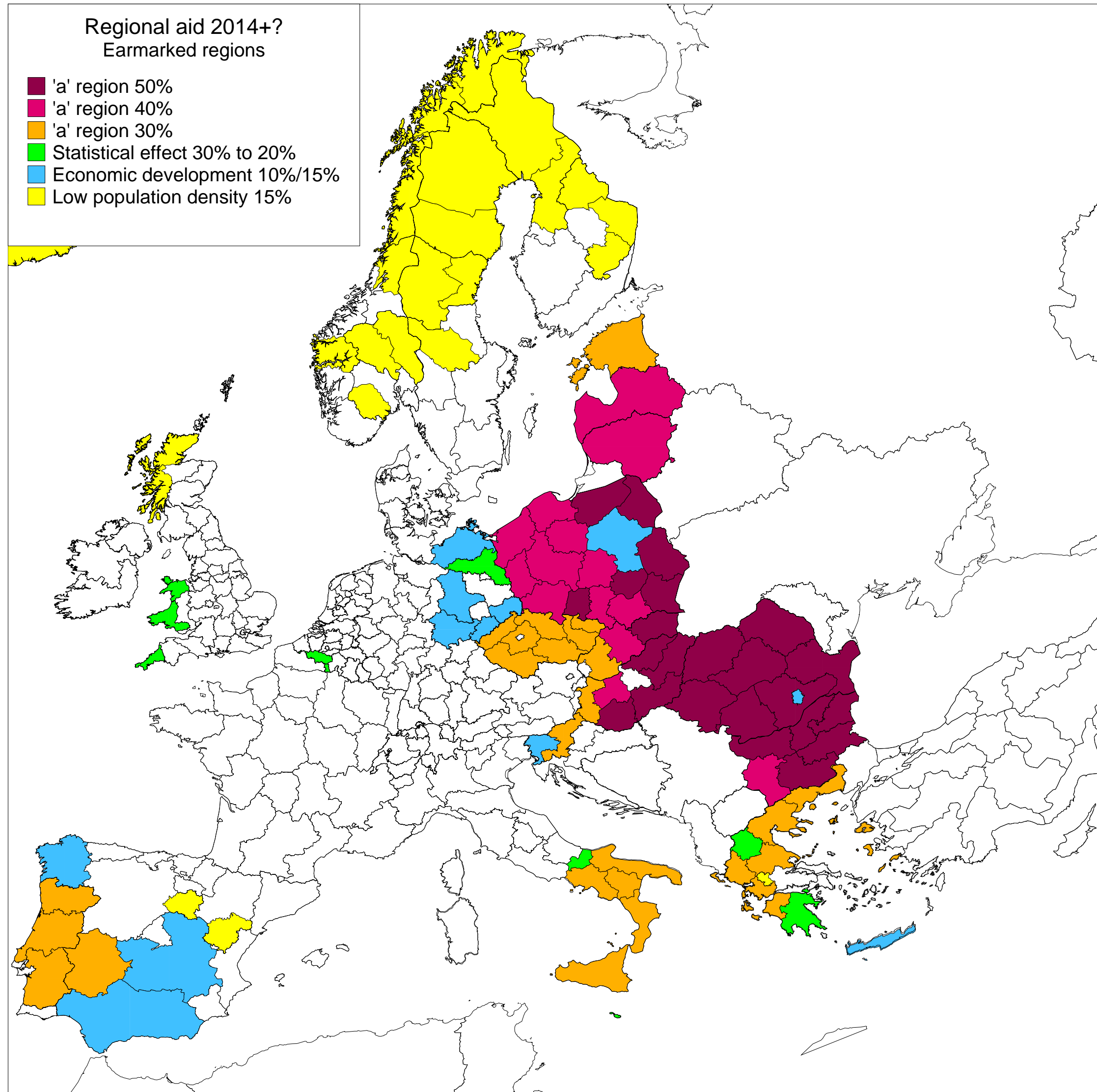


Source: Own elaboration after DG Comp regional aid map available at: http://ec.europa.eu/competition/state_aid/regional_aid/map.pdf

To mitigate the impact of the reductions, transitional arrangements were applied so that for the 'a' regions where the reduction was more than 15 percentage points net to gross and the economic development regions the reduction could be phased-in in two stages: a

minimum reduction of ten percentage points net to gross was applied from 1 January 2007; the remainder will be applied as from 1 January 2011.[41] The rates applicable for the 'earmarked' regions after any transitional arrangements have expired are illustrated in Map 4.3.

Map 4.4: Rates of award 2014+? (NUTS 2)



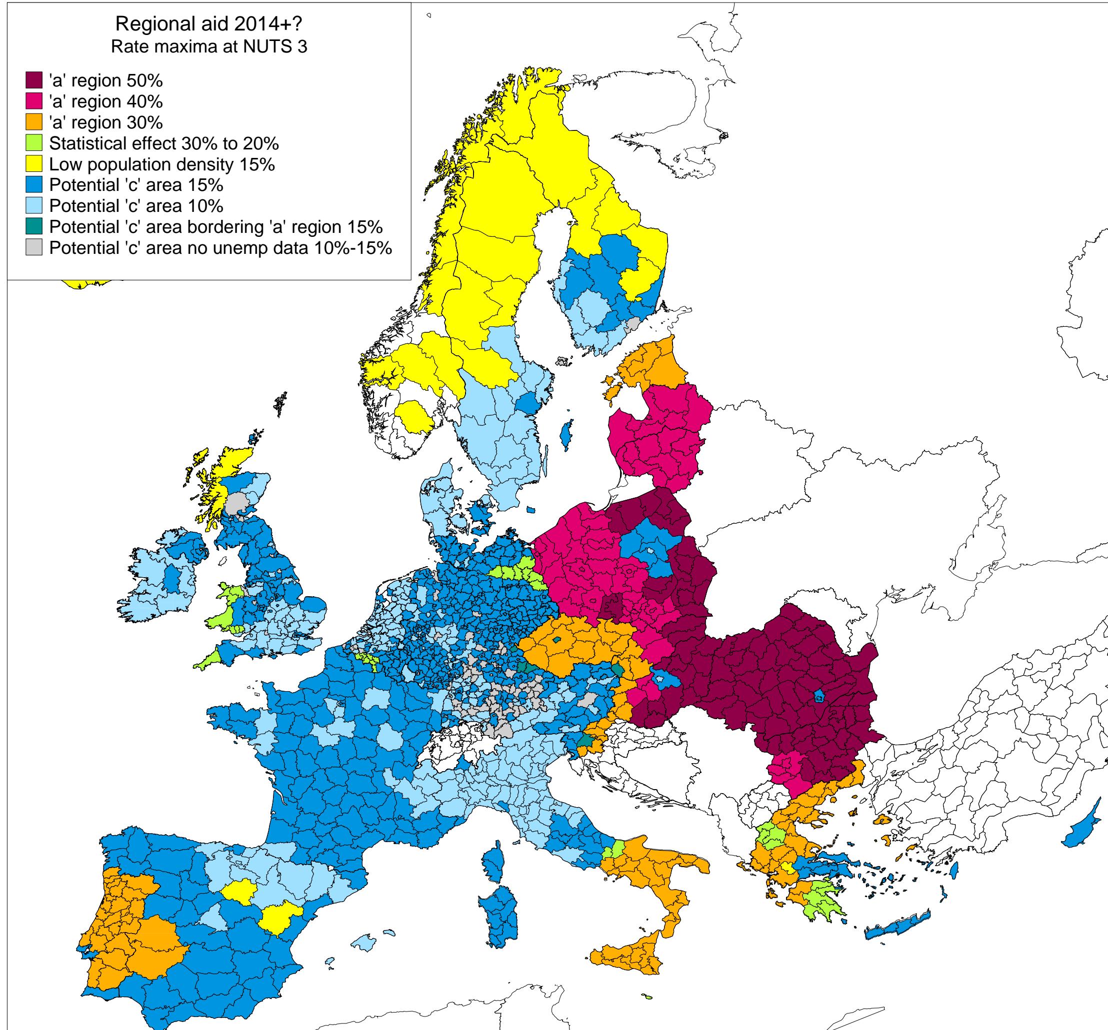
Source: Own calculations from Eurostat data.

Looking forward (see Map 4.4), a significantly different picture emerges. Some changes arise from different area designation status – the loss of 'a' region status for most of the east German regions means that rates there would fall from 30 percent (in general) to 15 percent. Other changes arise as a consequence of shifts within 'a' region status: in 2007-13 Estonia, Latvia and Lithuania all qualified for the 50 percent rate; post-2013, the 30 percent rate would apply to Estonia and 40 percent to Latvia and Lithuania. More generally, the highest rate band (50 percent) is now heavily concentrated on the eastern frontier of the EU in central Europe – Poland, Hungary, Slovakia, Romania and Bulgaria. Nowhere in the

[41] Regional Aid Guidelines 2007-13, Articles 92 and 93.

EU15 would the maximum exceed 30 percent – contrasting sharply with the position just 5 years ago when a rate of 50 percent net grant-equivalent[42] was widespread in Portugal, Spain, Greece and Italy.

Map 4.5: Rates of award 2014+? (NUTS 3)



Source: Own calculations from Eurostat data.

Map 4.5 shows maximum award values at NUTS 3 under a rolling forward scenario. Clearly, where 'a' region, statistical effect or economic development status applies, the values remain the same. For potential 'c' areas the award values, the applicable ceilings are as follows:[43]

- 15 percent of eligible investment, in general, and for low population density area;
- 10 percent where per capita GDP is higher than the EU average *and* the unemployment rate is lower than the EU average; this is raised to 15 percent for

[42] The shift from net to gross ceilings makes the difference even larger – 50 percent net grant-equivalent would typically equate to 60 percent gross, or more.

[43] 2007-13 Regional Aid Guidelines, para 47-48.

such areas if they border an 'a' region or share a land border with a non-EU/EEA state.

Importantly, however, Map 4.5 shows the maximum rates that could apply *were Member States to designate those areas*; this is distinct from whether the area would qualify to be designated under the parameters outlined in the current Guidelines.[44]

[44] 2007-13 Regional Aid Guidelines, para 30-31.

5. ROLLING RAG 2007-13 FORWARD: NATIONAL IMPACTS

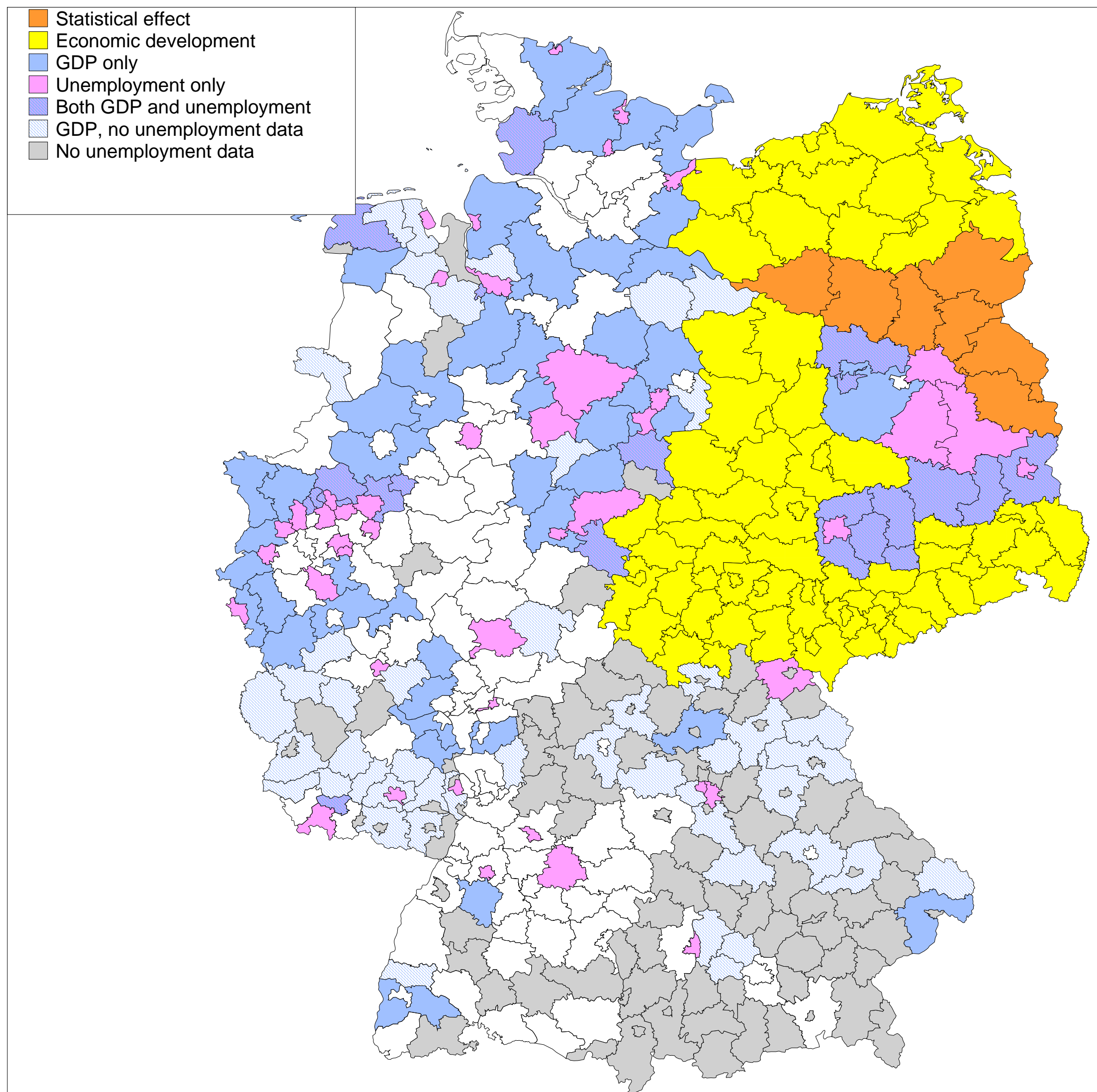
The discussion above has highlighted the overall implications of applying the assumptions described in Section 4.2.1 above. This section examines the implications EoRPA partners countries 'in the round'.

5.1 Germany

	'a' regions			'c' areas				
	'a' regions	Stat effect	Total	Econ Dev	LPD	Other 'c'	Total	TOTAL
2007-13	12.5	6.1	**18.6**			11.0	**11.0**	**29.6**
2014+?		1.4	**1.4**	11.7		18.0	**29.7**	**31.1**

Source: Figure 4.1 and Figure 4.2.

Map 5.1: Germany: 'a' regions, 'c' areas and 'sufficient disparity' 'c' quota areas



Note: The areas in grey on the key do not have sufficient disparity on the basis of GDP, but there is no unemployment data available, so it cannot be assessed whether they have sufficient disparity on the basis of the unemployment rate.

Source: Own calculations from Eurostat data.

For Germany, the key points to note are:

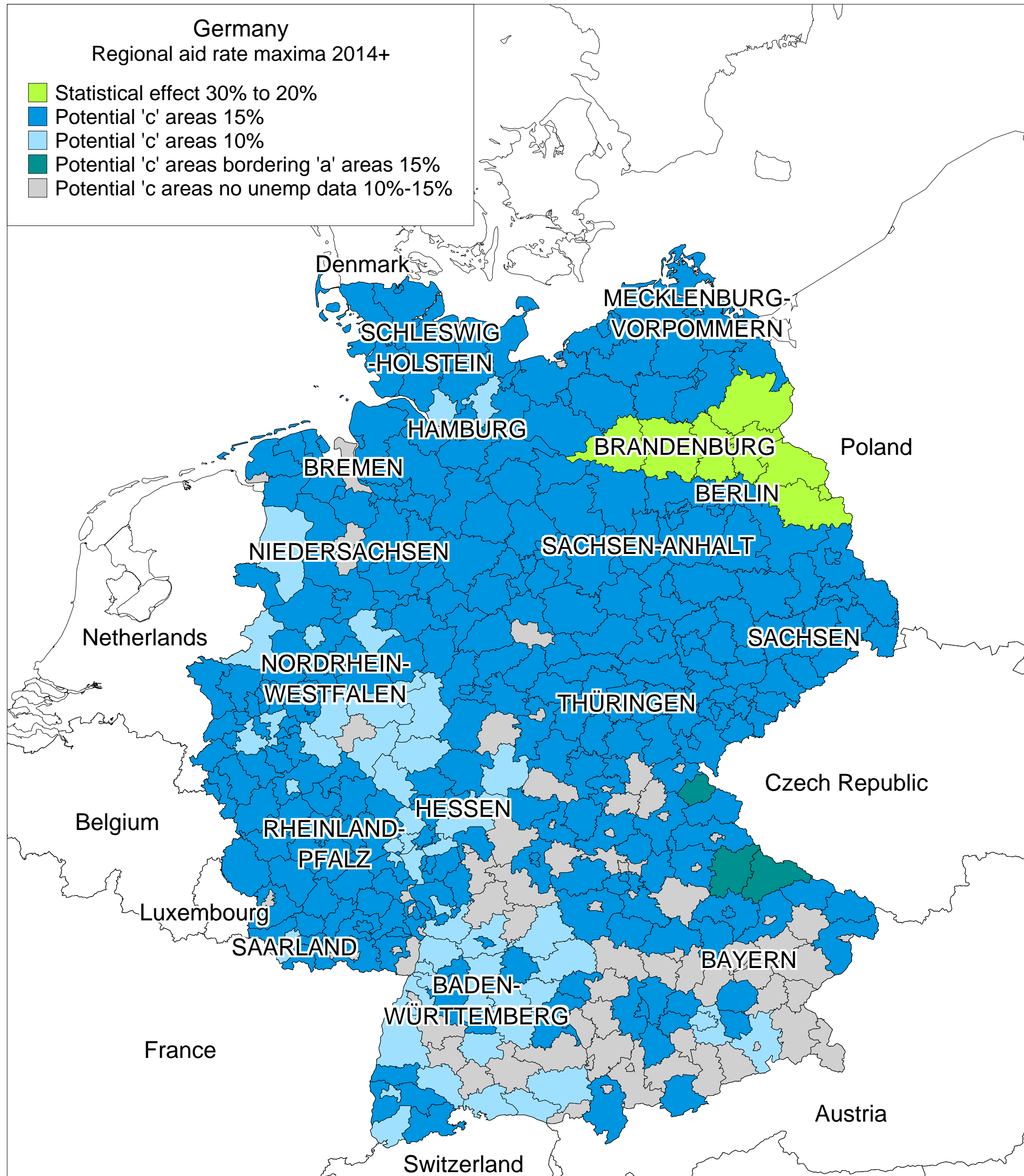
- Rolling forward on the basis outlined would result in a modest *increase* in overall coverage.
- There would be a major shift from 'a' region to 'c' area coverage, with no full status 'a' regions.
- Only one current 'a' region – Brandenburg-Nordost – retains 'a' region status on the basis of statistical effect.
- There would be a significant proportion of the population with economic development 'c' area status; this would not be 'ringfenced' longer term.[45]

Some other points that arise from the analysis are also worth mentioning:

- Several of the current 'a' regions, namely, Mecklenburg-Vorpommern, Chemnitz, Sachsen-Anhalt and Thüringen, together with Lüneburg, have GDP(PPS) per head of less that 75 percent of the *EU15* average. In other words, if the statistical effect threshold had remained the same as for 2007-13, these regions would have been 'a' regions with statistical effect status.
- Germany would have some interest in the EU15 average being retained for statistical effect purposes since the regions mentioned above could, other things being equal, benefit from higher rates of award. However, the impact on *overall* coverage would be likely to be limited since – if the 42 percent initial ceiling were retained – any increase in 'a' regions would result in a decrease in 'c' areas.
- Berlin contributes around 10 percent of the 'c' area qualifying population on the basis of the unemployment rate.
- GDP data at NUTS 3 are complete.
- There are gaps in the unemployment rate data at NUTS 3. In some cases no data at all are available for the qualifying period; in other cases one or two years' data are available, in which case these have been used. The implications of the data being incomplete cannot be known, but it may be that this reduces Germany's share of qualifying 'c' area population.

[45] One point of clarification is in order. The 2007-13 designation was done when Dessau, Magdeburg (both 'a' regions) and Halle (statistical effect) were separate NUTS 2 regions. Since then, they have been merged into the single NUTS 2 region Sachsen-Anhalt. In this scenario, the entire Sachsen-Anhalt region gains economic development status (even though in principle Halle would be ineligible for this). This approach is justified by the fact that, had Sachsen-Anhalt been a NUTS 2 region at the time of the 2007-13 Guidelines, it would have been an 'a' region.

Map 5.2: Germany: potential rate maxima 2014+



Source: Own calculations from Eurostat data.

In terms of aid intensities, Germany would see a significant reduction in award values in many regions, notably in the east. While a maximum of 30 percent of eligible investment has generally applied for the period 2007-13 (except in the statistical effect regions which have lost 'a' status, where it has fallen to 20 percent), a ceiling of 15 percent would apply, except in Brandenburg-Nordost.

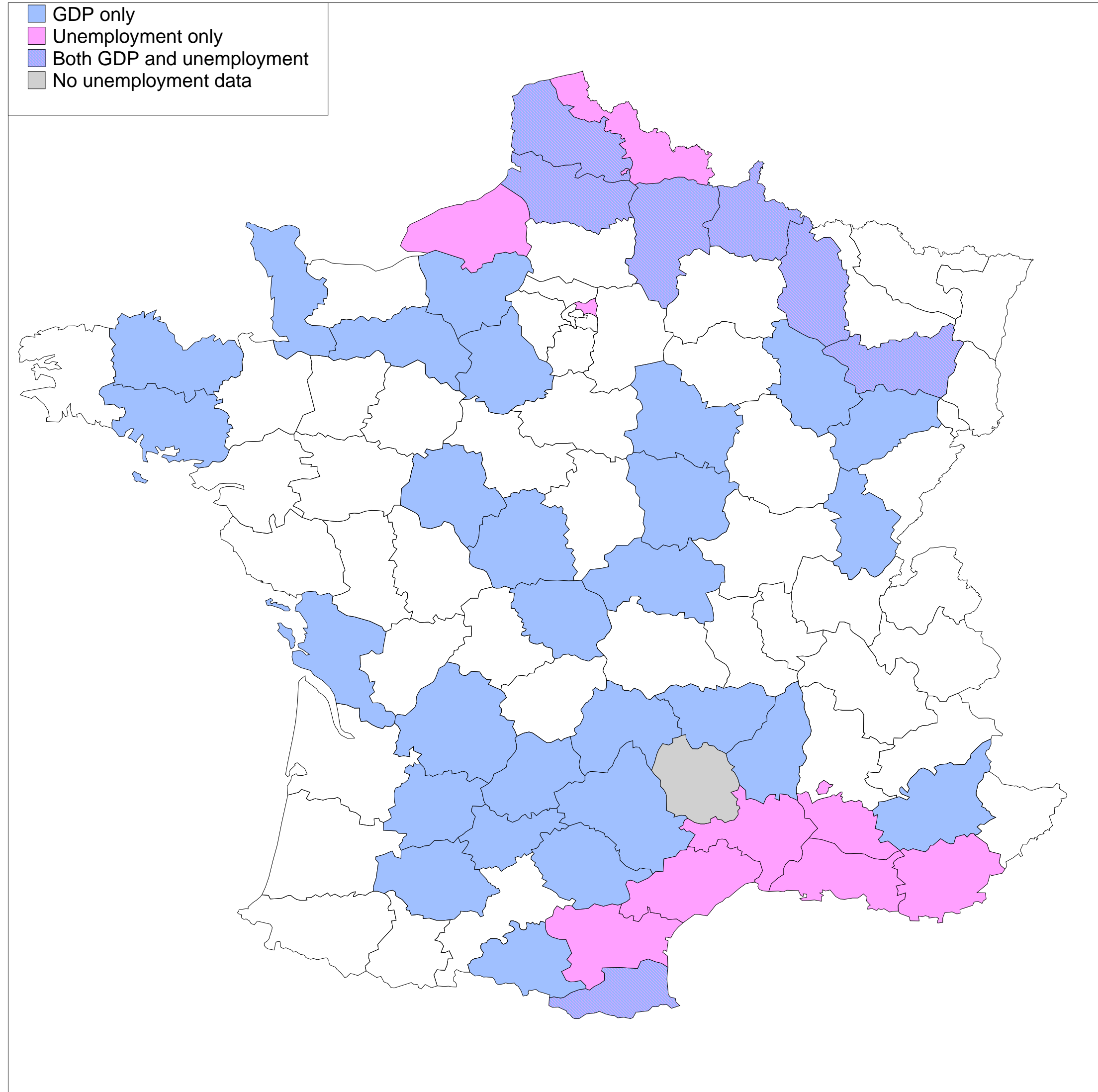
Elsewhere, a full picture of maximum values is difficult to discern because of incomplete unemployment data at NUTS 3.

5.2 France

	'a' regions			'c' areas				
	'a' regions	Stat effect	Total	Econ Dev	LPD	Other 'c'	Total	TOTAL
2007-13	2.9		2.9			15.5	15.5	18.4
2014+?	2.9		2.9			16.1	16.1	19.7

Source: Figure 4.1 and Figure 4.2.

Map 5.3: France - 'sufficient disparity' 'c' quota areas



Note: The areas in grey on the key do not have sufficient disparity on the basis of GDP, but there is no unemployment data available, so it cannot be assessed whether they have sufficient disparity on the basis of the unemployment rate.

Source: Own calculations from Eurostat data.

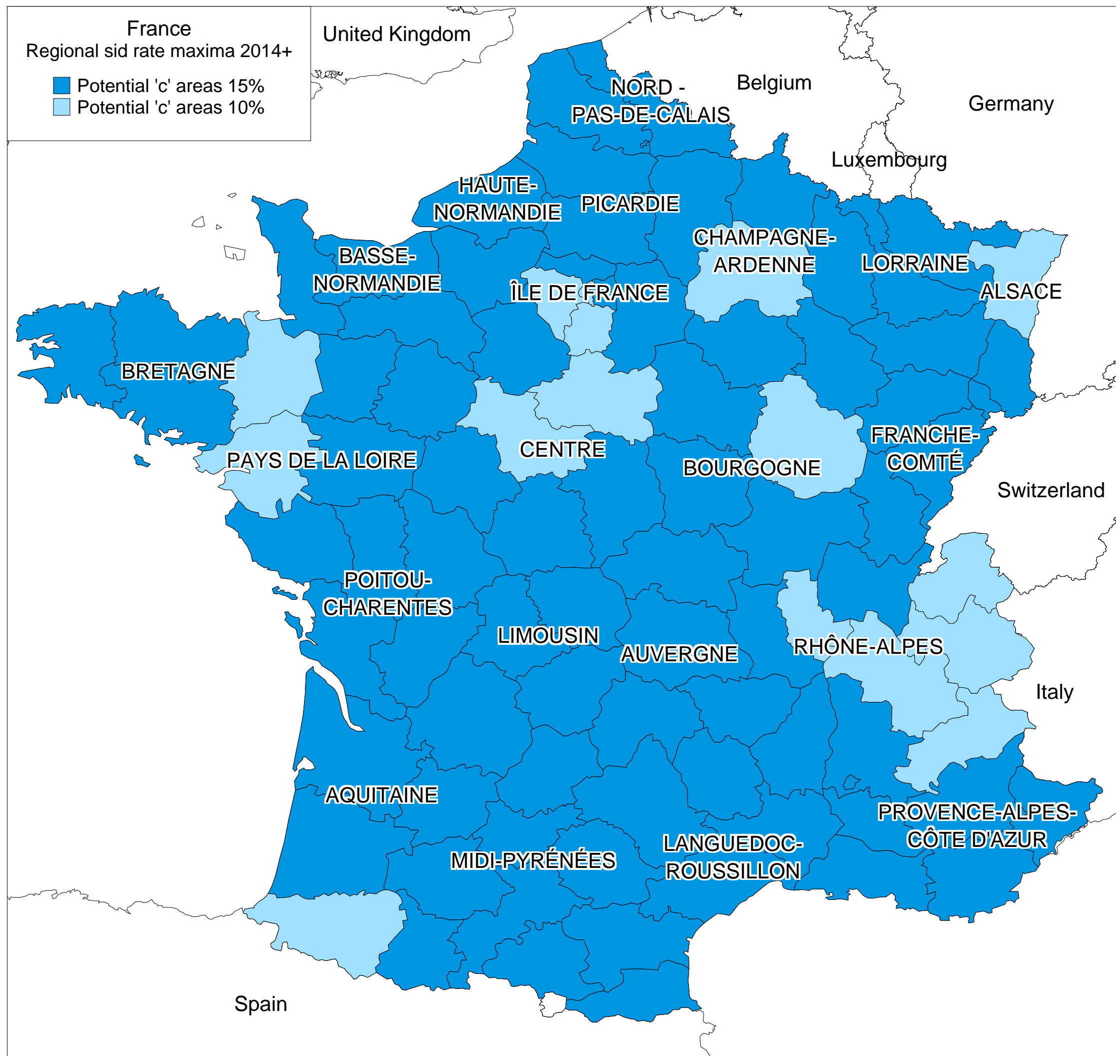
The key points to note for France are that:

- there is a modest increase in overall coverage, resulting from higher 'c' area coverage
- 'a' region coverage remains unchanged, reflecting the special status of the OMRs

- France benefits from the OMRs having earmarked status and therefore being unaffected by changes in EU average GDP per head owing to enlargement. At the same time, the shift from EU25 to EU27 averages squeezes the 'a' region population, releasing a larger quota for 'c' areas, to the benefit of countries that essentially rely totally on 'c' areas for coverage. France would not, therefore, benefit from the retention of the EU15 GDP per head average as the statistical effect threshold.

- NUTS 3 GDP data are complete and the unemployment rate data are almost complete, with only one NUTS 3 region having no return.

Map 5.4: France: potential rate maxima 2014+



Source: Own calculations from Eurostat data.

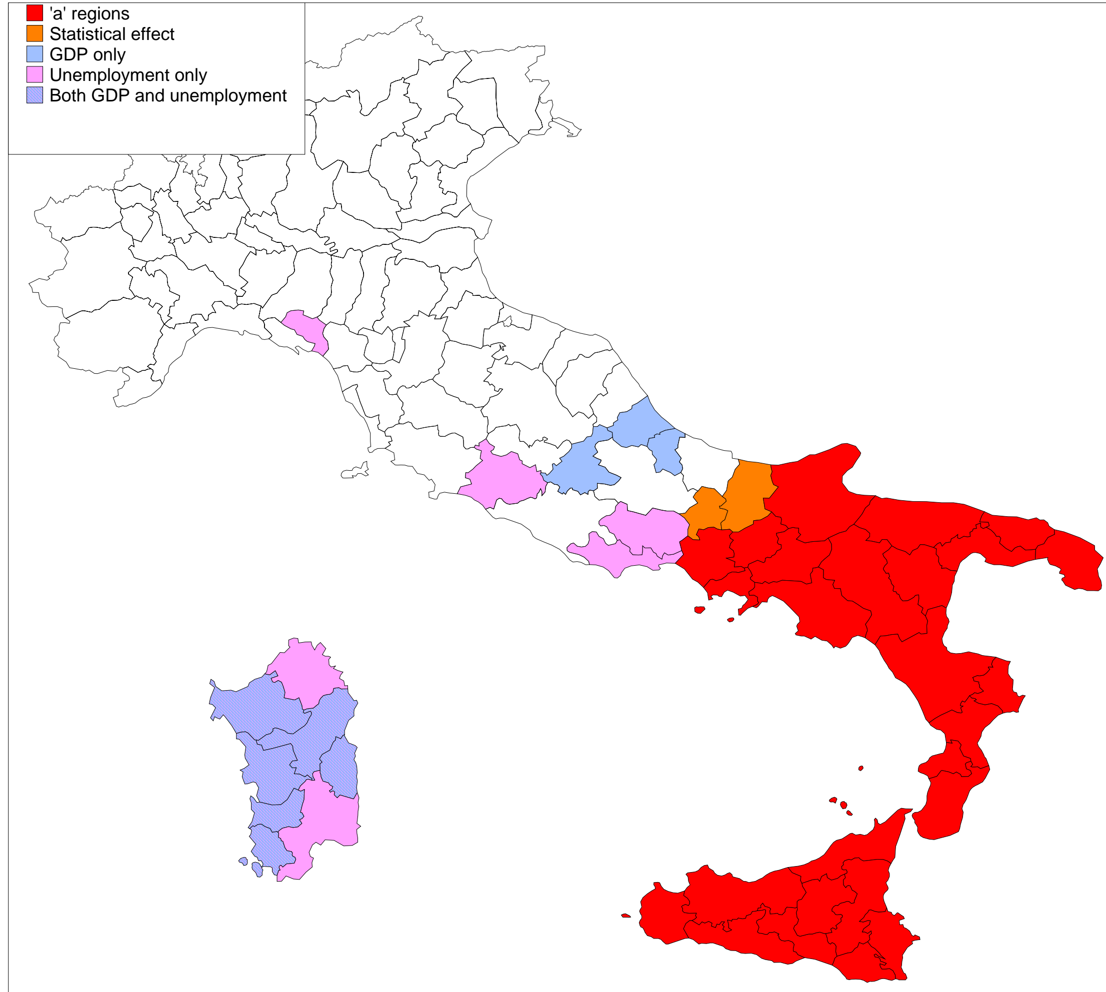
The impact of rolling forward on aid intensities in France is limited, owing to the fact that all designated areas in mainland France were 'c' areas, and this would continue to be so (unlike in Germany, for example). In practice, much of France would qualify for the 15 percent rate, with the 10 percent rate principally in the Centre, Île de France and Rhône-Alpes regions.

5.3 Italy

	'a' regions			'c' areas				
	'a' regions	Stat effect	Total	Econ Dev	LPD	Other 'c'	Total	TOTAL
2007-13	29.2	1.0	30.2	2.9		1.0	3.9	34.1
2014+?	29.5	0.5	30.0				3.1	33.1

Source: Figure 4.1 and Figure 4.2.

Map 5.5: Italy - 'a' areas, 'c' areas and 'sufficient disparity' 'c' quota areas



Source: Own calculations from Eurostat data.

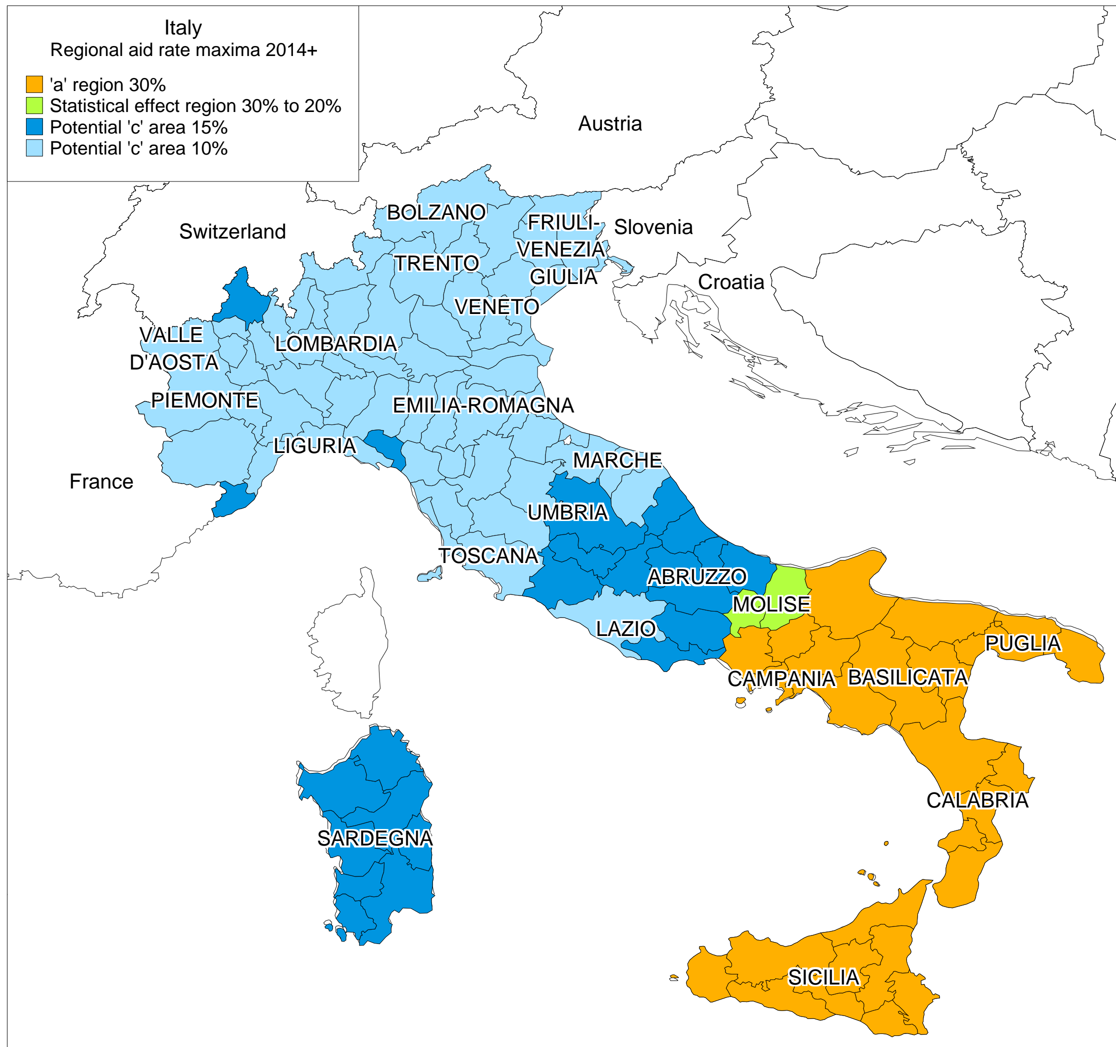
The key points to note for Italy are:

- An increase in 'a' region coverage, which would include Basilicata (statistical effect in 2007-13) as well as Calabria, Campania, Puglia and Sicilia.
- Molise 'gains' statistical effect status.
- Sardegna would have statistical effect status if the EU15 GDP(PPS) per head 75 percent threshold were used. To this extent, as for Germany, Italy would benefit from the

retention of the EU15 average; however, also as in Germany, the impact on overall coverage would be marginal since 'c' area coverage would fall if the 42 percent population ceiling were retained.

- Most of the 'c' area qualifying population is in Sardegna, Lazio and Abruzzo.
- The NUTS 3 GDP and unemployment rate data are complete, except that, for Sardegna, only one year's unemployment rate data are available.

Map 5.6: Italy: potential rate maxima 2014+



Source: Own calculations from Eurostat data.

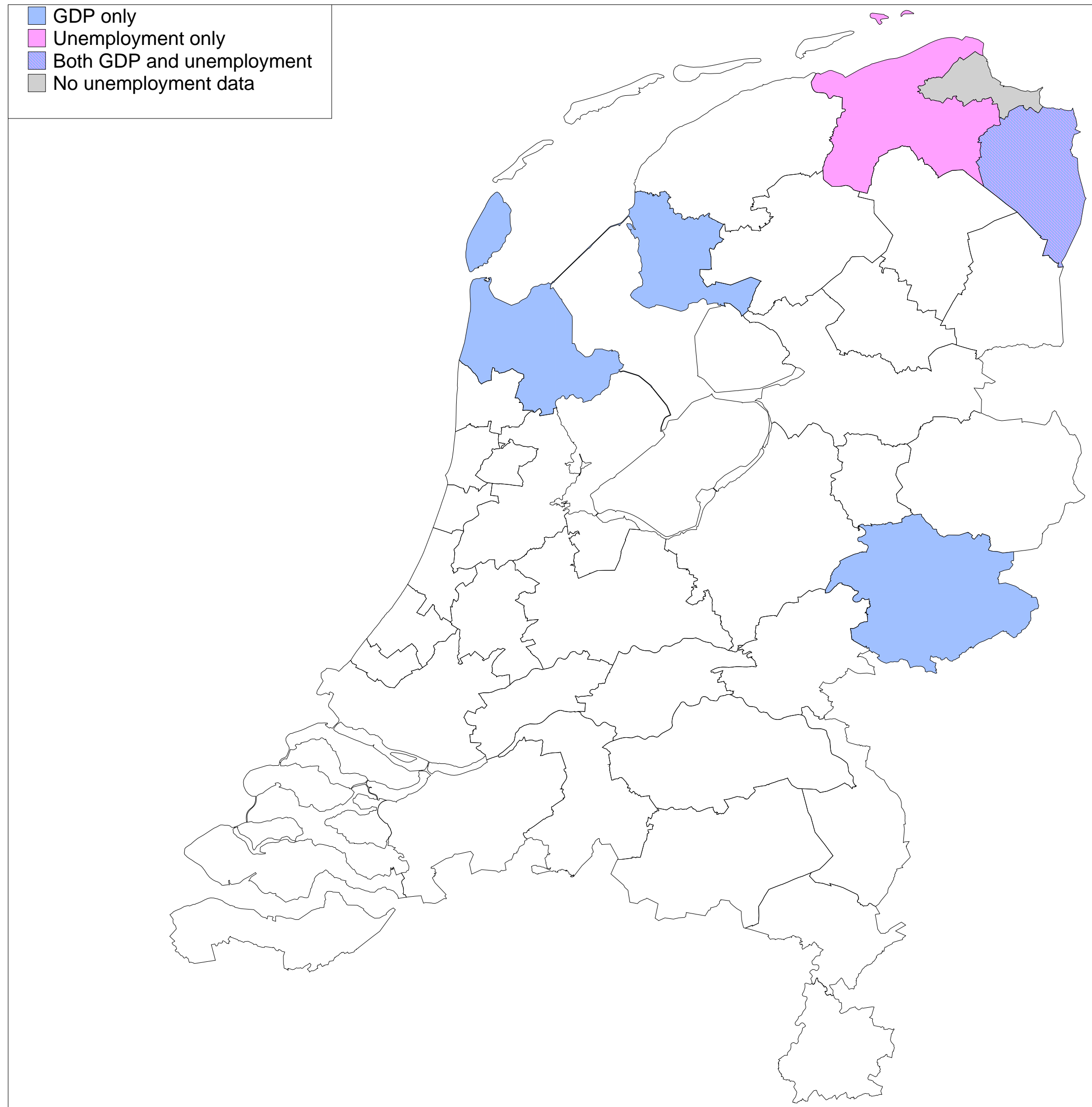
In terms of aid intensities, the impact for Italy is broadly neutral – there is no significant change in maximum award values in the Mezzogiorno, except for Molise where a higher rate would apply given its status as a statistical effect region under this scenario. For the 'c' areas, the 15 percent rate would be concentrated in Abruzzo, Umbria and Sardegna, with most of the centre-north qualifying only for the 10 percent rate.

5.4 The Netherlands

	'a' regions			'c' areas				
	'a' regions	Stat effect	Total	Econ Dev	LPD	Other 'c'	Total	TOTAL
2007-13						7.5	7.5	7.5
2014+?						3.8	3.8	3.8

Source: Figure 4.1 and Figure 4.2.

Map 5.7: The Netherlands- 'sufficient disparity' 'c' quota areas



Note: The areas in grey on the key do not have sufficient disparity on the basis of GDP, but there is no unemployment data available, so it cannot be assessed whether they have sufficient disparity on the basis of the unemployment rate.

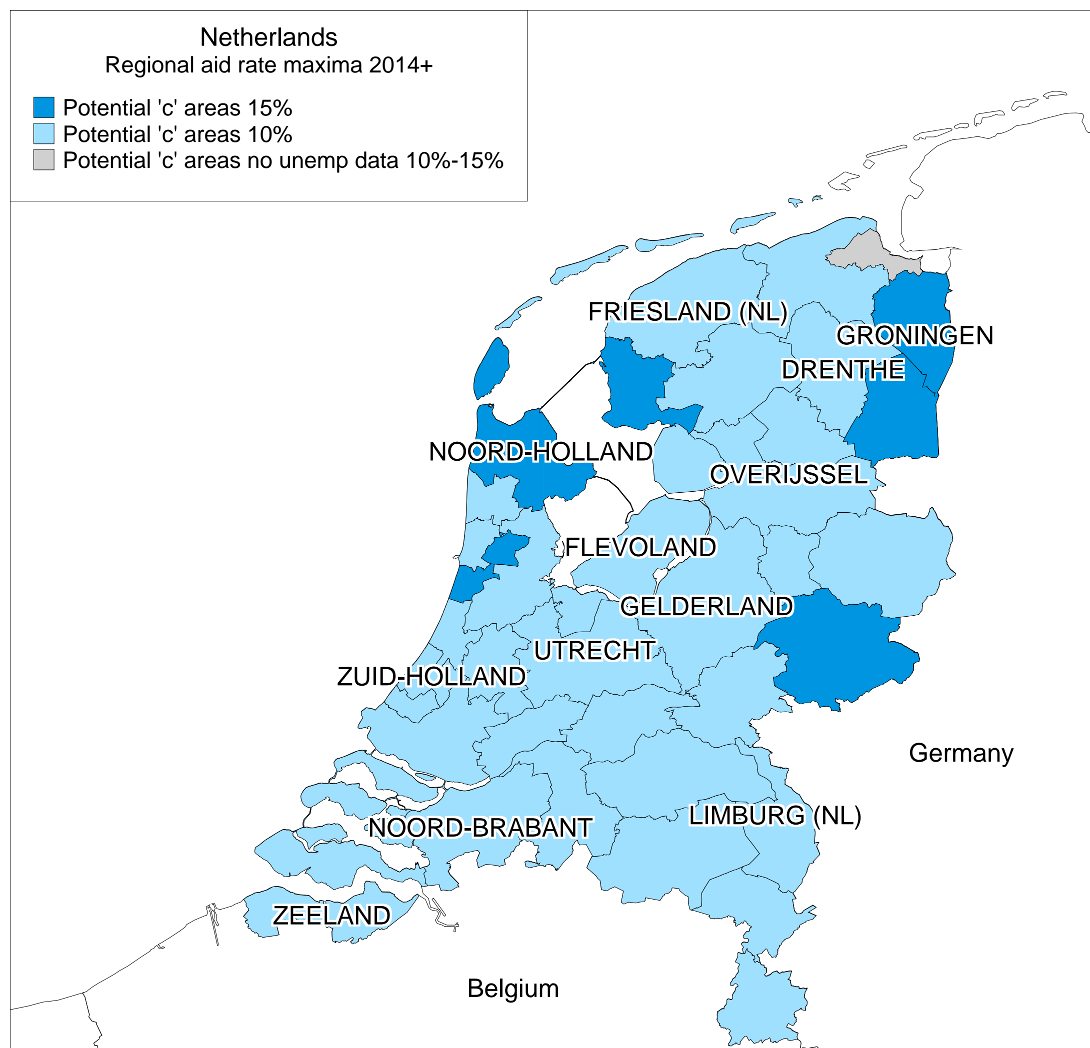
Source: Own calculations from Eurostat data.

The key point to note about the Netherlands is that coverage is dependent on the safety net – in this scenario it has been set at 50 percent of 2007-13 coverage; without the safety net, coverage would have been 3.6 percent of the population.

Clearly the Netherlands would have an interest in there being a 'floor' to coverage – ie. a minimum population below which it was not considered sustainable to conduct a regional aid policy (as applied in 2000-6, when minimum coverage was set at 15 percent, a provision from which the Netherlands benefited). This is all the more so since the Netherlands relied on a 50 percent safety net for 2007-13; in 2000-6, coverage in the Netherlands had been 15 percent of the population.

The bulk of the 'c' area qualifying population is contributed by parts of Groningen, Gelderland and Noord-Holland, and principally on the basis of GDP per head. GDP data are complete, as are unemployment rate data save for one region (Delfzijl) where there are no data and two others with one or two missing returns.

Map 5.8: the Netherlands: potential rate maxima 2014+



Source: Own calculations from Eurostat data.

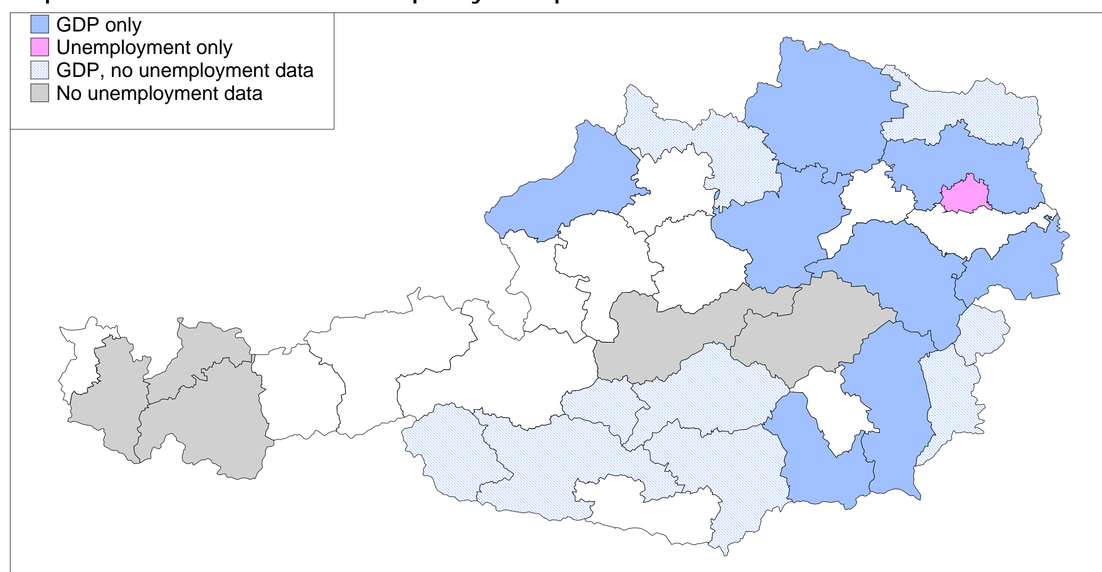
Most of the Netherlands would qualify only for lower rate applicable to 'c' areas.

5.5 Austria

	'a' regions			'c' areas				
	'a' regions	Stat effect	Total	Econ Dev	LPD	Other 'c'	Total	TOTAL
2007-13		3.4	3.4			19.1	19.1	22.5
2014+?						23.0	23.0	23.0

Source: Figure 4.1 and Figure 4.2.

Map 5.9: Austria - 'sufficient disparity' 'c' quota areas



Note: The areas in grey on the key do not have sufficient disparity on the basis of GDP, but there is no unemployment data available, so it cannot be assessed whether they have sufficient disparity on the basis of the unemployment rate.

Source: Own calculations from Eurostat data.

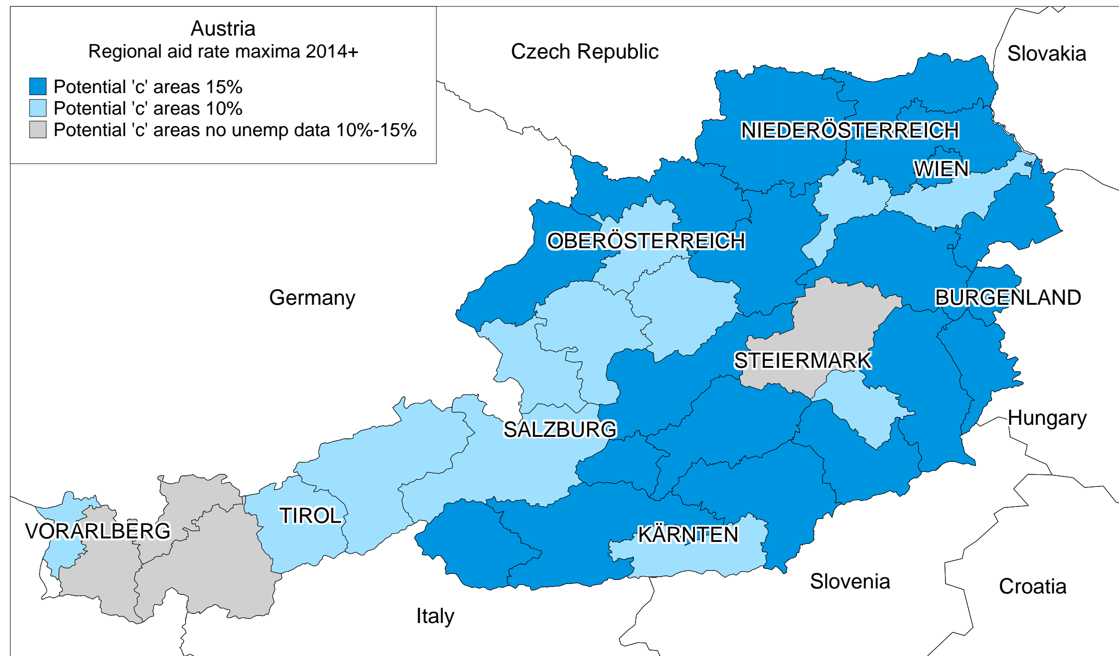
For Austria, the scenario devised here gives a marginal increase in coverage post 2014 compared with 2007-13. Burgenland has statistical effect status for 2007-13, but is unlikely to retain 'a' region status after the end of 2010 owing to rising levels of GDP per head. Nevertheless, Burgenland remains below the *EU15* 75 percent GDP per head threshold, so Austria would have some interest in retaining this limit instead of shifting to the EU25 based threshold. However, this would result in a significant reduction of the 'c' area population quota so, although the coverage of Burgenland would be assured, overall coverage in Austria would be reduced.

Vienna contributes to the Austrian 'c' area quota owing to its relatively high rate of unemployment, but unemployment rate data at NUTS 3 are quite patchy for Austria; GDP per head data are complete.

Apart from Burgenland, the potential impact on aid values in Austria is limited; in Burgenland the maximum rate of award would fall from 30 percent (to end 2010), to 20 percent from 1 January 2011 and, on the basis of this scenario, to 15 percent after 2013. Owing to the incompleteness of the unemployment data, it is difficult to comment

definitively on aid intensities for other 'c' areas. However, the higher aid rate appears to be concentrated in the east of the country, notably around the borders.

Map 5.10: Austria: potential rate maxima 2014+



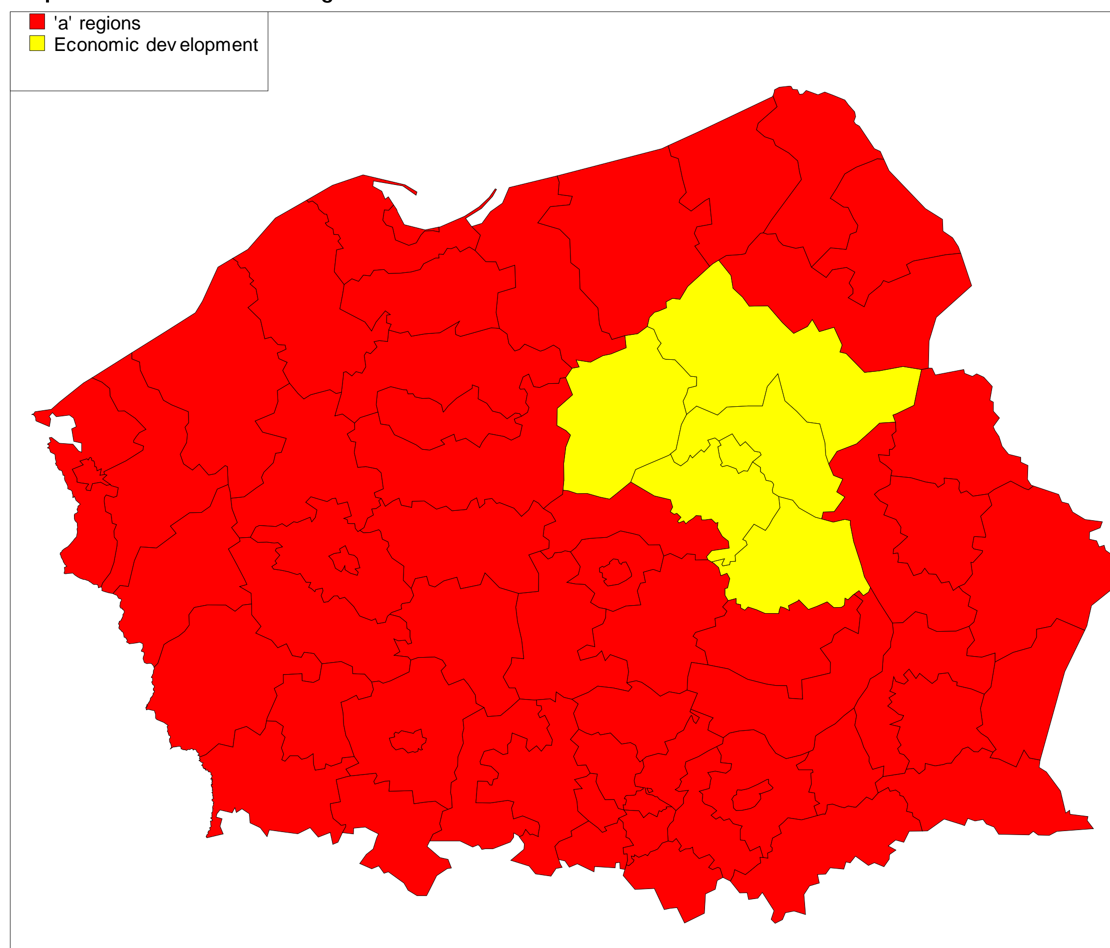
Source: Own calculations from Eurostat data.

5.6 Poland

	'a' regions			'c' areas				
	'a' regions	Stat effect	Total	Econ Dev	LPD	Other 'c'	Total	TOTAL
2007-13	100.0		100.0					100.0
2014+?	86.4		86.4	13.6			13.6	100.0

Source: Figure 4.1 and Figure 4.2.

Map 5.11: Poland - 'a' regions and 'c' areas



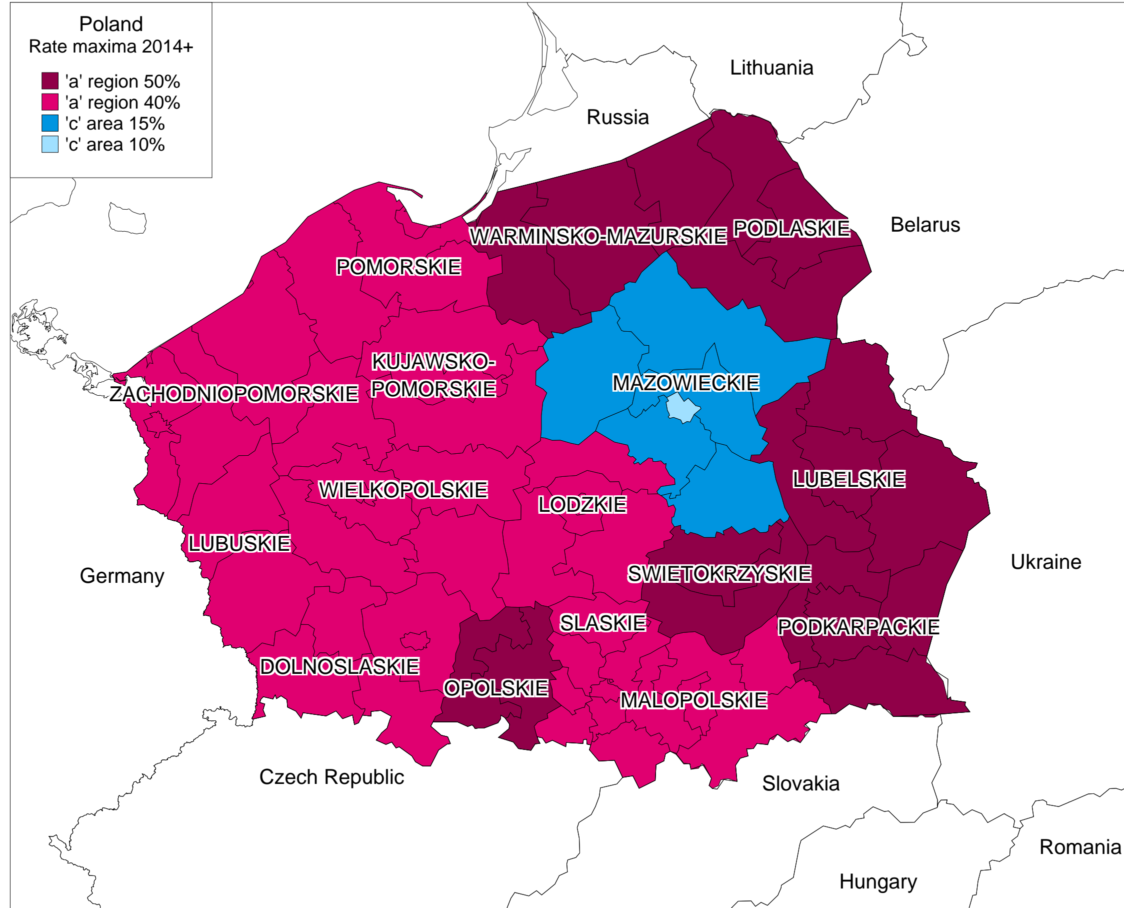
Source: Own calculations from Eurostat data.

The main point to emerge for Poland is that under a 'rolling forward' scenario, the Warsaw region, Mazowieckie, would lose 'a' region status; indeed, economic growth has been such that it would not qualify as a statistical effect region on the basis of EU25 thresholds. On the other hand, Mazowieckie *would* be eligible as a statistical effect region if the EU15 threshold were retained. Use of the EU15 threshold would not have any impact on overall coverage (since Poland remains eligible in its entirety) but would impact on rates of award, at least in the short-term.

In terms of award values, the impact on Poland is fairly significant. Several regions in the west of the country would fall out of the highest aid band, which, under this scenario,

would be concentrated in the east, with the exception of Opolskie. In Mazowieckie, the capital region, a 15 percent rate would be widely applicable, although Warsaw itself would qualify for the 10 percent rate, possible transitional arrangements notwithstanding.

Map 5.12: Poland: potential rate maxima 2014+



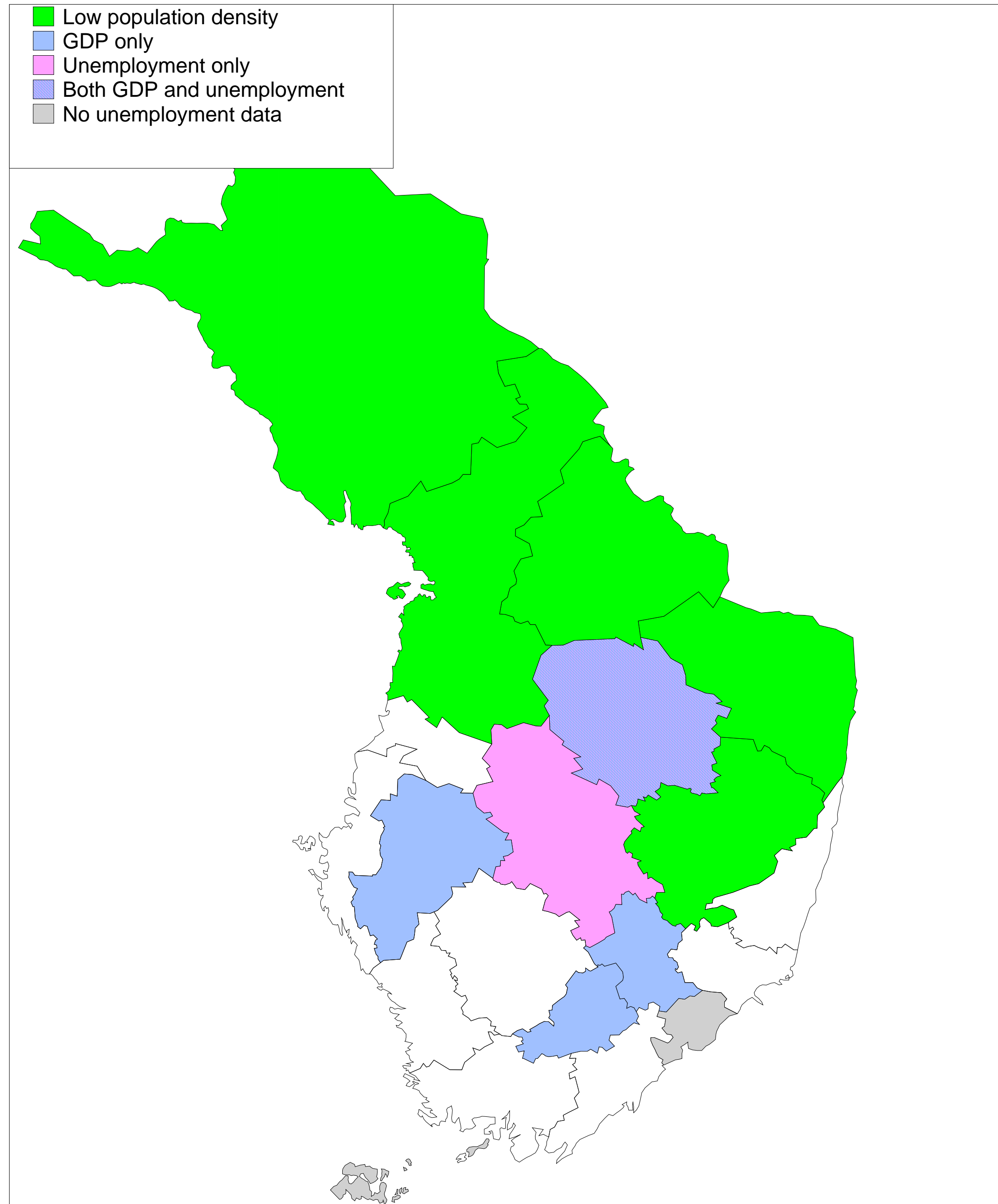
Source: Own calculations from Eurostat data.

5.7 Finland

	'a' regions			'c' areas				
	'a' regions	Stat effect	Total	Econ Dev	LPD	Other 'c'	Total	TOTAL
2007-13				4.9	18.8	9.3	33.0	33.0
2014+?					18.5	8.7	27.2	27.2

Source: Figure 4.1 and Figure 4.2.

Map 5.13: Finland - low population density and 'sufficient disparity 'c' quota areas



Note: The areas in grey on the key do not have sufficient disparity on the basis of GDP, but there is no unemployment data available, so it cannot be assessed whether they have sufficient disparity on the basis of the unemployment rate.

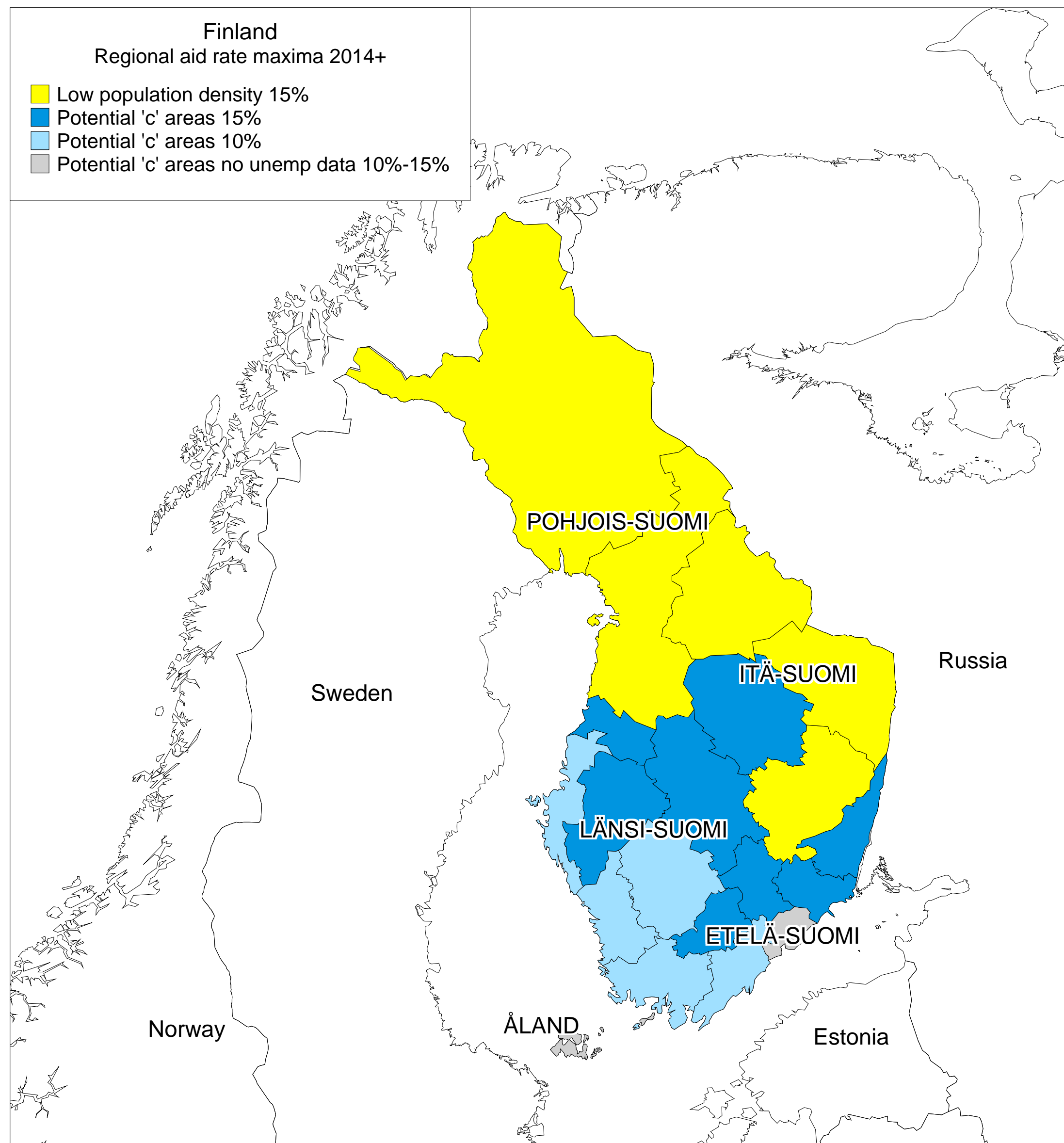
Source: Own calculations from Eurostat data.

For Finland, a rolling forward of the current methodology would result in a reduction of coverage post-2013 compared with 2007-13. In 2007-13, part of Itä-Suomi was an economic development area (the NUTS 3 area Pohjois-Savo); the remainder of the region is sparsely-populated. Post-2013, the economic development designation would expire. In addition, however, an improvement in the Finnish unemployment rate in relation to the EU average, especially compared to countries with 'c' areas, has meant a fall in the population qualifying on this basis, and therefore a fall in Finland's share of the 'c' area quota. NUTS 3 GDP data for Finland are complete, for unemployment rate data two returns are missing.

Finland would be further disadvantaged if the statistical effect threshold were to use EU15 rather than EU25 GDP per head as its basis.

Most of the eligible areas in Finland would qualify for the higher 15 percent rate for 'c' areas, reflecting the extensive coverage of low population density areas.

Map 5.14: Finland: potential rate maxima 2014+



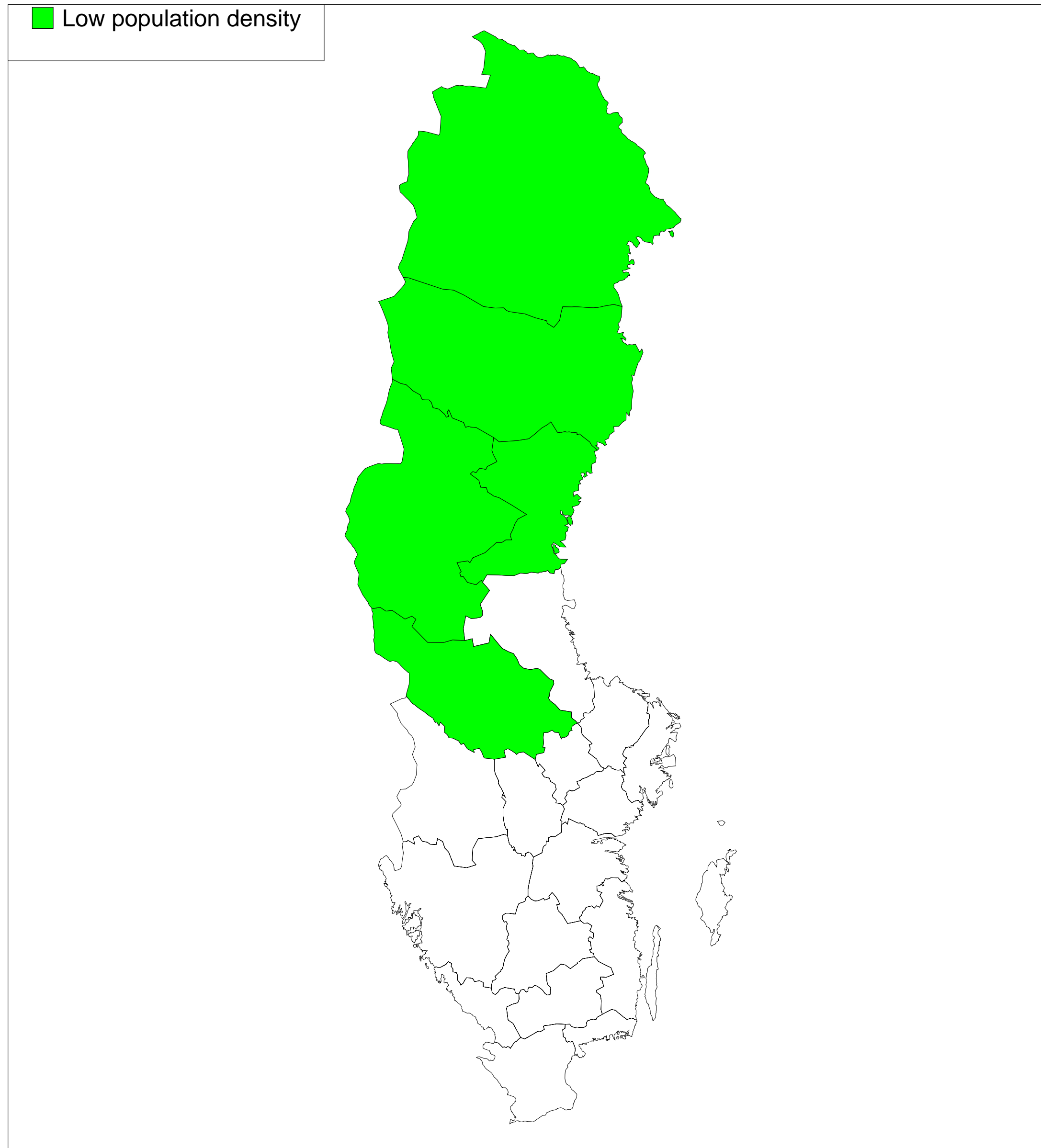
Source: Own calculations from Eurostat data.

5.8 Sweden

	'a' regions			'c' areas				
	'a' regions	Stat effect	Total	Econ Dev	LPD	Other 'c'	Total	TOTAL
2007-13					13.0	2.3	15.3	15.3
2014+?					12.6		12.6	12.6

Source: Figure 4.1 and Figure 4.2.

Map 5.15: Sweden - low population density areas



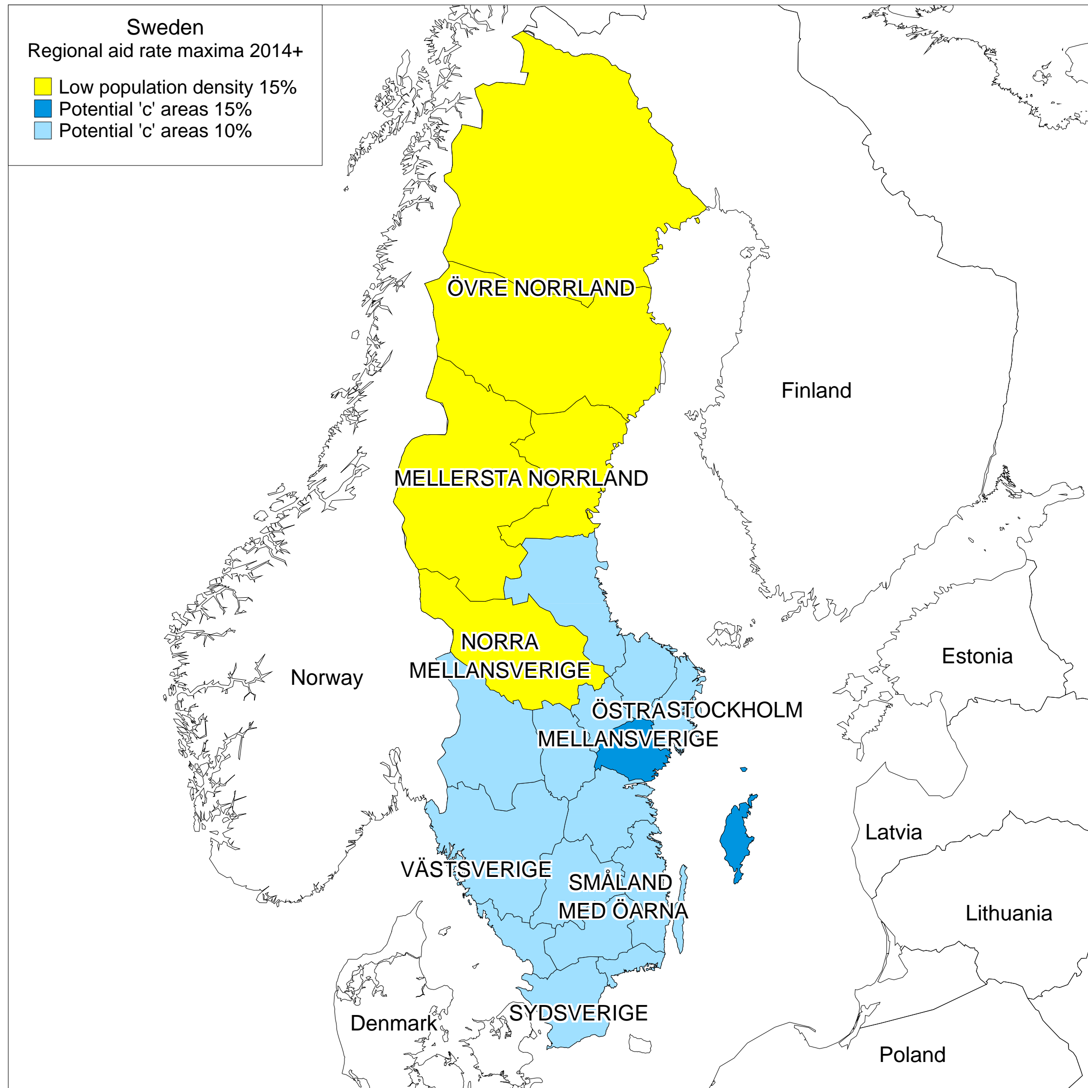
Source: Own calculations from Eurostat data.

Sweden would see a fall in coverage based on the criteria and assumptions used in this paper. Moreover, it would rely entirely on low population density areas to generate a 'c' area population quota, since it has no qualifying areas based on the internal disparity analysis. The advantage of this situation is that the population density criterion is an

absolute one and is unaffected by enlargement, changes in GDP or unemployment rates or indeed political decisions about overall levels of coverage.

GDP data are complete at NUTS 3, but unemployment rate data are only available for 2006 and 2007.

Map 5.16: Sweden: potential rate maxima 2014+



Source: Own calculations from Eurostat data.

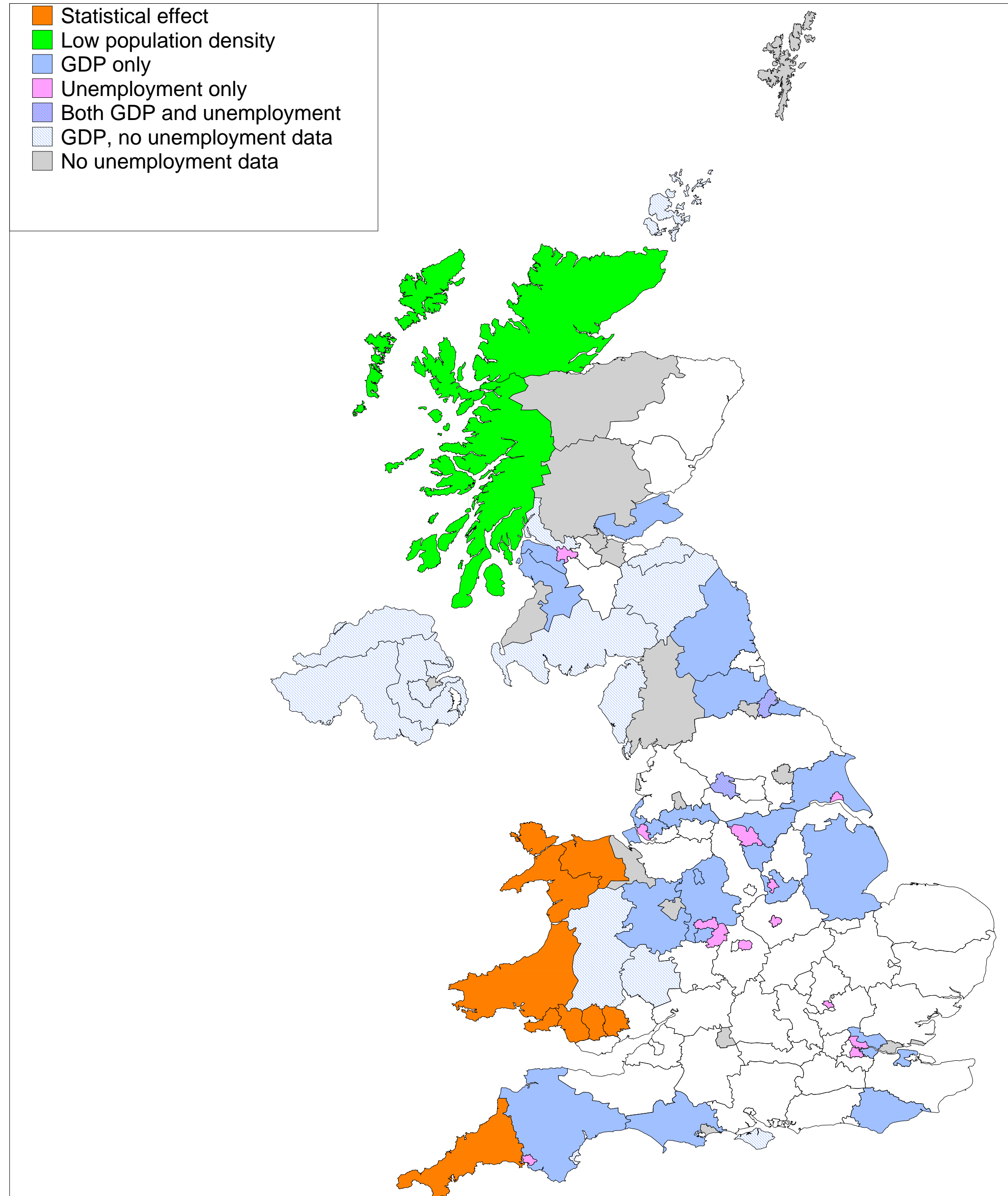
The low population density regions have *de jure* eligibility under the current Guidelines and would qualify for the 15 percent rate. However, the Swedish authorities could, in principle, opt to designate other areas with the population generated by the low population density areas; however, in most of the rest of Sweden the 10 percent rate would apply.

5.9 United Kingdom

	'a' regions			'c' areas				
	'a' regions	Stat effect	Total	Econ Dev	LPD	Other 'c'	Total	TOTAL
2007-13	4.0	0.6	**4.6**	7.3		12.0	**19.3**	**23.9**
2014+?		4.0	**4.0**		0.4	15.8	**16.2**	**20.1**

Source: Figure 4.1 and Figure 4.2.

Map 5.17: UK – 'a' regions, low population density and 'sufficient disparity' 'c' quota areas



Note: The areas in grey on the key do not have sufficient disparity on the basis of GDP, but there is no unemployment data available, so it cannot be assessed whether they have sufficient disparity on the basis of the unemployment rate.

Source: Own calculations from Eurostat data.

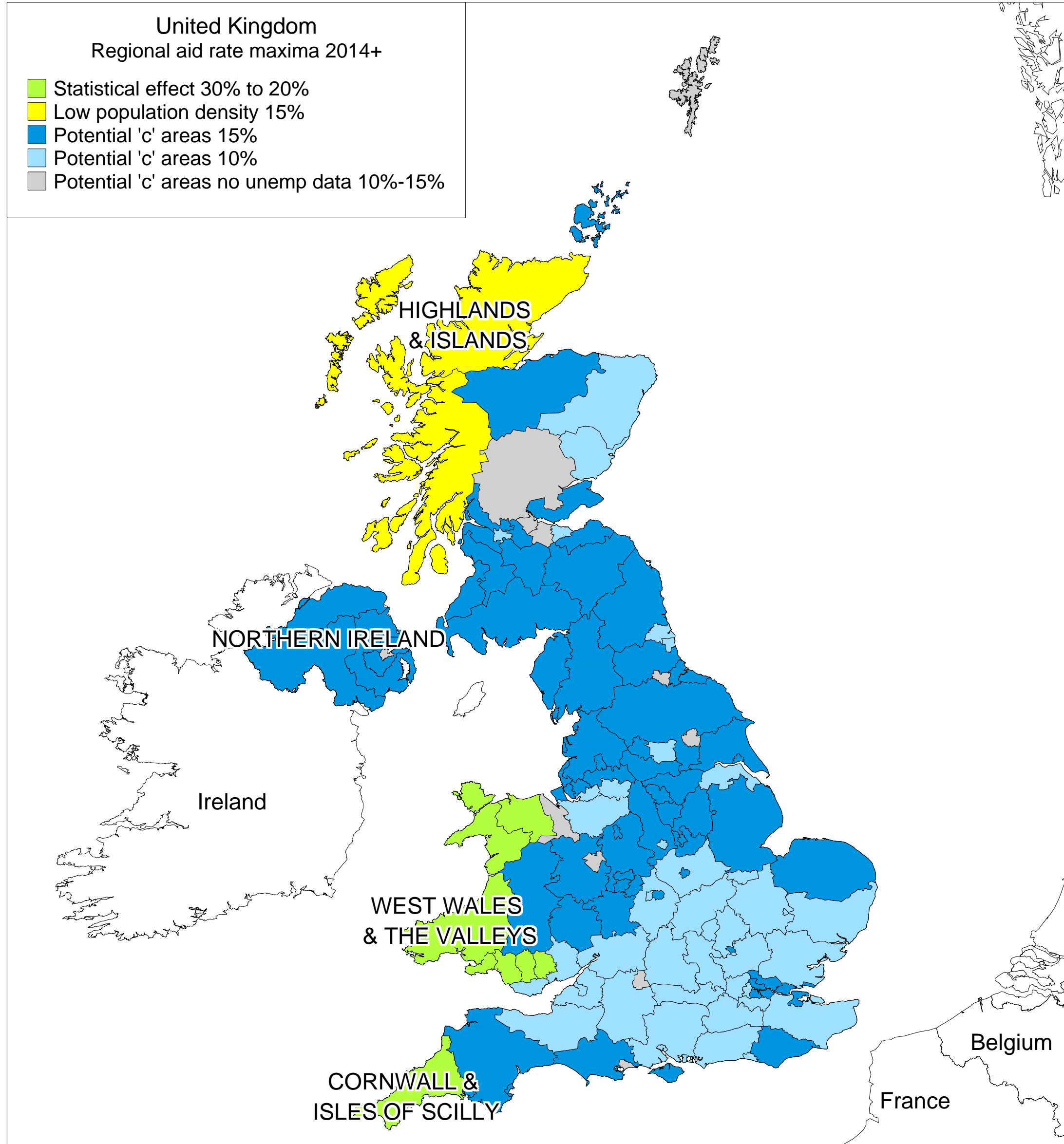
For the United Kingdom, the scenario described here would bring about a number of changes:

- Overall coverage would fall from 23.9 percent to 20.1 percent of the population.
- Cornwall & the Scilly Isles and West Wales & the Valleys would both lose full 'a' region status, but would both qualify as statistical effect regions.
- Highlands & Islands would lose statistical effect status, but some of its constituent NUTS 3 areas would be classed as low population density areas.
- Economic development status for South Yorkshire and Merseyside expires, causing 'c' area coverage to decline.
- If statistical effect were based on EU15 averages, two NUTS 2 regions, Tees Valley & Durham and Lincolnshire, neither of which have previously been designated as 'a' regions, would qualify.
- Almost half of the NUTS 1 London region population contributes to the 'c' area qualifying population – NUTS 3 Inner London East on the basis of unemployment and outer NUTS 3 Outer London East and North-East on the basis of GDP per head.
- GDP data at NUTS 3 are complete, but unemployment rate data at this level are patchy.

Regarding award values, the rates for Cornwall & the Scilly Isles and West Wales & the Valleys would remain at 30 percent in the short-term. For the Highlands & Islands, the rate would fall from 30 percent until end 2010, to 20 percent from 1 January 2011 and, under this scenario, to 15 percent after 2013.

In general, the higher rate for 'c' areas in concentrated in northern Britain (including northern Ireland), although the inclusion of significant parts of the London area gives the lie to the anomalies that can arise from the analysis of GDP and unemployment data.

Map 5.18: United Kingdom: potential rate maxima 2014+



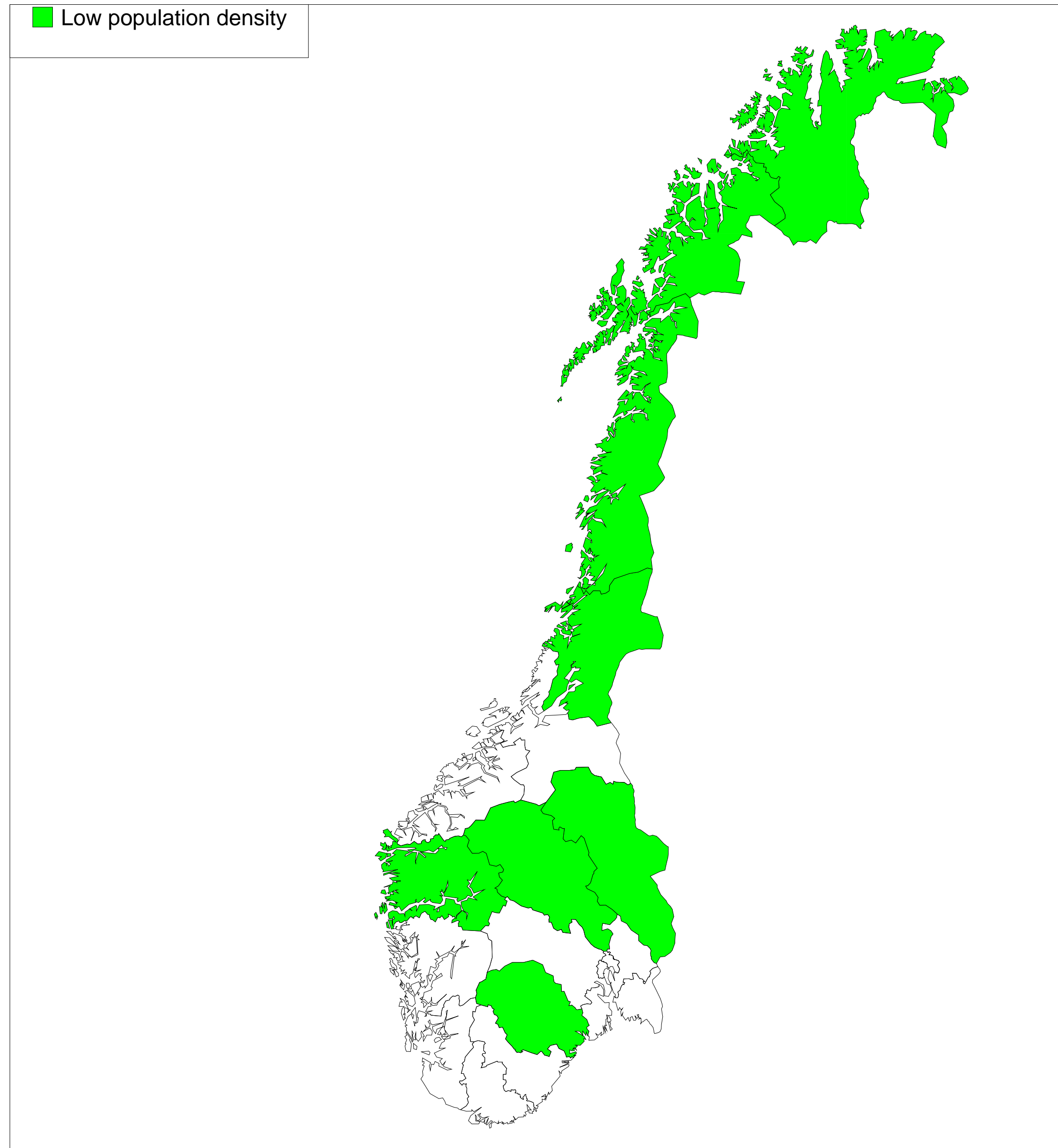
Source: Own calculations from Eurostat data.

5.10 Norway

	'a' regions			'c' areas				
	'a' regions	Stat effect	Total	Econ Dev	LPD	Other 'c'	Total	TOTAL
2007-13					29.1		**29.1**	**29.1**
2014+?					28.9		**28.9**	**28.9**

Source: Figure 4.1 and Figure 4.2.

Map 5.19: Norway - low population density areas

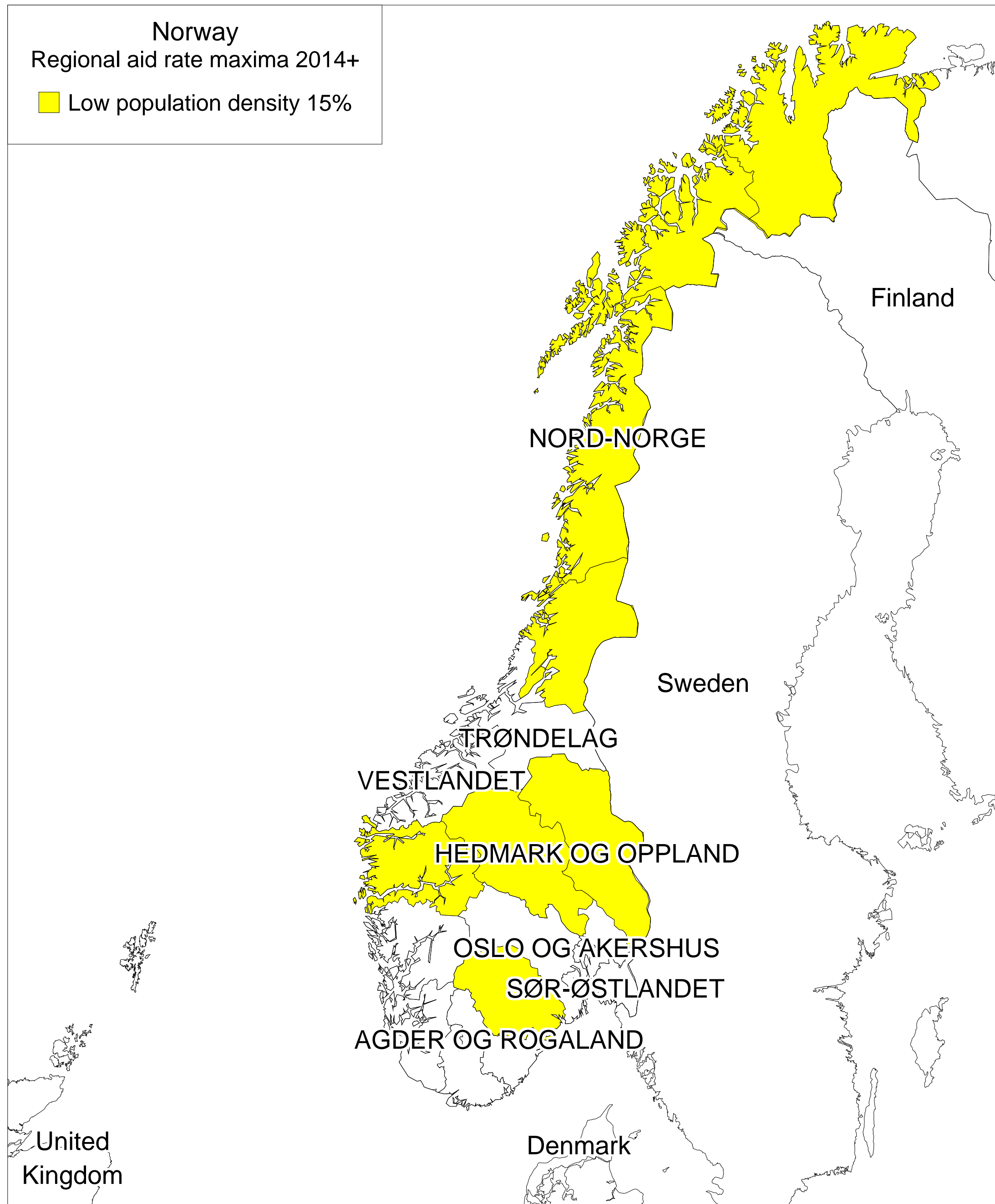


Source: Own calculations from Eurostat data.

Norway would be largely unaffected by a reapplication of the 2007-13 Regional Aid Guidelines post 2014. This owes to the fact that, as in the past, looking forward, population coverage would be entirely generated on the basis on low population density. As for Sweden, the significance of this criterion is that it is absolute (i.e. not affected by EU

averages and therefore enlargement) and that the population generated is not subject to a distribution 'key'. As reflected in Map 5.20, a rate of 15 percent would apply.

Map 5.20: Norway: potential rate maxima 2014+



Source: Own calculations from Eurostat data.

6. ALTERNATIVE POST 2013 SCENARIOS?

The principal focus of this paper has been on the possible impacts of 'rolling forward' the 2007-13 Regional Aid Guidelines, highlighting the impacts on the EoRPA partner countries. The combination of shifting thresholds, lower overall coverage and the use of a safety net means that the effects on individual Member States are highly differentiated; as discussed earlier, some countries lose significant coverage under this scenario, while others gain, in spite of lower EU-wide coverage. Figure 6.1 illustrates these impacts.

Figure 6.1: Overall impact of 'rolling forward' 2007-13 Regional Aid Guidelines

	2007-13	2014+?	% point change	% change
EU27	46.6	42.7	-3.9	-8.3
EU25	43.0	39.1	-3.9	-9.0
EU15	32.4	28.9	-3.5	-10.9
EU10	97.2	93.6	-3.6	-3.8
EU12	98.0	95.4	-2.6	-2.7
BE	25.9	28.1	2.2	8.7
BG	100.0	100.0	0.0	0.0
CZ	88.6	88.4	-0.2	-0.2
DK	8.6	4.9	-3.7	-43.0
DE	29.6	31.1	1.5	5.0
EE	100.0	100.0	0.0	0.0
IE	50.0	25.0	-25.0	-50.0
GR	100.0	59.1	-40.9	-40.9
ES	59.8	42.7	-16.9	-28.4
FR	18.4	19.7	1.3	7.0
IT	34.1	33.1	-1.0	-3.0
CY	50.0	25.0	-25.0	-50.0
LV	100.0	100.0	0.0	0.0
LT	100.0	100.0	0.0	0.0
LU	16.0	8.0	-8.0	-50.0
HU	100.0	76.3	-23.7	-23.7
MT	100.0	100.0	0.0	0.0
NL	7.5	3.8	-3.8	-50.0
AT	22.5	23.0	0.5	2.2
PL	100.0	100.0	0.0	0.0
PT	76.7	77.4	0.7	0.9
RO	100.0	100.0	0.0	0.0
SI	100.0	100.0	0.0	0.0
SK	88.9	88.7	-0.2	-0.2
FI	33.0	27.2	-5.8	-17.6
SE	15.3	12.6	-2.7	-17.5
UK	23.9	20.1	-3.8	-15.7

Source: Own calculations and 2007-2013 Regional Aid Guidelines.

This raises the issues of *viability.* Can a system where the outcome is that certain countries (such as Belgium, Germany, France and Austria) increase their coverage, albeit to a modest degree, while others see a reduction of 20 to 50 percent (including Greece, Spain, Cyprus and Hungary) form the basis for consensus? Taking the 2007-13 Guidelines as the basis for

future policy (an assumption which is obviously open to challenge), there are three *main* variables that could be subject to negotiation:[46]

- Overall coverage – expressed in terms of the initial ceiling (currently 42 percent of EU25 population) or the final outcome (currently 46.6 percent of the EU27 population). In the scenario set out in Section 4, an initial ceiling of 42 percent of EU27 has been applied.

- The statistical effect threshold. Under the 2007-13 Guidelines, this applied to regions excluded from 'a' region status by dint of the statistical effect of enlargement from EU15 to EU25. In the scenario described in Section 4, it has been assumed that it would apply to regions affected by enlargement from EU25 to EU27.

- The safety net. Under the 2007-13 Guidelines, no country could lose more than 50 percent of current coverage. In the scenario described in Section 4, which involves an overall reduction in coverage post-2013 compared with 2007-13, this condition has been applied.

The remainder of this section explores the scope and impact of deviating from a straight reapplication of the existing approach in relation to these three parameters.

6.1 Overall coverage

The target coverage of 42 percent of the EU population has become something of a 'magic number' for regional aid discipline. It was taken as the starting point for EU25 coverage in the 2007-13 Guidelines, with coverage reaching about 43 percent of EU25,[47] after safety net adjustments. This was presented as "similar to the limit fixed on the basis of a Community of 15 members in 1998".[48] The limit set in 1998 for coverage for 2000-6 amounted to 42.7 percent of the EU15 population, which reflected the perceived need to allow for coincidence of national and Structural Funds maps and to restrain coverage in the context of anticipated enlargement to EU25; 42.7 percent had been calculated as the minimum required to enable coincident maps, meaning, in this context, that all Structural Funds areas could be contained within national regional aid maps, if the Member States so desired. Clearly, this justification ceased to have meaning by the end of the 2000-6 period.

It is uncertain just how deeply embedded the 42 percent figure is in Commission thinking. However, it is difficult to imagine that the Commission would countenance an *increase* in overall coverage beyond the present level, given how long and hard it has fought to restrain the extent of regional aid areas. On the other hand, it is plausible to argue that the Commission might be content to remain with coverage of around 46-47 percent for the EU27 and not seek to bring this down further, at least in the short term. This would likely depend, at least in part, on whether further enlargements within the period covered by the

[46] In reality, of course, the number of variables is pretty much unlimited.

[47] Equivalent to 46.6 percent of EU27.

[48] 2007-13 Regional Aid Guidelines, point 13.

next guidelines would result in overall coverage rising significantly beyond that figure; among the current candidate countries, only Turkey would have such an impact. Figure 6.2 illustrates the outcome of this variant, while keeping all other parameters unchanged.

Figure 6.2: What if the method was reapplied and final coverage remained at 46.6%?

	a' Areas	Of which OMR >75%	Stat effect	Econ dev	Sparse pop	Other 'c' areas	Total
EU27	24.9	0.6	1.3	6.3	0.5	13.0	46.6
EU25	20.7	0.6	1.4	6.2	0.6	13.8	43.3
EU15	8.8	0.7	1.5	5.8	0.7	16.1	33.7
EU10	83.8	0.0	0.6	8.2	0.0	1.2	93.9
EU12	86.2	0.0	0.4	8.1	0.0	0.9	95.6
BE	0.0	0.0	12.2	0.0	0.0	23.0	35.2
BG	100.0	0.0	0.0	0.0	0.0	0.0	100.0
CZ	88.4	0.0	0.0	0.0	0.0	0.0	88.4
DK	0.0	0.0	0.0	0.0	0.0	7.1	7.1
DE	0.0	0.0	1.4	11.7	0.0	26.0	39.0
EE	100.0	0.0	0.0	0.0	0.0	0.0	100.0
IE	0.0	0.0	0.0	0.0	0.0	25.0	25.0
GR	42.8	0.0	7.9	5.4	0.2	4.0	60.3
ES	6.9	4.5	0.0	28.2	0.5	3.6	43.8
FR	2.9	0.6	0.0	0.0	0.0	23.3	26.8
IT	29.5	0.0	0.5	0.0	0.0	4.4	34.4
CY	0.0	0.0	0.0	0.0	0.0	25.0	25.0
LV	100.0	0.0	0.0	0.0	0.0	0.0	100.0
LT	100.0	0.0	0.0	0.0	0.0	0.0	100.0
LU	0.0	0.0	0.0	0.0	0.0	8.0	8.0
HU	71.3	0.0	0.0	0.0	0.0	7.2	78.5
MT	0.0	0.0	100.0	0.0	0.0	0.0	100.0
NL	0.0	0.0	0.0	0.0	0.0	5.2	5.2
AT	0.0	0.0	0.0	0.0	0.0	33.1	33.1
PL	86.4	0.0	0.0	13.6	0.0	0.0	100.0
PT	69.6	4.6	0.0	0.0	0.0	4.5	78.7
RO	89.6	0.0	0.0	10.4	0.0	0.0	100.0
SI	53.7	0.0	0.0	46.3	0.0	0.0	100.0
SK	88.7	0.0	0.0	0.0	0.0	0.0	88.7
FI	0.0	0.0	0.0	0.0	18.5	12.6	31.0
SE	0.0	0.0	0.0	0.0	12.6	0.0	12.6
UK	0.0	0.0	4.0	0.0	0.4	22.8	27.1

Source: Own calculations from Eurostat data.

The key point to note about the outcome illustrated in Figure 6.2 is that only the values relating to "Other 'c' areas" (as well as the total, obviously) change. in other words, the net effect of increasing the overall ceiling without changing any of the other parameters is that countries which already had a share of the 'c' area population gain from this scenario; for countries with no share of 'c' areas (the Czech Republic and Slovak Republic) or those wholly or largely reliant on the safety net (Ireland, Cyprus, Luxembourg), there is no change.

6.2 Statistical effect thresholds

For 2007-13, these were regions which would have had 'a' region status were it not for enlargement from EU15 to EU25. In the 2014+ scenario described here, it has been assumed that the statistical effect would apply to regions which would have had 'a' region status were it not for enlargement from EU25 to EU27. However, an important point to note, and this is highlighted in the country profiles, is that a significant proportion of the EU15 population would still have 'a' region status if the *EU15* 75 percent GDP per head threshold were used (rather than the EU25 threshold). Indeed, the population concerned amounts to over six percent of the population. A minority of countries are affected, but in some cases the population covered is significant and may lead to a vocal coalition calling for the maintenance of the existing threshold. Countries affected are shown in Figure 6.3.

Figure 6.3: 'Statistical effect' areas on the basis of EU15 GDP per head threshold

	NUTS 2 Region (ED denotes economic development region in 2014+)	Population (%)
EU27		6.1
Belgium	• Luxembourg • Namur	6.8
Germany	• Mecklenberg-Vorpommern (ED) • Lüneburg • Chemnitz (ED) • Sachsen-Anhalt (ED) • Thüringen (ED)	11.7
Greece	• Kriti (ED)	5.4
Spain	• Castilla-La Mancha (ED) • Andalucía (ED)	22.1
Italy	• Sardegna	2.8
Austria	• Burgenland	3.4
Poland	• Mazowieckie (ED)	13.6
Portugal	• Algarve	4.0
UK	• Tees Valley & Durham • Lincolnshire	3.0

Source: Own calculations from Eurostat data.

The impact of using the EU15 statistical effect is illustrated in Figure 6.4. This shows that, in practice, the consequences of retaining the EU15 threshold would vary from country to country. All other things being equal, countries where the regions concerned are *not* covered by economic development status would gain in terms of total coverage. This is because, if overall coverage remained unchanged at 42 percent and the statistical effect threshold was based on EU15 GDP, then non-earmarked 'c' area coverage would have to be reduced. As a result, only Belgium, Italy, Portugal and the UK among those listed in Figure 6.3 would gain in overall coverage if the threshold changed. The remainder (Germany, Greece, Spain and Austria) would lose or remain unchanged (Poland); the chief benefit would then be the capacity to offer higher rates of award. More generally, a change in the threshold would particularly disadvantage countries with no regions in this category and where coverage is driven by their share of non-earmarked 'c' regions since these countries

would be sharing a reduced quota of 'c' areas; on this basis, Denmark, France and Finland would lose 'c' area coverage were the statistical effect threshold to be raised.

Figure 6.4: What if EU15 statistical effect applies, but initial coverage remains at 42%?

	'a' Areas	Of which OMR >75%	Stat effect	Econ dev	Sparse pop	Other 'c' areas	Total
EU27	24.9	0.6	7.4	1.5	0.5	7.8	42.8
EU25	20.7	0.6	7.9	1.1	0.6	8.3	39.2
EU15	8.8	0.7	7.9	1.1	0.7	9.7	28.9
NMS10	83.8	0.0	7.5	1.3	0.0	0.8	93.5
NMS12	86.2	0.0	5.4	3.1	0.0	0.6	95.3
BE	0.0	0.0	19.0	0.0	0.0	13.6	32.6
BG	100.0	0.0	0.0	0.0	0.0	0.0	100.0
CZ	88.4	0.0	0.0	0.0	0.0	0.0	88.4
DK	0.0	0.0	0.0	0.0	0.0	4.3	4.3
DE	0.0	0.0	13.1	2.0	0.0	15.3	30.5
EE	100.0	0.0	0.0	0.0	0.0	0.0	100.0
IE	0.0	0.0	0.0	0.0	0.0	25.0	25.0
GR	42.8	0.0	13.3	0.0	0.2	2.4	58.7
ES	6.9	4.5	22.1	6.1	0.5	2.1	42.3
FR	2.9	0.6	0.0	0.0	0.0	13.7	17.3
IT	29.5	0.0	3.3	0.0	0.0	2.6	35.4
CY	0.0	0.0	0.0	0.0	0.0	25.0	25.0
LV	100.0	0.0	0.0	0.0	0.0	0.0	100.0
LT	100.0	0.0	0.0	0.0	0.0	0.0	100.0
LU	0.0	0.0	0.0	0.0	0.0	8.0	8.0
HU	71.3	0.0	0.0	0.0	0.0	4.3	75.6
MT	0.0	0.0	100.0	0.0	0.0	0.0	100.0
NL	0.0	0.0	0.0	0.0	0.0	3.8	3.8
AT	0.0	0.0	3.4	0.0	0.0	19.5	22.9
PL	86.4	0.0	13.6	0.0	0.0	0.0	100.0
PT	69.6	4.6	4.0	0.0	0.0	2.7	80.9
RO	89.6	0.0	0.0	10.4	0.0	0.0	100.0
SI	53.7	0.0	0.0	46.3	0.0	0.0	100.0
SK	88.7	0.0	0.0	0.0	0.0	0.0	88.7
FI	0.0	0.0	0.0	0.0	18.5	7.4	25.9
SE	0.0	0.0	0.0	0.0	12.6	0.0	12.6
UK	0.0	0.0	7.0	0.0	0.4	13.4	20.8

Source: Own calculations from Eurostat data.

6.3 Safety net provisions

Under the 2007-13 guidelines the safety net took the form of a maximum 50 percent reduction in coverage compared to 2000-6. This approach has been reapplied in the 2014+ scenario described in Section 4. Four countries: Ireland, Cyprus, Luxembourg and the Netherlands depend on this safety net to secure the coverage given in Figure 4.2. In the case of Luxembourg and Cyprus, neither would have any coverage were it not for the safety net. This owes to the fact that neither has a NUTS 3 breakdown, and therefore no basis for generating a 'share' of the non-earmarked 'c' area quota. For Ireland and the Netherlands, coverage would be 16.1 percent and 3.6 percent, respectively, prior to safety net adjustment. An important point to bear in mind is that all four of these countries were

subject to the safety net under the 2007-13 Guidelines (along with France and Denmark). The overall impact of this successive 'slicing' of coverage is shown in Figure 6.5.

Figure 6.5: Long-term impacts of safety-net based coverage

	2000-6	2007-13	2014+?
Ireland	100.0	50.0	25.0
Cyprus	100.0	50.0	25.0
Luxembourg	32.0	16.0	8.0
Netherlands	15.0	7.5	3.8

Source: Own calculations and Regional Aid Guidelines.

Two main issues arise from this. The first is to question whether it can really be legitimate effectively to halve coverage in certain Member States in successive iterations of the guidelines in order to reduce overall coverage. The second is whether there is a coverage point below which a regional aid map cannot rationally be devised. Interestingly, the 2000-6 Guidelines seemed to imply that this was so, applying a 'floor' of 15 percent of the population as the minimum coverage for any Member State; in the case of the Netherlands, it was this minimum which was halved to 7.5 percent in 2007-13.

Figure 6.6: What if the safety net were 75% and initial coverage remained at 42%?

	a' Areas	Of which OMR >75%	Stat effect	Econ dev	Sparse pop	Other 'c' areas	Total
EU27	24.9	0.6	1.3	6.3	0.5	10.2	43.9
EU25	20.7	0.6	1.4	6.2	0.6	10.9	40.4
EU15	8.8	0.7	1.5	5.8	0.7	12.7	30.3
NMS10	83.8	0.0	0.6	8.2	0.0	1.1	93.7
NMS12	86.2	0.0	0.4	8.1	0.0	0.8	95.5
BE	0.0	0.0	12.2	0.0	0.0	15.9	28.1
BG	100.0	0.0	0.0	0.0	0.0	0.0	100.0
CZ	88.4	0.0	0.0	0.0	0.0	0.0	88.4
DK	0.0	0.0	0.0	0.0	0.0	6.5	6.5
DE	0.0	0.0	1.4	11.7	0.0	18.0	31.1
EE	100.0	0.0	0.0	0.0	0.0	0.0	100.0
IE	0.0	0.0	0.0	0.0	0.0	37.5	37.5
GR	42.8	0.0	7.9	5.4	0.2	18.7	75.0
ES	6.9	4.5	0.0	28.2	0.5	9.1	49.2
FR	2.9	0.6	0.0	0.0	0.0	16.1	19.7
IT	29.5	0.0	0.5	0.0	0.0	3.1	33.1
CY	0.0	0.0	0.0	0.0	0.0	37.5	37.5
LV	100.0	0.0	0.0	0.0	0.0	0.0	100.0
LT	100.0	0.0	0.0	0.0	0.0	0.0	100.0
LU	0.0	0.0	0.0	0.0	0.0	12.0	12.0
HU	71.3	0.0	0.0	0.0	0.0	5.0	76.3
MT	0.0	0.0	100.0	0.0	0.0	0.0	100.0
NL	0.0	0.0	0.0	0.0	0.0	5.6	5.6
AT	0.0	0.0	0.0	0.0	0.0	23.0	23.0
PL	86.4	0.0	0.0	13.6	0.0	0.0	100.0
PT	69.6	4.6	0.0	0.0	0.0	3.1	77.4
RO	89.6	0.0	0.0	10.4	0.0	0.0	100.0
SI	53.7	0.0	0.0	46.3	0.0	0.0	100.0
SK	88.7	0.0	0.0	0.0	0.0	0.0	88.7
FI	0.0	0.0	0.0	0.0	18.5	8.7	27.2
SE	0.0	0.0	0.0	0.0	12.6	0.0	12.6
UK	0.0	0.0	4.0	0.0	0.4	15.8	20.1

Source: Own calculations from Eurostat data.

Figure 6.6 shows the effect of raising the safety net 75 percent, while retaining initial coverage at 42 percent of the EU27 population. Overall, this yields a modest increase in total coverage compared to a straight rolling forward scenario (43.9 percent, as against 42.7 percent). However, it also yields significant increases for several countries, particularly Greece, but also Denmark, Ireland, Spain, Cyprus, Luxembourg and the Netherlands. A key difficulty with the safety net approach is that it has no rational *policy* basis – the decision on a particular figure is a pragmatic and political one.

6.4 Other approaches?

Clearly the number of scenarios which could be devised from the existing parameters is almost limitless. Different combinations of initial and final ceiling, treatment of transitional regions and minimum levels of coverage or maximum size of cuts produce results that benefit or disadvantage countries to greater or lesser degrees. It is unclear to what extent

DG Competition might depart from the existing approach, content to tweak certain thresholds, or whether a different approach might be adopted.

An approach that appears to have gained currency in discussions about the future of Cohesion policy concerns the widening of transitional provisions *beyond* regions affected by the statistical effect of enlargement ('Phasing-out' in Cohesion policy parlance). Applying this approach to regional aid coverage could replace the current provisions of the statistical effect and broaden the scope of economic development areas to include all regions where GDP is less than 90 percent of the EU27 average.

An important point to note about the way in which it has been applied below is that the economic development areas include *all* regions where GDP(PPS) per head is between 75 percent and 90 percent of the EU27 average, irrespective of whether they had 'a' region status in the 2007-13 period; conversely, regions which had 'a' status in 2007-13 but which are now over the 90 percent GDP threshold, have no 'entitlement' to transitional coverage.[49] For the purposes of this scenario, the other parameters remain unchanged – the initial ceiling is at 42 percent of the EU27 population and the safety set remains at 50 percent of previous coverage. The effect of this scenario is illustrated in Figure 6.7.

Overall, this scenario would yield a marginal increase in coverage compared with a straight rolling-forward scenario (42.9 percent as opposed to 42.7 percent). However, the effects on individual countries are very diverse:

- for around half the Member States, there would be no change at all;
- six countries would gain from this scenario – most notably France, but also Belgium, Greece, Spain, Italy and Portugal;
- seven countries would lose – most notably Germany and Austria, but also Denmark, Hungary, Slovenia, Finland and the United Kingdom.

[49] Obviously a further variant would be to include these too.

Figure 6.7: What if all regions with GDP(PPS) <90% of EU27 average were economic development areas and the 42% initial ceiling applied?

	a' Areas	Of which OMR >75%	Stat effect	Econ dev	Sparse pop	Other 'c' areas	Total
EU27	24.9	0.6		13.5	0.4	3.5	42.9
EU25	20.7	0.6		13.8	0.4	3.7	39.3
EU15	8.8	0.7		15.0	0.5	4.3	29.4
NMS10	83.8	0.0		7.5	0.0	0.6	91.9
NMS12	86.2	0.0		7.6	0.0	0.4	94.2
BE	0.0	0.0		28.9	0.0	4.0	32.9
BG	100.0	0.0		0.0	0.0	0.0	100.0
CZ	88.4	0.0		0.0	0.0	0.0	88.4
DK	0.0	0.0		0.0	0.0	4.3	4.3
DE	0.0	0.0		18.1	0.0	7.3	25.4
EE	100.0	0.0		0.0	0.0	0.0	100.0
IE	0.0	0.0		0.0	0.0	25.0	25.0
GR	42.8	0.0		18.3	0.0	0.3	61.5
ES	6.9	4.5		31.3	0.5	1.1	44.4
FR	2.9	0.6		21.5	0.0	4.5	29.5
IT	29.5	0.0		5.6	0.0	0.5	35.6
CY	0.0	0.0		0.0	0.0	25.0	25.0
LV	100.0	0.0		0.0	0.0	0.0	100.0
LT	100.0	0.0		0.0	0.0	0.0	100.0
LU	0.0	0.0		0.0	0.0	8.0	8.0
HU	71.3	0.0		0.0	0.0	2.3	73.6
MT	0.0	0.0		100.0	0.0	0.0	100.0
NL	0.0	0.0		0.0	0.0	3.8	3.8
AT	0.0	0.0		3.4	0.0	9.8	13.1
PL	86.4	0.0		13.6	0.0	0.0	100.0
PT	69.6	4.6		4.0	0.0	1.4	79.7
RO	89.6	0.0		10.4	0.0	0.0	100.0
SI	53.7	0.0		0.0	0.0	0.0	53.7
SK	88.7	0.0		0.0	0.0	0.0	88.7
FI	0.0	0.0		12.5	10.7	3.0	26.2
SE	0.0	0.0		0.0	12.6	0.0	12.6
UK	0.0	0.0		10.8	0.0	6.1	16.9

Source: Own calculations from Eurostat data.

7. DISCUSSION ISSUES

The focus of this paper has been on the future of the regional aid guidelines post-2013. The aim of this final section is to highlight some potential discussion issues in relation to this theme.

A general point to note is that, all other things being equal, a reapplication of the 2007-13 Guidelines post-2014 would use GDP(PPS) data for 2007-9. This overlaps with a spectacularly volatile period for most EU countries, but one in which the extent to which countries were on their way into or out of recession varies widely; the regional impacts on the data for that period can only be guessed at. It seems inevitable that there will be some debate about the appropriateness of the data and its capacity to reflect economic realities. Beyond this, a number of further questions are worth raising.

(i) Is a simple rolling forward of the Guidelines considered viable?

The analysis in this paper suggests that just rolling forward the existing Guidelines will not suffice. It produces results that would be widely perceived as anomalous (relatively prosperous countries gaining coverage at the expense of poorer ones) or arbitrary (successive halving of coverage in countries already subject to the safety net at least once).

This raises the issue of what adjustments could be envisaged to make the outcomes more rational, or at least more palatable. In Section 6 a series of options were outlined. These focused on different elements of the Guidelines: retaining existing coverage (rather than setting an initial ceiling of 42 percent); keeping the statistical effect threshold at the EU15 level rather than moving to EU25; increasing the safety allowance; or, more radically, replacing transitional provisions (statistical effect and economic development) with 'c' area status for all regions with GDP of less than 90 percent of the EU average.

Figure 7.1 summarises the impact of these options. Clearly, each has pros and cons and benefits or disadvantages different Member States to a greater or lesser extent. Which options or combination of options might be viable? What appetite is there within the Commission (or among the Member States) for a more radical approach, beyond that countenanced here?

Figure 7.1: Options and outcomes from adjusting the current approach: summary

	Current coverage	Option 1	Option 2	Option 3	Option 4	Option 5
	% of pop 2007-13	Rolling forward	Final coverage 46.6%	EU15 Stat Effect	75% Safety net	Econ Dev 90% GDP
EU27	46.6	-3.9	0	-3.8	-2.7	-3.7
EU25	43	-3.9	0.3	-3.8	-2.6	-3.7
EU15	32.4	-3.5	1.3	-3.5	-2.1	-3
EU10	97.2	-3.6	-3.3	-3.7	-3.5	-5.3
EU12	98	-2.6	-2.4	-2.7	-2.5	-3.8
BE	25.9	2.2	9.3	6.7	2.2	7
BU	100	0	0	0	0	0
CZ	88.6	-0.2	-0.2	-0.2	-0.2	-0.2
DK	8.6	-3.7	-1.5	-4.3	-2.1	-4.3
DE	29.6	1.5	9.4	0.9	1.5	-4.2
EE	100	0	0	0	0	0
IE	50	-25	-25	-25	-12.5	-25
GR	100	-40.9	-39.7	-41.3	-25	-38.5
ES	59.8	-17.1	-16	-17.5	-10.6	-15.4
FR	18.4	1.3	8.4	-1.1	1.3	11.1
IT	34.1	-1	0.3	1.3	-1	1.5
CY	50	-25	-25	-25	-12.5	-25
LV	100	0	0	0	0	0
LT	100	0	0	0	0	0
LU	16	-8	-8	-8	-4	-8
HU	100	-23.7	-21.5	-24.4	-23.7	-26.4
MT	100	0	0	0	0	0
NL	7.5	-3.7	-2.3	-3.7	-1.9	-3.7
AT	22.5	0.5	10.6	0.4	0.5	-9.4
PL	100	0	0	0	0	0
PT	76.7	0.7	2	4.2	0.7	3
RO	100	0	0	0	0	0
SI	100	0	0	0	0	-46.3
SK	88.9	-0.2	-0.2	-0.2	-0.2	-0.2
FI	33	-5.8	-2	-7.1	-5.8	-6.8
SE	15.3	-2.7	-2.7	-2.7	-2.7	-2.7
UK	23.9	-3.8	3.2	-3.1	-3.8	-7
EEA3	29.4	-0.2	-0.2	-0.2	-0.2	-0.2
IS	37.7	-0.3	-0.3	-0.3	-0.3	-0.3
LI	0	0	0	0	0	0
NO	29.1	-0.2	-0.2	-0.2	-0.2	-0.2

Note: In Options 1, 3, 4 and 5 initial coverage is set at 42 percent;
Source: Figure 6.1, 6.2, 6.4, 6.6 and 6.7

(ii) For many years the aid intensities set by the Commission were relatively uncontroversial and tended not bite often; is this still likely to be so in the future?

Historically, the aid intensities set by the Commission tended to be at levels which did not constrain national policymakers. The last two set of Guidelines have reduced award values across the board both in nominal terms and by setting value in gross rather than net terms. A rolling forward of the guidelines would reduce rate differentials insofar as the vast majority of eligible regions would operate with aid ceilings between 10 percent and 30 percent of eligible expenditure.[50] Nevertheless, award values have been the subject of little debate: they are set quite arbitrarily, principally in relation to levels of GDP; and relatively little is known about what levels of aid or aid differentials are effective. How far do aid intensities already constrain policy, and what approach could/should be taken to setting appropriate rate differentials between the regions?

(iii) How much do national policymakers still really care about the future of their regional aid maps?

A major trend in many EU countries in the last decade or so has been the declining importance of regional aid policies. This raises the question of how important regional aid maps are to national policymakers and, if so, wherein that importance lies. Although in general the profile and expenditure of regional aid have declined, some national policymakers have observed that regional aid has become *more* important as a consequence of the crisis. For others, although national expenditure has fallen, the map remains important for determining the availability and rates of aid to SMEs and/or that offered by subnational authorities. Another perspective is to view the regional maps primarily as a way of regulating competition for mobile investment across Europe; from this point of view, the emphasis is not so much on *domestic* considerations, but rather on exercising some control over the activities of *other Member States.*

(iv) How are countries gearing up to the prospect of negotiating of new guidelines?

The Commission has given little away on its thinking about the future of the guidelines; how are Member States preparing? Reactive mode? Resignation? Preparation?

[50] For large firms; the SME 'bonuses' are on top.