Regional Policy Developments in the Member States: A Comparative Overview of Change

Douglas Yuill
Fiona Wishlade

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United Kingdom

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Abstract

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The paper provides an overview of developments in regional policy in the Member States and Norway in the period from the start of 1999 to the end of September 2000. The period was one of major policy change – in part due to the European Commission's new regional aid guidelines and in part because of the new Structural Fund programming period. Amongst the main general themes identified was a tendency for the policy focus to shift to wealth creation from wealth distribution, a growing stress on areas of development potential, an enhanced emphasis on regional-level inputs, increased pressures for broader policy approaches to be developed and a widespread concern about the limited role of subsidiarity in regional policymaking. Other more specific trends highlighted include: the steadily-reduced stress on investment-related support and growing emphasis on 'softer' measures to improve the business environment; the increased administrative weight given to sub-national inputs, to policy co-ordination and to administrative selectivity; the very significant reductions there have been in most Member States in designated aid area population coverage; and the associated major cutbacks in rate maxima, with growing rate discrimination between eligible areas within countries.

The authors can be contacted at:

European Policies Research Centre
University of Strathclyde
40 George St.
Glasgow G1 1QE
United Kingdom

douglas.yuill@strath.ac.uk
fiona.wishlade@strath.ac.uk

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Regional Policy Developments in the Member States: A Comparative Overview of Change

Douglas Yuill and Fiona Wishlade[1]

1. INTRODUCTION

The purpose of this overview is to review recent developments in regional incentive policy and regional policy more generally across the Member States (and Norway), highlighting the main common themes to emerge. The period under review runs from the start of 1999 to end September 2000 and is clearly a very important one for setting the framework of policy for the medium term. All countries have been revising their designated assisted area maps for both regional aid and Structural Fund purposes. Most have also been reviewing their general approach to regional development, part of the process of reconsidering their current regional aid policies and the role of the Structural Funds in regional development.

There are two main reasons for the scale and intensity of the recent review process across the Member States. First, new State aid guidelines have radically altered the regulatory framework for national regional policy.[2] At their core, the new guidelines stipulated population ceilings for the designated aid areas within each Member State; provided a framework to be followed by the Member States in proposing areas for designation within the ceilings set; and laid down maximum rates of award for different categories of aid area.[3] In addition, they introduced two significant changes regarding the treatment of eligible expenditure: allowing for support for certain categories of intangible investment up to 25 percent of the so-called "standard base" for large firms;[4] and giving Member States the scope to offer aid in the form of a wage subsidy calculated over a two-year period. Combined with the fact that the new guidelines stipulated that the regional incentive systems then in force would all finish at the end of 1999 and would not be replaced until revised maps and incentive regimes were agreed with the EC competition policy authorities, they represented a strong catalyst for intensive policy review and revision.

A second impetus for policy review within the Member States has been the adoption and subsequent implementation of the Structural Funds Regulation for the 2000-06 period.[5] The impact of the new Regulation on national regional policy is self-evident in those Member States with considerable Objective 1 coverage (eg. Greece, Portugal, Spain); indeed, in such countries, the weight attached to the Structural Funds is such

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[1] European Policies Research Centre (EPRC), University of Strathclyde, Glasgow. This overview is based on country reviews produced by the following EPRC researchers: Ruth Downes (Austria and Sweden), François Josserand (Belgium and Luxembourg), Rona Michie (Finland), Fiona Wishlade (France, Portugal and Spain), Mary Louise Rooney (Germany), Rona Fitzgerald (Ireland), Laura Polverari (Italy), Douglas Yuill (the Netherlands), Philip Raines (Norway and the United Kingdom); as well as Henrik Halkier, Aalborg University (Denmark) and Dionyssios Tsoukalas, Athens Graduate School of Economics and Business Science (Greece). The authors gratefully acknowledge their contributions.

[2] OJEC C74; 10 March 1998

[3] For a discussion, see Wishlade, F. G. (1998) 'Competition Policy or Cohesion Policy by the Back Door? The Commission Guidelines on National Regional Aid' *European Competition Law Review* No. 6, July.

[4] The standard base comprises land, plant and buildings, the proportion assigned to each varying by country.

[5] Council Regulation (EC) No. 1260/1999 of 21 June 1999, OJEC L161; 26 June 1999.

that it is often difficult to distinguish national and EU regional policy. In addition, in many other countries, co-financing obligations under the Structural Funds mean that EU award criteria have a direct impact on what can be offered through national regional policy and, indeed, on the form of national regional policy. Moreover, the institutional framework which has developed in the context of the Structural Funds – with its focus on regional-level programmes, on a partnership approach to policy development and delivery and on the monitoring and evaluation of policy – has also had a growing bearing on the administration and implementation of national regional development efforts.

Taken together, these EU-level activities – the one controlling and coercive, the other facilitating yet, through co-financing, also constraining – have set the policy agenda for national policymakers over the past year or so. Member States have been charged with developing new regional aid maps (and, related, revised regional incentive regimes) in line with the Commission's regional aid guidelines and have also had to develop new programmes, measures and management systems in the context of the Structural Funds, including the negotiation of new Structural Fund maps. Viewed in tandem, the new regional aid guidelines and the Structural Funds Regulation have ensured that virtually every aspect of Member State regional policy has been subject to review – a process which has been heightened by the increasing alignment of policy phasing for national regional policy purposes with the programming period adopted by the Structural Funds (2000-06).[6]

On the other hand, it would be wrong to draw the conclusion that recent policy developments have been solely EU-driven. In reviewing national regional policy, there has been a whole range of (non-EU-related) factors which have impacted on the policy proposals which have emerged. As we shall see, these include the need to respond appropriately to globalisation pressures and the perceived increasing importance of the knowledge economy (with its implications for networking and cooperation); the pressure to concentrate limited resources on areas where they are likely to have most impact, leading to a growing emphasis on locations with development potential; the desirability of building development efforts around regional inputs and energies, ensuring that regional dynamics work to the benefit of the national economy; the enhanced stress attached to policy coordination both at the regional level and more generally, attempting to relate narrow regional policy measures more closely with broader policy initiatives which have regional impacts; and the growing requirement in a number of countries to set new policy proposals in the context of their potential impact on sustainable development.

While the last year or so has been a period of major policy review, the outcome of the review process is still unfolding. As can be seen from Table 1.1, most of the map approvals were not received until well into 2000. Indeed, regional aid areas in only four countries had been dealt with by the end of 1999 (Finland, Ireland, Denmark and Greece); a further four were approved in March and April 2000 (France, Germany,

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[6] In this context it is of note that the Dutch policy review process, which has traditionally been on a four or five-year cycle has been amended to cover the 2000-06 period. French regional planning periods have also been aligned with the Structural Funds while the National Development Plan in Ireland adopts the same time horizon. On the other hand, the Commission has taken the German authorities to task for limiting the new assisted areas (GA) map to the period 2000-03 and thus maintaining their four-yearly policy review process.

Sweden and Spain); five more were processed between the end of May and the end of July (Austria, Portugal, the Netherlands, Luxembourg and the United Kingdom); and those for Italy and Belgium were not completed until September 2000. Related, only a few of the revised regional aid schemes passed through the review system in the first nine months of the year, with the result that details of how they will be implemented in practice are not yet available.[7]

Table 1.1: Map and Scheme Approvals

Country	Map Approved	Scheme Approved	Comment
Austria	30 May 2000	Yes	New *Richtlinien* came into force on 5 June 2000
Belgium	20 Sep 2000		
Denmark	15 Dec 1999	11 Apr 2000	No regional incentives
Finland	26 Oct 1999		New aid legislation still to receive EC and parliamentary approval
France	01 Mar 2000		New PAT *décret* not yet approved
Germany	14 Mar 2000	28th *Rahmenplan* (1999-02) not approved until May 2000	29th *Rahmenplan* (2000-03) still awaiting approval
Greece	22 Dec 1999		
Ireland	26 Oct 1999		Still in discussions with the EC regarding the aid package
Italy	01 Mar 2000 for 87(3)(a). 20 Sep 2000 for 87(3)(c)	12 Jul 2000	
Luxembourg	19 Jul 2000	19 Jul 2000	
Netherlands	12 Jul 2000		New IPR regulation to be approved
Portugal	28 Jun 2000		
Spain	11 Apr 2000		
Sweden	29 Mar 2000	3 May 2000	RDG approved 2000-04
United Kingdom	26 Jul 2000		New RSA scheme to be approved

Note: This table reflects the position as at end September 2000.

Given this, the focus in this overview is not only on changes which have already been enacted but also on the broad thrust of the new policy developments which are in train. The overview is in seven further sections:

[7] It is not straightforward to monitor the approval of regional aid schemes by the Commission. It may be that a number of schemes have been approved where this is not registered in the table. On the other hand, new regional incentive regimes are dependent on both map and scheme approval. It is clear from the map approvals that there have been considerable delays in implementing the new regional aid schemes; only a handful were in operation prior to May 2000.

- changes in the legislative basis of policy and in the main directions of policy (Section 2);

- changes in regional policy instruments and, in particular, in the composition of regional incentive packages (Section 3);

- administrative developments (Section 4);

- changes to the regional aid area maps (Section 5);

- other changes affecting key eligibility criteria, including eligible sectors, project types and size groups (Section 6);

- changes in award ceilings and in the overall value of awards (Section 7); and,

- a final section which draws together some concluding points (Section 8).

2. THE LEGISLATIVE BASIS OF POLICY

In considering legislative change, it is worth drawing a distinction between those cases where new guidelines or regulations or implementing laws have been introduced or are planned which make *detailed* changes to individual regional aid schemes; and those where a *broader* policy review has been undertaken, perhaps in the form of a White Paper or a policy memorandum or a framework law or even, in those countries with major Objective 1 areas, the development of new Community Support Frameworks for the 2000-06 programming period. The position in the Member States and Norway is set out in Table 2.1 below.

As far as detailed legislative changes are concerned, it can be seen that most countries have revised their implementation legislation for the regional aid schemes on offer – though, in many cases, final approval of the changes has still to be given by the Commission and/or the Member State parliament. While, as we shall see in later sections, the new regional aid guidelines have had a major impact on the changes introduced, in four Member States the detailed changes in Table 2.1 pre-date the new guidelines: Belgium, Greece, Ireland and Sweden.

Table 2.1: Recent Legislative Change and Broader Policy Reviews

Country	Detailed Incentive Legislation	Broader Policy Review/Change
Austria	New *Richtlinien* 2000-06	
Belgium	Update of implementation of 1970 Expansion Law in Flanders, November 1998	Update of implementation of 1978 Expansion Law (for SMEs) in Wallonia, June 1999
Denmark		White Paper on regional policy due early 2001
Finland	Aid to Business law in process of being approved	Act on the National Administration of SF Programmes, 1999
France	PAT changes being introduced via a *décret*	Regional Framework Law (LOADDT) of June 1999
Germany	Annual *Rahmenplan* subject to EC approval	
Greece	Regional incentive law 1998	Development of SF programmes 2000-06
Ireland	Finance Act 1999 (corporation tax changes); aid package awaiting EC approval	1999 National Development Plan; Development of SF programmes 2000-06
Italy	Implementation decrees for Law 488 for 2000-06	Objective 1 Plan for the *Mezzogiorno*
Luxembourg	New law for incentives and aid areas 2000-06	
Netherlands	IPR legislation awaiting EC approval	Memorandum on Spatial Economic Policy for 2000-06
Portugal	Legal basis for SIME, SIPIE to be introduced under 2000-06 Structural Funds programme	Development of SF programmes 2000-06
Spain		Development of SF programmes 2000-06
Sweden	Law on Regional Growth for Employment and Welfare (1997/98:62)	Parliamentary Committee to review policy (August 2000); new law expected 2001
United Kingdom	New RSA guidelines in preparation	RSA evaluation and review; Also laws relating to devolved policymaking etc. 1999: Northern Ireland Strategy 2010
Norway		White Paper in preparation for 2001

In ***Belgium***, the legal basis for regional policy is provided for under national legislation, the 1970 Economic Expansion Law, but the Walloon and Flanders governments are responsible for the implementation of policy. Within the framework of the 1970 Law, the two regional governments have passed appropriate secondary legislation to establish the main lines and conditions of policy within their jurisdictions. An update to this legislation came into effect in Flanders on 1 November 1998. While it did not make any major changes to the orientation of policy or to the main policy instruments, it did introduce a number of amendments. In particular, support for environmental projects was made more selective, the conditions under which leased equipment could be aided were eased and it became possible to assist takeover projects via additional employment subsidies as long as at least 50 percent of employment was maintained. No similar amendments were introduced in Wallonia. However, with effect from 1 June 1999, the national SME framework legislation (the 1978 Economic Reorientation Law) was updated in Wallonia. Although SME aid is available throughout Wallonia, rates of award discriminate in favour of the designated Development Zones.

Change in ***Greece*** was more extensive. The 1998 regional incentive law is a highly complex measure. While the composition of the regional incentive package has changed (see Section 3) and there has been a shift in the balance between the fiscal and financial components of the package, the law is most notable for continuing the trend in Greek regional policymaking towards increasing the scope for ministerial discretion regarding eligibility criteria, especially in respect of large and interesting projects. Related, the ability to offer support in the most prosperous parts of Greece - Region A (centred on Athens and Thessaloniki) - has been further enhanced with respect to very large firms, new technologies etc. This reflects the ongoing policy dilemma in the poorer Member States between supporting *regional* development and providing more general assistance for internationally-competitive businesses.

In ***Ireland***, the detailed legislative changes recorded in Table 2.1 are more specific. The 1999 Finance Act has initiated the process of phasing out the preferential 10 percent rate of corporation tax for manufacturing and certain internationally traded services and phasing in a general 12.5 percent rate of corporation tax from 1 January 2003. This will require a reduction in the standard rate of corporation tax in the interim of 4 percent per year. The change followed on from an agreement with the EC competition policy authorities in July 1998 and reflected Commission concerns about the conformity of the previous system with the State aid rules. While the 10 percent preferential rate of tax did not have a specific regional orientation, it has long been viewed as an important factor in the attraction of inward investment to the Republic.

In ***Sweden***, a new Regional Policy Bill, ‘Regional Growth for Employment and Welfare’ (1997/98:62), passed through Parliament in 1998. The most significant change involved the introduction of ‘regional growth agreements’ on the Structural Fund model from the year 2000. The aim of such agreements is to encourage local collaboration in the development of regional strategies and to improve the coordination of state resources at the local level; their introduction also reflects the desire for a more decentralised policy approach and for regional policy in its wider sense to become more growth-oriented and less concerned with alleviating regional disparities. Also as part of the new legislation, significant changes were made to the regional incentive package: from August 1998, companies in receipt of the Employment Grant no longer qualified for Regional Development Grant support; from January 1999, changes were made to the sectoral coverage of the Social Security Concession; also from January 1999, broadly-commercial Regional Development Loans were abolished; in addition, substantial changes were proposed to the Transport Grant. Further changes to the regional incentives on offer were introduced in Spring 2000 in line with the new regional aid guidelines (see Section 3). In addition, a Parliamentary Committee has been set up to review past policy impacts and future regional development trends. It was due to report at the end of August 2000. This may lead to further legislation in Spring 2001.

From Table 2.1 it can be seen that similar wide-ranging policy reviews are planned for both Denmark and Norway in 2001 as part of their normal policy review cycle. Significant reviews have also taken place in France (in the context of developing a new Regional Framework Law which passed through Parliament in June 1999), the Netherlands (with the production of a Memorandum on Spatial Economic Policy for 2000-06) and the United Kingdom (with a review of the main regional incentive in Britain, Regional Selective Assistance (RSA), and the development of a new economic development strategy for Northern Ireland). These are now considered briefly in turn.

In ***France***, a new Framework Law for Sustainable Regional Development (*Loi d'orientation pour l'aménagement et le développement durable du territoire*, LOADDT) was adopted on 16 June 1999 after lengthy parliamentary procedures and committee debates. The new law replaced a 1995 Framework Law which had suffered from its framework nature; few of the required implementation measures actually reached the statute book. The development of the new framework was guided by three main principles:

- the need to develop a more pluralistic approach to policymaking, involving less centralisation and new means of coordinating the views and actions of the public and private sectors

- the need to incorporate 'respect for the environment' within regional development activities

- and the need to base policy initiatives around relevant geographic areas, with particular emphasis on the *pays*[8] and with a growing role for agglomerations in supporting national competitiveness.

Like its predecessor, the new law requires implementing legislation or directives to be passed in order to bring it into effect. The aim is to adopt a timeframe that will enable the provisions of the LOADDT to be coordinated with the new State-region planning contracts which have been developed and with the next programming period for the Structural Funds, both of which run over the 2000-06 period.

In ***the Netherlands***, a key task of the new Policy Memorandum for 2000-06[9] was to provide an appropriate response to developing international challenges and, in particular, to ensure an extremely positive business location climate in the Netherlands. The emphasis on competitive business locations reflected a number of factors:

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[8] The term has no equivalent in English. It translates as country or land, but refers to areas that are in some sense "natural" and identified by their commonalities rather than by rigid administrative boundaries.

[9] Ministerie van Economische Zaken (2000), *Nota Ruimtelijk Economische Beleid: Dynamiek in netwerken* (Ministry of Economic Affairs, *White Paper on Spatial Economic Policy in the Netherlands: Dynamics in networks*), The Hague.

- the growth in the global network economy in response to the increasing internationalisation of the marketplace and very rapid technological change

- recognition that the growth in the network economy demands not only effective competition (via information and communication technologies) but also considerable diversity at the regional level to meet the varied needs of firms

- acceptance of the importance of the regional level in responding to the challenge; according to the Memorandum, it is in the regions that "all the threads of policy meet…. (and) can best be knotted together".[10]

The Memorandum focused on three main principles – *flexibility* (with a view to enhancing the ability to cope with what will inevitably be an uncertain future); *tailor-made solutions* (allowing the strengths of particular regions to be matched with the spatial preferences of firms); and *coherence* (ensuring that all the many elements of a successful location policy can be brought together at the point of delivery, the region). In addition, it emphasised two core policy strands:

- strengthening the spatial economic network; and
- optimising the utilisation of the economic potentials of regions.

The first strand involves: ensuring that there is *sufficient space* for new economic growth; supporting initiatives which result in a *varied supply* of business locations; strengthening and enlarging the main *transport hubs*; and *improving access*, not only in a transport sense but also electronically. The second strand focuses on the regions and on how the Ministry of Economic Affairs can enhance the provision of competitive business environments by improving levels of *regional cooperation* – not only within the public domain but also between the public and private sectors. In addition, two more specific regional challenges were highlighted – the need to strengthen *urban economies*; and the need to reinforce the *economic structure in the north* via the Spatial-Economic Development Programme for the Northern Netherlands (now known as the *Kompas voor het Noorden*) and the Investment Premium.[11]

In the ***United Kingdom***, the Government published its Competitiveness White Paper, *Our Competitive Future: Building the Knowledge Driven Economy* in December 1998.[12] One of its key regional policy statements was the commitment to review Regional Selective Assistance (RSA) so that it could 'focus support more on high-quality, knowledge-based projects which provide skilled jobs'. An evaluation of the scheme underlined the value-for-money of RSA, but also drew attention to the need to focus on 'quality' jobs. The relevant Government Minister (the Secretary of State for Trade and Industry) has also taken up this theme, arguing that 'cash handouts are not the solution' and that there is 'no future in the old model of industrial sponsorship',

[10] Ministry of Economic Affairs (2000), *White Paper on Spatial Economic Policy in the Netherlands: Dynamics in Networks – Summary*, page 10.

[11] It is interesting that the Memorandum saw such support for the north as 'the last remaining component of classical regional policy' (Ministry of Economic Affairs (2000), *White Paper on Spatial Economic Policy in the Netherlands: Dynamics in Networks – Summary*, page 13).

[12] Cm 4176, December 1998, London, The Stationery Office.

and suggesting that future regional aid will be more clearly linked to higher productivity and higher value-added employment. In the event, wider-ranging changes to RSA have still to be announced, though specific regional grants for high-growth SMEs have been introduced in both England and Scotland, leaving the RSA focus on larger firms/projects.

Also in the UK context, it is of note that there has been major constitutional legislation which, in the course of 1999, saw the establishment of a Scottish Parliament and Welsh Assembly with significant powers of economic development; the setting up of a series of Regional Development Agencies (RDAs) in England; special arrangements for London, including the creation in April 2000 of a London-wide RDA and a new Greater London Authority (with a directly-elected mayor); and the creation of a new Assembly in Northern Ireland with full legislative and executive authority over all policy areas previously associated with the Northern Ireland Office.[13] The creation of so many new institutions has focused attention on potential policy conflicts and has led to the development of memoranda of understanding and 'concordats' to ensure coordinated policy approaches (for instance, regulating competition between regions for inward investment).

More generally, many countries have been involved in extensive policy reviews in the context of developing new Structural Fund programmes for the 2000-06 period. Such programmes are particularly influential in Member States with major Objective 1 regions – Greece, Portugal, Spain, Ireland. The reverse side of the coin is that, even now, some countries are beginning to ponder how policy might develop after 2006 when many of the current Structural Fund areas seem unlikely to retain eligibility. Such thoughts seem bound to increase in prominence as the current programming period progresses.

The policy reviews which have taken place in recent years have highlighted a number of general themes which apply across a range of countries. Five of the most significant are discussed briefly below.

First, the appropriate balance between wealth creation and distribution, between policy equity and policy efficiency, remains an important concern. Thus, for instance, in France, the policy review process has stressed the significance of *wealth creation* at the local level as opposed to the *redistribution* of national resources. The focus is on projects that exploit resources rather than compensate handicaps. In Sweden too, the new regional growth agreements reflect a desire that regional policy becomes more growth-oriented and less concerned with alleviating regional disparities. In similar vein, the Austrian emphasis on technological and innovation-related developments has raised questions about the appropriateness of limiting such initiatives to (increasingly) narrowly-targeted problem regions. In addition, more generally, there has been an increasing emphasis on regional competitiveness, creating an environment in which all regions can contribute to national development. On the other hand, two reactions against this trend are worth mentioning: the feeling in the north of the Netherlands that the area was being treated unfairly given major infrastructure

[13] It is also of note that a year-long strategic review in the Province saw the publication of Strategy 2010 in 1999. This is intended to be a discussion document for the newly-devolved Assembly and Executive and, thereafter, should provide a framework for the future economic development strategy of the Province.

developments elsewhere in the country; and the strong political reaction in the west of Denmark in the face of heavy investment in infrastructure in and around Copenhagen. The former led to an agreement between the Dutch Cabinet and the northern provinces about future funding allocations to the north, while the latter seems likely to be addressed in the 2001 Danish White Paper. The tension between equity and efficiency arguments is particularly acute in the less prosperous Member States. In this context, the fact that both the Dublin and Lisbon regions were downgraded to Article 87(3)(c) status from the start of 2000 - with associated (and immediate)[14] reductions in aid maxima compared to the remaining Article 87(3)(a) areas - has ensured that the issue remains a central concern in both Ireland and Portugal.

Second, and also tied in with the spatial focus of policy, there has been an increasing emphasis on the role of urban centres/agglomerations as 'motors' of development - perhaps, in part, related to the area designation constraints imposed by the regional aid guidelines and, in particular, the need to concentrate the available aid area population quota on those centres where it is likely to have most impact. In Finland, the traditional focus on rural areas and on the prevention of out-migration has been reduced; the key policy objective now is to maintain population/development in the main urban centres in each region - a focus on regional growth poles. In the Netherlands, too, the Ministry of Economic Affairs has been keen to increase the *economic* component of decisions taken in the sphere of spatial development policies and, to this end, has argued for development to be concentrated on ‘special growth points’. In similar vein, in Ireland there has been a move away from Dublin as the sole axis of development, with the 1999 National Development Plan identifying the need for ‘regional gateways’ to help address the uneven development of the country. The role of agglomerations in economic development is also being stressed in Austria - in particular, the importance of links between urban centres and their hinterlands. However, it is perhaps in France that most emphasis has been placed on this issue. The wish has been to base regional development around geographic areas relevant to the initiative in question and, as part of this strategy, to support agglomerations; increasingly, they are seen as playing a key role in promoting national competitiveness and the development of surrounding rural areas.

Third, in the policy debates which have taken place, the relative roles of the central and regional levels in economic development have been a keen subject of discussion. In France, the point has been made that regional policy should not be imposed by central government; instead, it should emerge from a "bottom-up" process involving local actors, coupled with a "top down" approach that integrates, provides balance and assures equity. In Italy, too, the view is that there should be an increased emphasis on the regional level, partly because of the 1997 Bassanini Law which aimed to reform Italian public administration by reserving only certain functions to the central administration and transferring the remainder to regional and local government, but also because of the perceived success of a number of regional-level economic development ‘agreements’. In Sweden as well, new regional growth agreements reflect a more decentralised approach to regional policymaking and, at the same time, a more coordinated policy, both within the regions and between the regions and the

[14] As discussed in Section 7, a particular feature of the new aid ceilings arising out of the regional aid guidelines is that they are being applied with immediate effect in Dublin and Lisbon while being phased in over time in other former Article 87(3)(a) areas.

centre. The need to enhance regional coordination was stressed, too, in the Dutch Spatial Policy Memorandum which also emphasised the importance of the region in achieving an integrated approach to economic development. Finally, in Denmark, there has been a broad consensus about moving towards more decentralisation of responsibility for economic development activities whilst maintaining overall central government control of policy development.

Fourth, and related, in a number of countries there have been discussions about the appropriate scope of regional policy and about the degree to which it should concentrate on narrow regional economic development initiatives or should take a broader view, aiming to influence wider government spending in the regions. This has been a common area of debate in the Nordic countries where both narrow and broad regional policy have traditionally played a role. In recent years, broader policy efforts have been receiving more stress. In Sweden, this is encapsulated in the new regional growth agreements which represent a significant shift towards more regionalised and coordinated structures. In Norway, there has been a keen debate relating to the regionalised delivery of government policy and, in particular, to the role of the *fylke* (county/regional level) in the system. In Denmark, a renewed interest in regional issues has had no significant impact on narrow policy measures but has led to a monitoring of the regional/spatial consequences of general government spending. The spatial distribution of government spending has also been a growing theme in the United Kingdom in the wake of recent devolution legislation; and has also been to the fore in Germany where the fiscal equalisation mechanism is currently the subject of some debate. In this context, it is of note that, at the time of the last major review of the German GA system in 1994/95, the decision was taken that the GA should continue as a specialised instrument for regional economic assistance. The view at the time was that the extension of the GA into an all-inclusive instrument (and there were pressures to move in this direction, not least from the perspective of Structural Fund co-financing) could lead to political and administrative overload and was likely to create conflicts with other policy areas whilst also undermining the benefits which arise from policy specialisation.

A final general area of debate has concerned the extent to which regional policy should be "Europeanised". This has been an explicit objective of policymaking in countries like Sweden and Finland and is already a *fait accompli* in the Cohesion countries. However, in a number of other countries, European influence is viewed less positively and is often seen as a significant constraint on national policymakers. This has led to some calls - in Austria, for instance - for regional policy to be 're-nationalised'. The combined limitations imposed by EC State aid controls and the co-financing requirements of the Structural Funds have also caused German policymakers to question the degree to which it is possible to operate an independent *national* regional policy. Accordingly, they have set themselves the future goal of achieving the more active application of the subsidiarity principle in the regional policy arena.

3. REGIONAL POLICY INSTRUMENTS

A summary overview of the changes which have been made to the composition of the regional incentive packages found in the Member States and Norway over the 1998-2000 period is set out in Table 3.1 below. The table distinguishes between new incentives which have been introduced and previously-available incentives which have been withdrawn.

Perhaps the key point to arise from the table is the significant degree to which competition policy pressures have lain behind the changes recorded. As already mentioned, the phased withdrawal of the preferential rate of corporation tax in Ireland and its replacement by a low general rate of tax from 2003 reflected Commission concerns about the conformity of the preferential rate system with the State aid rules. The suspension of the social security concession in Sweden was also a consequence of competition policy concerns, as reflected in the opening of a formal procedure by the Commission against the scheme on 1 March 2000. This followed long-running discussions between the Swedish authorities and the Commission; in the view of the Commission the concession took the form of an operating aid and must therefore either be withdrawn or be transformed into a transport concession. The Swedish authorities do not seem inclined to follow this line; it seems more likely that the social security concession budget will be re-directed towards support for IT development in the northern and sparsely-populated areas. Since this would take the form of infrastructure support it would fall outside the State aid rules whilst having an impact which is likely to be at least as beneficial to firms in remoter areas. Developments in Norway reflect similar pressures. The Norwegian social security concession has been converted into a transport subsidy, following the defeat of the Norwegian government's long legal challenge to ESA[15] on the issue. In practice, the vast majority of businesses in Norway are unlikely to have been affected by the changes: only companies in EU-sensitive sectors (eg. shipbuilding) have lost the concession.

[15] The EFTA Surveillance Authority, which plays a similar competition policy role to DG Competition in respect of State aid in Norway.

Table 3.1: Changes to the Composition of Regional Aid Packages (1998-2000)

Country	New Incentives	Incentive Type	Withdrawn Incentives	Incentive Type
Austria	Regional impulse support- national; RIP: Wage subsidy for production services	Training etc Labour aid	Regional infrastructure support - regional	Infrastructure
Belgium				
Denmark				
Finland				
France				
Germany	Wage subsidy for quality jobs	Labour aid		
Greece	Leasing subsidy	Grant	Increased depreciation allowance	Fiscal
Ireland			Preferential rate of corporation tax (phased withdrawal)	Fiscal
Italy				
Luxembourg				
Netherlands	Provincial investment programmes tendering scheme-TIPP; SME support for Overig Groningen	Programme aid-competitive tender Regional SME grant	Space for economic activity stimulation scheme-StiREA	Infrastructure-competitive tender
Portugal	SIME, SIPIE	Grants and loans	SIR, RIME, PEDIP	Grants and loans
Spain				
Sweden	Regional growth agreement	Programme aid	Regional development loan; Social security concession suspended	Loan Labour aid
United Kingdom	Enterprise grants (England), Invest for growth (Scotland)	Regional SME grants		
Norway	Transport aid	Transport aid	Social security concession	Labour aid

But the influence of the competition policy authorities is not restricted to forcing the withdrawal of forms of support considered to be incompatible with the common market. Competition policy issues lie behind many of the new regional incentives highlighted in Table 3.1. Thus, for instance, the new wage subsidies in Austria and Germany take advantage of the extension of support possibilities related to wage costs in the new regional aid guidelines. Interestingly, neither scheme is universally available. In Austria the focus is on production service industries (eg. firms in the new media sector, software companies, engineering offices, value added services such as call centres, private research firms etc). Such firms are often heavily labour-intensive and many work from rented accommodation. They, therefore, had only limited support options under the previous aid regime which related the rate of award primarily to fixed investment. In contrast, it is now possible for new firms and company re-locations in the production service sector to receive an employment bonus, over a maximum two-year period, linked to the creation of new high quality jobs. In similar vein, in Germany aid may now be provided as a percentage of the gross wage bill over a two-year period in respect of new job creation linked to an investment project. The new German scheme aims to be ‘quality driven’ in that:

- the majority of the new jobs created should require an above-average level of qualification
- the jobs should involve an especially high level of value added
- and they should be created in areas with especially high innovation potential.

Only net newly-created jobs are to be taken into account - that is, after subtracting any job losses; moreover, the new jobs must remain in place for at least five years. Similar developments are also under consideration in other countries. For instance, with a view to generating ‘quality’ jobs, consideration is being given under the British Regional Selective Assistance scheme to supporting certain types of wage expenditure associated with RTD projects.

The new regional aid guidelines also provide (part of) the explanation for the new regional grants for SMEs which have been introduced in parts of the Netherlands and the United Kingdom (see Table 3.1). In both countries, the constraints imposed by the guidelines have seen the introduction of regional SME support as a way of mitigating their impact. Thus, in the Netherlands, faced with a situation where the Commission insisted that the aid ceiling for Overig Groningen should not exceed 10 percent (since the region has above average GDP per head and below average unemployment) but where the Dutch authorities view this as the result simply of a statistical anomaly, a new regulation has been introduced for SMEs in the area (under the *de minimis* rule) which will allow a ceiling of 20 percent gross to be reached for SMEs. In Britain, the major assisted area cutbacks demanded by the reduced population coverage allocated under the guidelines were softened, to a degree, by creating a third tier of assistance (outside those areas covered by Articles 87(3)(a) and (c)) where specific SME support was made available (in the form of Enterprise Grants). On the other hand, it should be noted that SME aid in so-called Tier 3 need not have been restricted to assisted areas but could have been offered nationwide. These developments are interesting as examples of how policy develops to try to ensure that national objectives continue to be met in the face of regulatory constraints. Another example in the table is the replacement of regionally-oriented Regional Infrastructure Support in Austria with nationally-available Regional Impulse Support. One factor encouraging the nationwide availability of the scheme has been the increasingly limited coverage of the assisted areas in Austria which is considered too restricting for the effective implementation of such support. More generally, there has been a tendency for countries to move away from direct aid and towards indirect measures which improve the framework for business development in the problem regions. There have been a number of such instances in recent years. One which has been already mentioned is the likely replacement of the social security concession in the north of Sweden with infrastructure support for IT developments.

Of course, not all of the changes in Table 3.1 are driven by the new regional aid guidelines. In a number of instances, they can be attributed more to developments in the domestic environment. For example, the replacement of the StiREA by the TIPP in the Netherlands followed an evaluation of the former scheme and the conclusion that it was now desirable to encourage the development of *broad economic programmes* for industrial areas in contrast to the narrow industrial estate focus of the StiREA. In Sweden, the introduction of regional growth agreements (another programme-based measure) reflected the emergence of a stronger regionalised industrial policy whilst also being influenced by the implementation of the EU Structural Funds. In Greece, the change recorded in the table is relatively minor. An Increased Depreciation Allowance was abolished and a leasing-related subsidy introduced; however, this addition to the package may be less significant than at first appears since leasing was anyway eligible under most elements of the previous law. Finally in Portugal, the introduction of the SIME (Incentive Scheme for Business Modernisation) and the SIPIE (Incentive Scheme for Small Entrepreneurial Initiatives) on less generous terms than the schemes they replace (see Section 7) reflects both the new Structural Fund programming period and domestic concerns about subsidy dependency. The previous Regional Incentive System (the SIR) was suspended in April 1998 by which time funding under the 1994-99 Structural Fund programme had been exhausted.

Taken together, the changes highlighted in Table 3.1 confirm a number of broader trends identified in past reviews of regional incentive developments[16]:

- moves away from fiscal aid and towards financial incentives (and grants in particular)
- the withdrawal of social security concessions in response to competition policy pressures
- a reduced stress on investment-related support and an increasing emphasis on 'softer' measures to improve the business environment (including programme-based support)
- an increasing tendency for support to be offered on a competitive basis up to a specified budget

In contrast to these longer-term developments, the introduction of wage subsidies in accordance with the new regional aid guidelines and the moves which have been made to establish distinct regional grants for SMEs are new innovations. Only time will tell if they are to become of longer-term significance.

[16] Yuill D, Bachtler J and Wishlade F (editors) (1999) *European Regional Incentives 1999, 18th Edition,* Bowker-Saur, London.

Taking a longer-term perspective, Member States' regional policies have traditionally comprised a range of instruments, the significance of which has varied considerably between countries and over time. From a historical perspective, six broad types of policy instrument can be identified:

- regional incentives (mainly investment-related support to firms)
- support for the business environment (framework measures)
- infrastructure provision
- planning instruments/development of regional strategies
- disincentives to location/controls on location in congested areas
- the spatial distribution of the economic activities of the State.

Of these six categories, the role of disincentives and of what has been termed "the spatial distribution of the economic activities of the State" as instruments of regional policy has declined significantly during the last two decades. Use of disincentives was made in a number of countries but, in particular, in France, in respect of the Paris region, and the United Kingdom, in respect of London and the South-East; however, the UK abandoned the policy in the course of the 1970s. Rules on locating in Île de France remain in place but were relaxed in the mid-1980s amid concerns at the competitiveness of Paris as a European capital. More recently, a proactive policy of encouraging the development of businesses outside the Paris region and the relocation of businesses away from the capital has been adopted. This involves supporting the costs of relocating businesses and personnel. France and Greece are currently the only countries which explicitly encourage development away from their congested capitals.

The importance of the economic activities of the State as an instrument of regional policy has declined with the shrinkage in public ownership of many activities over the last decade. Large-scale privatisation, especially of publicly-owned manufacturing activities, has removed the investment decisions of such enterprises from the sphere of influence of governments. In practice, however, only in Italy was the location of State industry a major instrument of regional policy. Privatisation has also reduced the leverage of governments to influence the broader location of public sector jobs, including those in the civil service. Public sector job relocation has, anyway, become increasingly difficult to justify politically as the complexity of the regional problem has increased, with higher overall levels of unemployment in many countries and often with severe pockets of unemployment in even the most prosperous regions. That having been said, as part of its recent review of policy, the CIADT[17] in France has proposed the continued transfer of public services away from the capital region (where the Paris location is no longer justified) as part of the policy of improving the international profile of other French cities. In addition, in Denmark, the location of central government institutions has recently resurfaced as a political issue.

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[17] *Comité interministériel d'aménagement et de développement du territoire* - the interministerial committee for regional development policy.

The four remaining policy elements - financial incentives, framework measures in support of the business environment, infrastructure provision and regional planning/strategy development instruments - all play a part in the regional policies currently in operation in the Member States. As far as their relative weighting is concerned, as has already been mentioned, there has been an increased emphasis in recent years on framework measures and, particularly, on regional plans and programmes (at least in part related to Structural Fund influences) and a reduced stress on regional incentives *per se*. On the other hand, and again as already discussed, priority is increasingly being placed on the *integration* and *coordination* of the available support, however supplied.

Financial incentives consist of public-sector assistance to encourage firms to locate or invest in designated problem regions - grants in respect of fixed capital investment, loans, fiscal concessions, labour-related subsidies etc. They have been amongst the most durable of regional policy weapons over the past forty years, reflecting their general visibility, the importance of the attraction of inward investment in many regional development strategies and also the competitive pressures to ensure that problem region firms are appropriately supported. On the other hand, the nature of regional assistance has changed over time, with an increasing emphasis on simple and straightforward forms of support (in particular, capital grants) and with growing pressures for the aid on offer to be more selective and targeted. In addition, regional incentive expenditure has been declining in many countries – in part due to European Commission pressures for State aid to be cut back, but also because of increasing budgetary constraints and a growing reluctance to provide direct business support. That having been said, such regional incentives still play a significant role in all but one of the Member States (Denmark is the exception).

While the policy weighting attached to regional incentives has fallen over time, that placed on creating appropriate framework conditions for business development in the regions has grown. This reflects an increasing policy stress on trying to meet the needs of indigenous industry and a recognition that regional economic development in general and the formation and growth of enterprises in particular are dependent on a wide range of factors related to the business "climate". Measures to improve the business environment may include the provision of physical infrastructure (both locally and with respect to more strategic investments), together with "softer" measures related, for instance, to support for information, advice and consultancy, education and training and research and technological development. A key problem with the provision of such support is that it crosses narrow regional policy boundaries to encompass the activities of a wide range of government departments (involving, for instance, SME, labour market, transport, research and technology, education and environmental policies). This, in turn, often places a premium on co-operation with sectoral ministries particularly with respect to policy delivery in the regions.

The provision of physical infrastructure has been a traditional response to regional problems, aiming to bring infrastructure standards in the problem regions up to national levels. Such support is associated in particular with poorer countries and regions and encompasses major road and rail links, improvements in water supply and distribution networks and telecommunications facilities. It is noteworthy that a considerable proportion of Objective 1 support has been infrastructure-based and that Cohesion Fund assistance has also had a strong infrastructure orientation, focusing on transport projects and environmental improvements. In similar vein, much of the assistance flowing to the south of Italy in the 1950s and 1960s was infrastructure-based, as was the initial provision to the eastern *Länder* in Germany following re-unification. Again, this is an area of policy which involves the activities of sectoral ministries and thus demands co-ordination with other policy arenas if its effectiveness in helping to develop the problem regions is to be assured.

Finally in this review of regional policy instruments, a policy component which has grown in importance in recent years has been the use of regional plans and programmes to identify strengths and weaknesses at the regional level with a view to developing appropriate regional strategies. The enhanced significance of such measures reflects not only the growing influence of the EU’s Structural Funds on national policy developments but also an increasing emphasis within the Member States on the efficiency of policy (as opposed to its equity) and on the need to support and improve regional competitiveness. Ultimately, the aim is increasingly to ensure that *all* regions are in a position to contribute to *national* development to the maximum degree possible.

Regional incentives form the focus of the remainder of this overview. Across the Member States and Norway, the available regional aids are of six distinct types: capital grants (CG), interest or loan-related subsidies (IRS), tax concessions (TC), depreciation allowances (DA), labour-related subsidies (LRS) and transport concessions (TC). The distribution of these incentives by country and incentive type is set out in Table 3.2.

It can be seen that grants in general, and capital grants in particular, are the mainstay of almost all the regional incentive packages on offer. This is even true of the Nordic countries where, reflecting the different nature of their regional problem, there is generally a wider range of support on offer and where significant regional incentive expenditure often flows towards aids which tackle the ongoing disadvantages associated with peripheral and fragile locations - transport assistance and, until recently, social security concessions. In contrast, regional loan-related support is found in just seven countries and, in each, represents a relatively minor element of the package. Fiscal aids are also on offer only infrequently and, indeed, are available in just four countries. While labour-related support is more common, being found in about half the countries, it divides into two quite separate categories: "free standing" labour-related subsidies (for instance, the social security concessions found until recently in some of the Nordic countries) and what can be viewed as the job-related components of grant schemes (including, now, the newly-introduced wage subsidies in Austria and Germany). Finally, transport concessions are available only in the Nordic Member States, the Commission having agreed to give such measures "sympathetic consideration" as long as the aid is intended to compensate for the additional transport costs associated with sparsely-populated areas.

Table 3.2: Regional Incentives by Country and Incentive Type

COUNTRY	INCENTIVE	INCENTIVE TYPE					
		CG	**IRS**	**TC**	**DA**	**LRS**	**TRA**
Austria	regional innovation premium						
Belgium	ERP regional programme						
	Flanders: CG/IS						
	Wallonia IG						
Denmark	no regional incentives	( )					
Finland	regional investment aid						
	regional tax relief						
	transport subsidy						
France	regional policy grant (PAT)						
	local business tax concession						
Germany	investment grant						
	ERP regional soft loan						
Greece	investment grant						
	interest rate subsidy						
	tax allowance						
Ireland	IDA - Ireland: industrial projects						
	IDA - Ireland: international services						
	EI - small industries						
Italy	Law 488/1992						
	automatic fiscal assistance						
	'negotiated plans'						
Luxembourg	capital grant/interest subsidy						
Netherlands	investment premium						
Portugal	SIPIE, SIME						
Spain	regional investment grant						
Sweden	regional development grants						
	employment grant						
	transport grant						
	social security concession					( )	
United Kingdom							
(a) Great Britain	regional selective assistance						
(b) Northern Ireland	selective financial assistance						
Norway	investment grant						
	regional risk loan						
	transport subsidy						

4. REGIONAL POLICY ADMINISTRATION

A summary overview of recent changes in regional incentive administration is provided in Table 4.1 below. The table highlights three broad administrative themes: the continuation of the trend towards the more *decentralised implementation* of policy[18]; to some degree related, the growing emphasis on *policy coordination*; and the on-going emphasis on *selectivity and discretion* in regional incentive administration. These three aspects are now considered briefly in turn.

4.1 Regional Issues and Inputs

Just under half of the countries in Table 4.1 have experienced an increased focus on the sub-national level in the operation and implementation of regional policy in recent years. In France, the Netherlands and Sweden, the recent emphasis has been on enhancing the regional role in the policy process, not least by ensuring that regional inputs are appropriately coordinated within the regions and are also effectively dovetailed with national plans and strategies. This is also true of the United Kingdom where major devolutionary legislation has been accompanied by measures to ensure that policy continues to be effectively coordinated at the national level. In Ireland and Italy, in contrast, the main emphasis has been on developing regional capabilities in respects of aspects of policy which, in the past, have been dealt with centrally. Finally, in Norway there has been a major debate about the division of policy responsibilities within the regions and, indeed, about the appropriate level for the regional delivery of policy.

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[18] See Yuill D, Bachtler J and Wishlade F (editors) (1999) *European Regional Incentives 1999, 18th Edition*, Bowker-Saur, London.

Table 4.1:Overview of Recent Administrative Developments

Country	Increased Focus on the Regional Level	Increased Policy Coordination	Increased Selectivity and Discretion
Austria		Via the Structural Funds	
Belgium			
Denmark		Annual review of the spatial impact of legislation	
Finland			Aid to Business more selective and efficient
France	Increased emphasis on local partnership; encouragement of regional initiatives	National-level provides balance and ensures equity	
Germany			
Greece			Increased discretion for large/important projects
Ireland	Regional dimension to national policy	Coordination via new regional bodies	
Italy	Increased stress on regional level (*Bassanini* law etc)	*Sviluppo Italia* has brought together previously separate agencies	Changes to competitive bidding under Law 488
Luxembourg			
Netherlands	Focus on regions in creating competitive business locations; policy threads pulled together in regions	Aim to improve regional cooperation; 'Partnership in the regions' covenant	Concentration and selectivity; IPR awards more selective; TIPP: competitive bidding
Portugal		All incentive policy via Ministry of Economy	SIPIE: competitive bidding
Spain			
Sweden	RGAs: shift towards regionalisation and coordination	RGAs: shift towards regionalisation and coordination	
United Kingdom	Devolution: policy-making authority regionalised	Concordats and memoranda of understanding	
Norway	Debate on role and level of regions	New coordination unit	

Reviewing these developments in turn, in ***France***, one of the four policy priorities identified by the CIADT[19] at its December 1977 meeting was the need to increase the involvement of citizens in decisions on regional development. Rather than being

[19] *Comité interministérial d'aménagement et de développement du territoire* - the interministerial committee for regional development policy.

imposed by central government, the view of the committee was that regional development policy should emerge from a "bottom up" process involving local actors coupled with a "top down" approach that integrates, provides balance and assures equity. To achieve this, the CIADT emphasised the need to consolidate decentralisation and increase the involvement of citizens in the choice of objectives for regional development and in the associated debates. More recently, the 1999 Framework Law has stressed the importance of the "redrawing" or blurring of regional borders to encourage the emergence of "*pays*" and agglomerations that cut across administrative boundaries but reflect commonalities of interest or areas with an economic, cultural, social or geographical cohesion. Certainly, the sub-national level has played a growing role in spatial development policy in France over the last two decades, notably through the introduction of a regionalised dimension to national economic planning and the implementation of the Structural Funds. In addition, recent changes have placed growing emphasis on partnership between the different tiers of government and on the need to consult with subnational authorities. Notwithstanding this, the major impetus for regional policy still comes from the national level or is determined by parameters set by central government.

In ***the Netherlands***, the 2000-06 Spatial Policy Memorandum underlined the importance of developing competitive business locations and the pivotal role of the regional level in this process. As mentioned earlier, a point emphasised in the Memorandum was that it is in the regions that "all the threads of policy meet…. (and) can best be knotted together".[20] This, in turn was seen to demand an integrated approach, tailored to take advantage of the particular strengths of each region. Many of the policy proposals developed in the Memorandum were to be implemented at the regional level with the aim of optimising the utilisation of the economic potential of each region, not least through enhanced regional cooperation.

In ***Sweden***, the recently-introduced Regional Growth Agreements (RGAs) similarly represent an important shift towards more regionalised and coordinated initiatives. In part, this reflects the influence of the European Union, with the structure of the RGAs closely following that of the Structural Fund SPDs. However, this shift is also driven by a changing domestic agenda which emphasises long-term growth, supports the active coordination of societal resources, and widens the responsibilities for the implementation of actions. The Regional Growth Bill of 1998 recognised that, in order to accelerate growth in Sweden, regional-level resources would have to be more effectively exploited and this required industrial policy to adapt to regional and local circumstances. The RGAs are designed to coordinate and adjust different policy areas at the regional level to help achieve these goals, as well as explore new and targeted approaches to regional development in individual areas. This is designed not only to stimulate area-specific growth but also to maximise the effectiveness of sector-specific central government expenditure.

In the ***United Kingdom***, the major constitutional developments in recent years have obviously brought the design and implementation of economic development measures closer to the regional level; that was, indeed, one of their purposes. Related, and as mentioned earlier, they have enhanced the need for a more coordinated approach to

[20] Ministry of Economic Affairs (2000), *White Paper on Spatial Economic Policy in the Netherlands: Dynamics in Networks – Summary*, page 10.

policymaking and have resulted in a series of 'concordats' and 'understandings' between the different territorial levels. In the United Kingdom, as in a number of other countries, policy decentralisation and attempts to improve policy coordination have developed hand-in-hand in recent years. This is a theme to which we return in Section 4.2.

Other significant developments towards a more decentralised approach to regional policymaking are recorded in Table 4.1 in respect of Ireland and Italy. In ***Ireland***, a new ‘group regional authority' structure has been adopted in line with the division of the country into two NUTS II regions and, consequently, two different categories of Structural Fund area. This introduction of meaningful regionalisation into the Irish system was underpinned by the November 1999 National Development Plan which accepted the urgent need to address infrastructure bottlenecks and regional imbalances and involved considerable consultation with regional interests. However, there remains, in Ireland, the considerable challenge of delivering regionally-differentiated strategies in a policy- and decision-making system that has been forged in a national context.

In ***Italy***, the Bassanini Law, passed in Spring 1997, provided a framework for the reform of the public administration and for the decentralisation of many activities to the regional and local levels. However, mirroring the position in Ireland, significant questions remain about the technical capacity of the regional level, in particular in the *Mezzogiorno.* In this context, the newly-established *Sviluppo Italia* (discussed further below) seems likely to play an important role; one of its core functions is to improve the planning capabilities of central and local government.

Finally in ***Norway***, there has been an extensive debate within government, centred around whether the current organisation of the country into a series of *fylke* (county/regional level) administrative units should be changed – involving either a merger of the *fylker* to produce larger units of administration or a redistribution of *fylke* policy responsibilities. Specifically, this would involve a withdrawal of its healthcare supervision functions (either back to centralised state control, or into privatised and more decentralised health boards), a transfer of policy responsibilities currently overseen by central government (notably transport expenditure and employment/training activities) and some changes to *fylke* powers over regional policy budgets. The arguments have been intense since ministries with vested interests - notably Transport and Employment - are reluctant to lose financial decision-making power. For its part, the Ministry of Local Government and Regional Development is considering whether to amalgamate its different regional policy programmes and allow *fylker* to allocate grants themselves. As a whole, the debate has reopened discussions on the differences between ‘broad’ and ‘narrow’ regional policy within Norway (ie. regionalised public expenditure, on the one hand, and regional incentives for business, on the other). The two levels of policy have never been fully integrated, and the current debate can be seen as an attempt to ensure better coordination of the two approaches.

4.2 Policy Coordination

Many of the developments just discussed combine moves to increase the role of the regional level in regional policymaking with attempts to adopt a more coordinated approach to policy implementation in the regions. Such regional-level coordination has also been stimulated by programme-based approaches to policy implementation (including the Structural Funds), as well as by efforts to ensure that the national level provides an appropriate framework within which the regional level can operate.

Thus, in ***France***, the growing role of the regional level in regional development reflects the increasingly accepted view that the regional level is the appropriate articulation point for coordinating national, European and sub-regional strategies. In ***the Netherlands***, such a philosophy underpins the new programme-based TIPP which encourages provinces to co-operate with municipalities (and other provinces) to develop strategic plans and related investment programmes for their areas. Moreover, a covenant, "Partnership in the Regions", signed by the Ministry of Economic Affairs, the Ministry of Transport, Public Works and Water Management, the Association of the Provinces of the Netherlands and the Association of Netherlands Municipalities aims to enhance national-regional co-operation in three important spheres: industrial estates, innovation and the operation of the market. In ***Sweden***, too, RGA programmes as already mentioned, have the goal of coordinating and adjusting different policy areas at the regional level. Programme-based coordination within the regions is also highlighted in Table 4.1 in respect of Austria and Ireland. In ***Austria***, a new Structural Fund management structure is designed to improve transparency and consistency in programme implementation by allocating responsibility for coordination of decision-making, award communication and monitoring to a single funding agency; while in ***Ireland***, one of the responsibilities of the new group regional authorities is to promote the coordination of the provision of public services in their areas.

Measures to enhance policy coordination at the *national* level also feature in the table. In the course of the 1990s, there have been moves in a number of countries to create agencies which bring together a range of previously separate functions - most obviously, business development and training but also innovation and exporting. A recent example is in ***Italy*** where a new promotional organisation, *Sviluppo Italia* (literally, "Development Italy") was set up during the course of 1999. It operates under the Ministry for the Treasury, Budget and Economic Planning and brings together a number of existing agencies and promotional bodies. Its remit is to promote the development of the Italian productive system, develop integrated projects which create jobs and improve the planning capabilities of central and local government. There has been similar national-level coordination in ***Portugal*** through bringing together all incentive-related activities within the Ministry of Economy.

Also on the theme of national policy coordination, it is worth noting that this has become an important issue in the ***United Kingdom*** in the context of the devolution of economic development powers to Scotland and Wales. In principle, the Scottish Parliament and Welsh Assembly have the authority to change regional policy as they see fit, so long as their proposals do not touch on the Assisted Areas map (which is a matter reserved for Westminster) and remain within the Commission's regional aid guidelines. In practice, devolution is being viewed as providing an opportunity for the deepening of inter-departmental collaboration. A Memorandum of Understanding on financial assistance to industry was published in October 1999, prompted by concerns at possible bidding contests for large mobile investment projects between the newly-devolved Scottish and Welsh authorities and the existing UK bodies. The Memorandum notes that consultation will take place on cases where more than one party has shown interest and where relocation from elsewhere within the UK is involved before assistance offers are made. While Wales and Scotland will be free to alter financial assistance programmes within the limits set by devolution, such changes will be subject to consultation and agreed timescales; and, moreover, will reflect previously-established financial limits which will apply to the UK as a whole.

The issue of policy coordination between the federal and regional levels has also been a theme under discussion in ***Germany***. In some quarters, the future of the GA, the joint federal-*Land* decision-making forum, has been questioned in light of the much-reduced GA budget in recent years (for the west German *Länder*) and tensions between the richer and poorer *Länder* arising out of Germany's generous fiscal equalisation provisions. On the other hand, the rationale underlying the original establishment of the GA in 1969 remains strong (in particular, providing a coordinated policy approach and preventing competitive outbidding between the *Länder* for mobile investment). In addition, the GA has recently demonstrated considerable solidarity in the face of the new EC regional aid guidelines and, under difficult circumstances, managed to reach (and retain) a broad consensus on the proposed new map (discussed further below).

Finally on the topic of policy coordination, brief mention should be made of recent developments in Denmark and Norway. In ***Denmark***, following concerns about the regional impact of regional infrastructure spending, particularly in the Copenhagen area, a new annual review is to be undertaken of the regional/spatial consequences of national legislation. In similar vein, in ***Norway***, a recently-established policy unit has taken on a monitoring role to ensure that regional issues are expressly taken into account whenever policy changes are proposed by different Norwegian government departments. The unit has also been allocated a special budget for joint ministerial projects on regional development issues with a view to facilitating policy coordination. However, there are doubts about the effectiveness of this budget and it may soon be withdrawn.

4.3 Selectivity and Discretion

From Table 4.1, it can be seen that there have been developments in five countries which have involved more selectivity, more discretion in award: Finland, Greece, Italy, the Netherlands and Portugal. By and large, the changes are one of two types: on the one hand, the introduction of more selectivity and discretion in the award of regional incentives; and, on the other, the introduction of new forms of support involving competitive bidding for assistance in the context of a fixed aid budget.

Changes in Finland, Greece and the Netherlands fall within the first category. In ***Finland***, legislation has been developed relating to *Aid to Business* which includes the available regional development incentives and involves measures to improve the efficiency of aid, by ‘a more selective allocation of aid to business in accordance with pre-set objectives’, the minimisation of deadweight and more evaluation and monitoring for control purposes. In ***Greece***, the 1998 law continued the trend towards increasing the scope for ministerial decision-making regarding eligibility criteria and the discretion available in respect of particularly large and interesting projects. Moreover, as in the past, the use of extensive lists of exceptions to the exclusion of Region A from eligibility was retained and even enhanced. The practical operation of these exceptions, notably in respect of very large firms, new technologies and so on, is particularly pertinent in the Greek context since, in reality, the vast majority of firms qualifying under these exceptions are anyway likely to be located in the most developed parts of the country, Region A.

Finally, in ***the Netherlands***, an evaluation of the Investment Premium highlighted the need for awards to be of significant value if they are to influence location decisions. Given the available budget, this in turn created an imperative to target the centralised Investment Premium (available in respect of larger projects) at new business projects. Centralised support for the expansion of existing firms is to be made available only very selectively and then only if the extension is considered to be "strategic" in nature. By this is meant extensions which could be take place either in the Netherlands or in another Member State but where the subsidy available in the other Member State would "tip the balance" with respect to the location of the investment. Any such investment must involve over Fl 30 million. This approach is in line with two of the key principles upon which recent policy developments in the Netherlands have been based: *concentration* and *selectivity*.

New regional support schemes which utilise competitive bidding mechanisms have been introduced in the Netherlands and Portugal and continue in Italy. In ***the Netherlands***, a new tender-based measure, the TIPP (Provincial Investment Programmes Tendering Scheme), which encourages provinces to co-operate with municipalities (and other provinces) to develop strategic plans and related investment programmes for their areas has been brought in. The scheme replaces the (similarly tender-based) StiREA (Space for Economic Activity Stimulation Scheme), which had a more limited focus on the development of industrial estates.

In ***Portugal***, the newly-introduced SIPIE (Incentive Scheme for Small Entrepreneurial Initiatives) is aimed at small firms and projects. Projects are submitted to application deadlines and assisted in order of merit, subject to the funding available. Project evaluation is based on three main criteria: economic policy interest (70 percent), which concerns the proportion of the investment viewed as "priority" investment, location and type of entrepreneur; job creation (15 percent); and own funds as a proportion of eligible investment (15 percent).

A similar mechanism operates in ***Italy*** under Law 488 which was approved by the Commission in July 2000 for the 2000-06 period. The scheme is administered on a competitive basis in the sense that applications are submitted to an annual deadline and assisted in order of merit until the funds for that tranche of applications are exhausted. The ranking of a project in the application process is determined with respect to a "score" based on five evaluation criteria: (i) the proportion of own funds invested in the project in relation to total investment; (ii) the number of jobs created in relation to investment; (iii) the value of assistance sought as a proportion of the maximum rate applicable in the region; (iv) regional priorities regarding project type and sector; and (v) an indicator related to the environmental impact of the project.

The increasing popularity of such schemes represents a massive change of philosophy and approach over the last couple of decades. From a situation where the base element of most regional incentive packages was automatic in administration (certainly in the larger Member States) - and indeed where there was often a legal entitlement to aid -

it is becoming increasingly common for awards to be distributed solely on merit as a consequence of intense competitive bidding for limited funds.

5. REGIONAL AID AREA COVERAGE

Under the European Commission's regional aid guidelines[21], all the Member States have had to review their designated regional aid areas in the context of population ceilings stipulated under the guidelines and following a designation framework set out in the guidelines. As determined by the guidelines, the previous maps lost their validity at the end of 1999. From Table 1.1 it can be seen that, at that stage, maps had been agreed with the Commission in respect of just four countries: Finland, Ireland, Denmark and Greece. However, by the end of July 2000, reviews had been completed and new maps approved for all of the Member States except Belgium and, in respect of its Article 87(3)(c) areas, Italy. Maps for these countries were finally agreed in September. A separate paper has been prepared on the review *process*[22] which sets out how countries went about identifying their designated problem regions and what issues arose in having those regions approved by the Commission for regional aid purposes. It is not the aim of the current discussion to cover the same ground and become overly involved in process issues; rather, the intention is to focus on the *outcome* of the process in terms of problem region coverage and, in particular, to underline the degree and nature of the changes which have been introduced.

As a starting point, it is useful to set out the population coverage of the designated regional aid areas in the EU Member States and Norway as at the end of 1999. This is done in Table 5.1. For each country, the table is in four columns. The designated areas listed are those areas designated for regional aid purposes by the country concerned. As can be seen from the table, there is a considerable degree of differentiation by area, with between two and seven aid area categories in each country. The data on total coverage is information provided by the Member States (and Norway) on the population coverage of the various categories of area. For designation purposes, competition policy authorities distinguish between areas designated under Article 87(3)(a) and Article 87(3)(c) of the Treaty of Amsterdam. The former are areas which are underdeveloped from an EU perspective (NUTS II areas with GDP per head measured in PPS of less than 75 percent of the EU average) while the latter are areas which, within a population coverage ceiling laid down in the guidelines, can be shown to be badly off from a national perspective. The table indicates whether the different grades of regional aid area meet the designation criteria under Articles 87(3)(a) or (c) and gives a total percentage coverage figure drawn from Commission sources. When combined, these figures sometimes differ from the national total coverage data due, amongst other things, to different timeframes being adopted.

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[21] OJEC C74; 10 March 1998

[22] An early version of this paper was presented at the RSA Conference in Aix-en-Provence in September - Wishlade F and Yuill D (2000) 'EU Competition Policy and the Regions: Area Designation and the New Guidelines on National Regional Aid', Paper to the RSA Conference, *EU Regional Policy: Progress, Problems and Prospects*, 14-15 September, Aix-en-Provence, France, pps. 33.

Table 5.1: Population Coverage of Designated Regional Aid Areas 1999 (percent)

Country	Designated Area	Total Coverage	Of which Article 87(3)(a)	Of which Article 87(3)(c)
Austria	Burgenland (40 percent)	1.8	Y	
	Burgenland (30 percent)	1.7	Y	
	E. Obersteiermark (25 percent)	2.3		Y
	Other areas (20 percent)	26.4		Y
	Other areas (15 percent)	3.0		Y
	Total (5 grades)	**35.2**	**3.5**	**31.7**
Belgium	Objective 1 (Hainaut)	12.6		Y
	Zone 1	9.7		Y
	Zone 2	12.6		Y
	Total (3 grades)	**35.0**		**35.0**
Denmark	Priority areas	4.9		Y
	Ordinary areas	15.3		Y
	Total (2 grades)	**20.2**		**20.2**
Finland	Development Area 1	12.7	Y	
	Development Area 2	12.9		Y
	Development Area 3	5.4		Y
	Structural Adjustment Areas	10.6		Y
	Total (4 grades)	**41.6**	**13.8**	**27.8**
France	DOMs	(2.1)	Y	
	Longwy, Corsica	0.4		Y
	Objective 1 (Nord-P d C)	1.5		Y
	Maximum rate zone	12.1		Y
	Standard rate zone	26.9		Y
	Total (4 grades in France)	**40.9/42.0**	**2.1**	**39.9**
Germany	Problem Area A	13.0	Y	
	Problem Area B	8.7	Y	
	Problem Area C	16.2		Y
	Total (3 grades)	**38.0 (37.6)**	**20.8**	**16.8**
Greece	Region D (3 grades)	14.0	Y	
	Region C	30.0	Y	
	Region B	14.0	Y	
	Region A	42.0	Y	
	Total (6 grades)	**100.0**	**100.0**	
Ireland	Designated Areas	28.0	Y	
	Non-Designated Areas	72.0	Y	
	Total (2 grades)	**100.0**	**100.0**	

[Table continued

Table 5.1: *continued*

Country	Designated Area	Total Coverage	Of which Article 87(3)(a)	Of which Article 87(3)(c)
Italy	Mezzogiorno (2 grades) Molise Abruzzi Centre-North (Obj 2/5b) **Total (5 grades)**	34.2 0.4 2.0 12.3 **48.9**	Y **34.2**	 Y Y Y **14.7**
Luxembourg	25 percent ceiling 17.5 percent ceiling **Total (2 grades)**	34.6 7.9 **42.5/42.7**		Y Y **42.7**
Netherlands	Flevoland (Objective 1) IPR – north S. Limburg, Twente **Total (2 IPR grades)**	1.7 9.0 2.8, 3.8 **15.6/ 17.3**		Y Y Y **17.3**
Portugal	SIR Areas Other Areas **Total (2 grades)**	47.0 53.0 **100.0**	Y Y **100.0**	
Spain	Approved Areas (60) Approved Areas (50) Approved Areas (40) Approved Areas (30) Approved Areas (25) Approved Areas (20) Approved Areas (15) **Total (7 grades)** Total RIG Areas	31.6 16.8 4.5 6.8 5.8 9.7 0.8 **75.7** 60.7	Y Y Y Y **59.6**	 Y Y Y **16.3**
Sweden	Aid Area 1 Aid Area 2 Temporary Areas Total (3 grades) **Approved Areas**	2.3 5.0 6.2 13.5 **18.5**		Y Y Y Y **18.5**
United Kingdom	Northern Ireland Development Areas Intermediate Areas **Total (3 grades)**	2.9 15.5 17.5 **35.9/40.5**	Y Y **5.3**	 Y Y **35.2**
Norway	Zone A Zone B Zone C **Total (3 grades)**	2.0 10.6 13.0 **25.6**		Y Y Y **25.6**

Table 5.1 shows that, in 1999, the countries covered divided into three broad groups in terms of their regional aid area population:

- those with their entire population located in designated aid areas (Greece, Ireland and Portugal) or with more than 75 percent of their population in areas approved by the competition policy authorities (Spain). On the other hand, it is of note that for regional policy purposes only just over 60 percent of the Spanish population have been included in areas eligible for the Regional Investment Grant;

- those with between 35 percent and 43 percent of their population in designated aid areas (Austria, Belgium, Finland, France, Germany, Luxembourg and the United Kingdom). Italy can also be included in this group though it has slightly more extensive coverage (just under 49 percent); and

- those with between 17 percent and 21 percent of their population in designated aid areas (Denmark, the Netherlands, Sweden). Norway can also be attached to this group, though its problem region population coverage lies outside this range (25.6 percent).

The new regional aid guidelines introduced some quite significant changes in terms of designated aid area population coverage, as can be seen from Table 5.2.

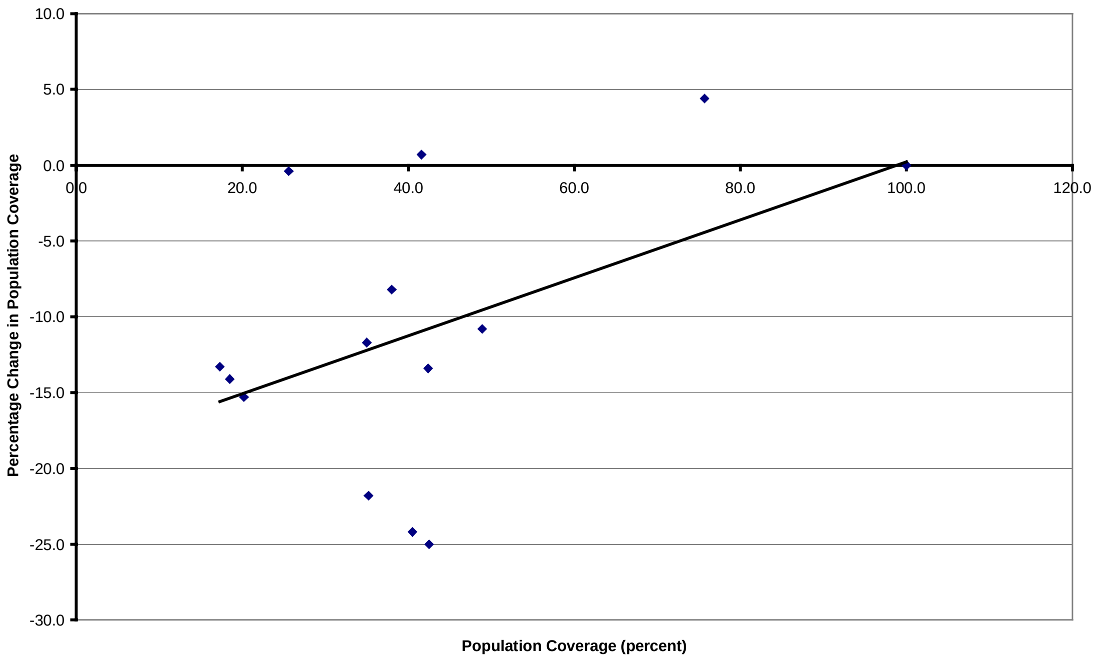
Table 5.2: Changes in Designated Regional Aid Area Coverage 1999-2000

Country	1999 Coverage	2000 Coverage	Percentage Change	Percentage Point Change
Austria	35.2	27.5	-21.8	-7.7
Belgium	35.0	30.9	-11.7	-4.1
Denmark	20.2	17.1	-15.3	-3.1
Finland	41.6	42.3	+1.7	+0.7
France	42.4/40.9	36.7/33.9	-13.4/-17.1	-5.7/-7.0
Germany	38.0	34.9	-8.2	-3.1
Greece	100.0	100.0	0.0	0.0
Ireland	100.0	100.0	0.0	0.0
Italy	48.9	43.6	-10.8	-5.3
Luxembourg	42.5	31.9	-25.0	-10.6
Netherlands	17.3/15.6	15.0	-13.3/-3.8	-2.3/-0.6
Portugal	100.0	100.0	0.0	0.0
Spain	75.7/60.7	79.2/60.7	+4.4/0.0	+3.5/0.0
Sweden	18.5/13.5	15.9	-14.1/+17.8	-2.6/+2.4
United Kingdom	40.5/35.9	30.7 (28.7 of GB plus NI)	-24.2/-14.5	-9.8/-7.2
Norway	25.6	25.5	-0.4	-0.1

In Luxembourg, the United Kingdom and Austria, the cutback was more than 20 percent; in Denmark, Sweden, France and the Netherlands, it was around 15 percent; and in Belgium, Italy and Germany, it was some 10 percent. In contrast, there was little or no change overall in Greece, Ireland, Portugal and also Norway, while both Finland and Spain experienced slight increases in coverage. Viewed historically, such levels of change are major, the more so since nearly all came in with immediate effect[23]. Moreover, it is worth recording that, while overall coverage remained as before in Ireland and Portugal, in both countries there was a major cutback in Article 87(3)(a) coverage and consequently in those areas qualifying for the highest rate maxima: the fall was of the order of one-third in Portugal and was over two-thirds in Ireland.

It is interesting to trace out the relationship of the population coverage of regional aid areas in 1999 to the percentage population cutback they were asked to bear under the regional aid guidelines. This is set out in Table 5.3.

Table 5.3: Relationship of Regional Aid Area Coverage in 1999 to Percentage Cutback



It can be seen that there was a clear inverse relationship between coverage and percentage cutback. In general, the greater the initial regional aid area coverage the less the cutback in overall coverage demanded under the guidelines. This, in turn, reflected the fact that it was the poorer countries (or, more specifically, the countries with poorer regions) which both had more areas eligible for aid and less pressure to reduce coverage in respect of those areas under the guidelines. In particular, the guidelines contained a safety net provision that areas which lost their Article 87(3)(a)

[23] In contrast, many of the more significant regional aid area cutbacks, and especially those registered in the early 1980s, were phased in over relatively long periods of time (generally three years). Yuill D, Bachtler J and Wishlade F (editors) (1999) *European Regional Incentives 1999, 18th Edition*, Bowker-Saur, London,.

status would remain eligible for support under Article 87(3)(c). In contrast, richer countries, or at least countries with richer regions, had both restricted aid area coverage (almost all of it under Article 87(3)(c)) and significant pressures to reduce that coverage further.

Based on Table 5.3, the changes introduced as a consequence of the new regional aid guidelines can be reviewed in terms of three groups of countries:

- those where overall coverage was left largely unaffected by the new guidelines: Greece, Ireland, Portugal, Spain, Finland and Norway;

- those where the initial coverage lay around two-fifths of the national population and where significant cutbacks (generally of around 15 percent but, in some cases, as high as 25 percent) were demanded: Austria, Belgium, France, Germany, Italy, Luxembourg and the United Kingdom;

- and those where the initial coverage was already very low (at 20 percent or less of the national population) but where further cuts of around 15 percent were still required: Denmark, the Netherlands and Sweden.

The first group can be dealt with briefly. Because no cutbacks were demanded and, indeed, both Finland and Spain were permitted to increase their designated aid area coverage, there were no major problems from an area designation perspective. There were, however, in nearly all of the countries, a number of technical issues to be resolved relating, for instance, to the NUTS level used for designation purposes (with, for example, NUTS IV being the chosen unit of analysis in Finland and Spain rather than NUTS III). In addition, in Ireland and Portugal, there were some difficult negotiations relating to the treatment of former Article 87(3)(a) areas (in Dublin and around Lisbon). More generally, the area designation exercise in this group of countries tended to focus more on what rate of award ceilings should apply in different categories of area (a topic considered further in Section 7) rather than on the specifics of the area designation process. No doubt as a consequence of this, in four of the six countries the new maps had been approved by the end of 1999 (the exceptions were Spain and Portugal).

The designation process in the second group of countries was more problematic. Of the seven Member States, only France and Germany had had their maps approved by the end of March 2000 (and, in the German case a legal challenge was subsequently raised against the Commission), while in both Italy and Belgium the approval process was not completed until September. Considering the group as a whole, a range of issues created difficulties:

- a general problem related to the population coverage ceilings set. For nearly all of the countries in this group there were genuine difficulties in designating areas viewed as appropriate from a national regional policy perspective within the ceilings laid down in the guidelines. These ceilings were the more difficult to meet because the reduced coverage had to be found within the Article 87(3)(c) areas alone. The ability to achieve internal political consensus on the designation of such areas within the constraints imposed by the guideline methodology was particularly strained in the federal countries in the group; however, there were also major difficulties in countries like the United Kingdom and Italy where changes to

Article 87(3)(a) coverage made the Article 87(3)(c) designation exercise particularly problematic;

- a related general issue concerned the unit of analysis utilised for area designation purposes. The pressure, on the one hand, to reduce population coverage while, on the other, ensuring that core problem areas continued to be eligible for support led to more pin-pointed approaches to area designation with, in a number of countries, a particular emphasis on areas of potential within the problem regions. The associated desire to base area designation on units below NUTS III and, on occasion, to sub-divide the basic unit of analysis in order to remain within the allocated population ceiling met with considerable opposition from the competition policy authorities and was one of the main reasons for the delayed approval of many of the designated aid area maps within this country grouping;

- finally, rate ceilings within the designated areas have also been contentious for a number of countries in this group, with the competition policy authorities intent on introducing as much differentiation as possible with a view to reflecting the perceived varying intensities of the problem.

The third country grouping consists of Denmark, the Netherlands and Sweden. Despite the low population ceiling, the area designation exercise did not create any significant problems in Denmark, not least because there is no Danish regional aid package. As a consequence, the main focus was on ensuring that all the Objective 2 areas designated for the 2000-06 period fell within the national regional aid map, an essentially technocratic exercise. In contrast, the Dutch map created considerable difficulties. In order to include all relevant areas and, at the same time, mirror a national policy preference for focusing support on areas of potential within the problem regions, the Dutch authorities used NUTS V regions within the designation exercise. The Commission found it difficult to accept this and, related, a map which it considered to be too much of a patchwork quilt. As a result, despite the fact that Dutch regional aid policy involves little expenditure and that most of this is concentrated on an area holding less than 10 percent of the population (compared with the guideline ceiling of 15 percent), it took more than 15 months from submission for the map to be approved. This underlines the importance attached to the multilateral implications of designation decisions made by the Commission in a process of multiple bilateral negotiations. Finally, in Sweden, the main issue related to the population ceiling allocated under the guidelines; the Swedish view was and is that 15.9 percent of the population is both inappropriate and insufficient to encompass the different categories of problem region found in Sweden. Once it became clear that the ceiling set was non-negotiable, the designation exercise itself was relatively straightforward since virtually only sparsely-populated areas and contiguous problem regions could be included.

The population coverage of the new maps is set out in Table 5.4. Comparison of this table with Table 5.1 highlights a number of points:

- first, there is a clear tendency for the degree of differentiation by area to have increased; this is most obvious in countries like Ireland and Portugal;

- second, it is interesting that a number of the areas which have been designated for national regional aid purposes do not require designation under Article 87(3)(c);

Problem Area D in Germany and Tier 3 in England have been designated as areas eligible for SME support even though such aid can be offered nationally under the *de minimis* rule or the SME guidelines, depending on the amounts of aid involved.

- third, although not a focus of the tables, it is very clear from them that rate ceilings from 2000 onwards fall significantly below those which applied in 1999. This a theme to which we return in Section 7.

Table 5.4: Population Coverage of Designated Regional Aid Areas 2000 (percent)

Country	Designated Area	Total Coverage	Of which Article 87(3)(a)	Of which Article 87(3)(c)
Austria	Burgenland (35 percent)	1.7	Y	
	Burgenland (30 percent)	1.7	Y	
	Other areas (20 percent)	19.1		Y
	Other areas (17.5 percent)	4.5		Y
	Other areas (12.5 percent)	0.5		Y
	Total (5 grades)	**27.5**	**3.5**	**24.0**
Belgium	**Total**	**30.9**		**30.9**
Denmark	Priority areas	3.2		Y
	Ordinary areas	13.9		Y
	Total (2 grades)	**17.1**		**17.1**
Finland	Development Area 1	13.4	Y	
	Development Area 2	6.9		Y
	Development Area 3	22.0		Y
	Total (3 grades)	**42.3**	**13.4**	**28.9**
France	DOMs	2.8	Y	
	Maximum rate zone			Y
	Standard rate zone			Y
	Alsace/Franche-Comte			Y
	Total (3 grades in France)	**33.9/36.7**	**2.8**	**33.9**
Germany	Problem Area A	8.9	Y	
	Problem Area B	8.9	Y	
	Problem Area C	17.2		Y
	Problem Area D	5.7		
	Total (4 grades)	**34.9 (40.6)**	**17.7**	**17.2**
Greece	Region D	14.0	Y	
	Region C	30.0	Y	
	Region B	14.0	Y	
	Region A	42.0	Y	
	Total (4 grades)	**100.0**	**100.0**	
Ireland	BMW region (40 percent)	26.6	Y	
	S&E region (20 percent)	34.6		Y
	S&E region Mid-East	9.6		Y
	S&E region Dublin	29.2		Y
	Total (4 grades)	**100.0**	**26.6**	**73.4**

Table 5.4: *continued*

Country	Designated Area	Total Coverage	Of which Article 87(3)(a)	Of which Article 87(3)(c)
Italy	Calabria		Y	
	Other Article 87(3)(a) areas	33.6	Y	
	Article 87(3)(c) areas	10.0		Y
	Total	**43.6**	**33.6**	**10.0**
Luxembourg	10 percent ceiling	**31.9**		**31.9**
Netherlands	Flevoland (part)	0.6		Y
	IPR – north	9.4		Y
	S. Limburg, Twente	2.4, 2.5		Y
	Groningen (part of north)	..		Y
	Total (3 IPR grades)	**15.0**		**15.0**
Portugal	Article 87(3)(a) (3 grades)	66.7	Y	
	Greater Lisbon	18.4		Y
	Rest Lisbon area	14.9		Y
	Total (5 grades)	**100.0**	**66.7**	**33.3**
Spain	Approved Areas (50)		Y	
	Approved Areas (40)		Y	
	Approved Areas (37)		Y	
	Approved Areas (35)		Y	
	Approved Areas (30)		Y	
	Approved Areas (30)			Y
	Approved Areas (20)			Y
	Approved Areas (10)			Y
	Total (8 grades)	**79.2**	**58.3**	**20.9**
	Total RIG Areas	60.7		
Sweden	Aid Area A			Y
	Aid Area B			Y
	Total (2 grades)	**15.9**		**15.9**
United Kingdom	Northern Ireland	2.9		
	Tier 1	8.6	Y	
	Tier 2 (4 grades)	19.2		Y
	Tier 3			
	Total (7 grades)	**30.7**	**8.6**	**22.1**
Norway	Zone A	2.0		Y
	Zone B	10.6		Y
	Zone C	13.0		Y
	Total (3 grades)	**25.6**		**25.6**

6. ELIGIBILITY CRITERIA

In addition to project location, the key regional incentive eligibility criteria relate to:

- the *sector* of the project
- the *size* of the project and/or the firm
- the *type* of project
- its *viability*

- the *need* for assistance
- the *impact* of the project on both industrial structure and the recipient region
- and the implications of the project for *jobs*[24].

Recent changes in respect of these aspects are summarised in Table 6.1.

Table 6.1: Changes in Other Coverage Conditions

Country	Project Size	Project Sector	Project Type
Austria	Support for SMEs in the conceptual phase of project development	New wage subsidy for the production service sector	
Belgium			
Denmark			
Finland			
France	Lower PAT eligibility thresholds likely	PAT extension to certain industrial services likely	
Germany		Service extensions to positive list. Some State aid restrictions to eligibility	
Greece	Exceptional provisions benefit large projects		More limited support for existing firms
Ireland			
Italy	Separate ranking lists for small and large projects	Extension of eligibility, especially to services; strategic sectors favoured	
Luxembourg			
Netherlands	Specific SME support for Overig Groningen		More selective support for expansions within existing plants
Portugal	Specific SIPIE support for SMEs	Projects weighted by sectoral merit, impact and risk	
Spain			
Sweden		Transport Grant extended to sea transport	
United Kingdom	Specific regional SME support; RSA no longer available for SMEs in England or small projects in Scotland	RSA likely to be refocused on high quality, knowledge based projects	
Norway		Some State aid restrictions to eligibility	

Following the breakdown in the table, this section considers, in turn, changes relating to size, sectoral and project-type coverage. It can be seen that such changes have been relatively limited, in part a consequence of the fact that, in many countries, the necessary legislative amendments to the regional aid package have not yet been fully enacted.

[24] See Yuill D, Bachtler J and Wishlade F (editors) (1999) *European Regional Incentives 1999, 18th Edition*, Bowker-Saur, London for more details.

As far as ***project size*** is concerned, the changes recorded in the table have generally been in the direction of enhancing support for small and medium-sized enterprises – either through more available support possibilities (as in Austria, France and Italy) or through the introduction of specific aid schemes for SMEs (as in the Netherlands, Portugal and the United Kingdom). Only Greece does not fit within this pattern; the revised Greek aid package aims to utilise the available administrative discretion to favour large and interesting projects in the more prosperous parts of the country.

In ***Austria***, consultancy support for SMEs in the conceptual phase of project development has now been included in eligible RIP project costs to help ensure that projects are fully thought through and properly planned. This is felt to be important for this size group given the rapid rate of technological change and the availability of different technologies for particular types of investment. In ***France***, the substance of the PAT scheme is currently being reviewed by the European Commission in the context of the new regional aid guidelines. The main change seems likely to concern eligible size groups, with the previous job creation and investment targets set to be lowered largely in response to domestic pressures and the perception that the scheme favours large and foreign projects to too great an extent. In ***Italy*** changes have been made to the Law 488 ranking lists which determine, on a competitive basis, whether or not an award will be made. Whereas, previously, rankings were simply by eligible area, in future, different lists will apply to small (up to 50 billion lire) and large projects. For small projects, there will in each region be one ‘ordinary’ and one special ranking list, the latter relating to strategic sectors and/or areas. The aim is to increase the support possibilities for smaller projects.

As regards new regional aid schemes for SMEs, these have already been discussed in Section 3. In ***Portugal***, the introduction of the SIPIE (Incentive Scheme for Small Entrepreneurial Initiatives) was part of a broader package of measures for the new Structural Fund programming period. In contrast, the introduction of regional SME support in the Overig Groningen region in ***the Netherlands*** and Enterprise Grants in Tiers 1-3 in ***England*** was in response to constraints imposed by the regional aid guidelines. In ***Scotland***, the new Invest for Growth scheme provides discretionary grants of up to £100,000 for (predominantly) small and medium-sized enterprises and leaves Regional Selective Assistance to deal with larger grant awards. More generally, across the Member States, SMEs in designated problem regions benefit under the new regional aid guidelines since these provide for significantly higher aid ceilings for SMEs (see Table 7.1) - a 15 percent supplement (gross) in Article 87(3)(a) areas and a 10 percent supplement (gross) in Article 87(3)(c) areas.

Changes in respect of ***project sector*** generally involve either a widening of coverage towards "new" (often IT-related) sectors or else reflect the tendency for awards to become more selective - either in response to State aid restrictions (as in Germany and Norway) or with strategic sectors being favoured (as in Portugal and Italy, for instance). As regards extensions of service eligibility, in ***Austria***, a new focus on production service industries has been introduced (eg. firms in the new media sector, software companies, engineering offices, value added services such as call centres, private research firms etc). This has been facilitated by the new possibility in the regional aid guidelines to count wage costs as part of eligible costs, a particularly suitable form of support for this type of firm. In similar vein, in ***France***, the coverage of the services sector under the PAT scheme seems likely to be redefined in line with proposals made at the December 1998 CIADT meeting which suggested that eligibility be extended by incorporating certain industrial service activities. In ***Germany***, too, recent developments have seen media services (film, television, video and audio production) and recycling activities added to the 'positive list' of regionally-exporting activities eligible for Investment Grant support; while in ***Italy*** the list of eligible services has been widened to include hotels and restaurants, transport support services, telecommunications, informatics and related activities, R&D activities, consultancy, training activities, environmental waste, sport, culture and recreation. The Regional Selective Assistance scheme in ***Britain*** also seems likely to be ‘refocused’ soon on to high-quality, knowledge-based projects which provide skilled jobs. In ***Northern Ireland***, too, the recent strategic reviews have seen an increasing interest in a sectoral approach to delivering economic development services and a cluster approach to business development more generally. The role of clusters in regional economic development is a growing policy consideration in a number of countries/regions.

In respect of ***project type*** coverage, change has been limited. There has, however, been an increasing emphasis in both ***the Netherlands*** and ***Greece*** on projects within new establishments (set up within the past five years) as opposed to projects within establishments set up more than five years ago. In the Dutch context, the expectation is that, in the revised version of the Investment Premium, support will be very much focused on new start-up projects and that business expansions within existing establishments will qualify for assistance only very selectively. In similar vein, the 1998 Greek regional incentive legislation favours new over existing establishments: whereas the former have a choice between the financial and fiscal aid packages, the latter are, in principle, restricted to fiscal assistance.

7. AWARD CEILINGS AND VALUES

The point was made earlier that the new regional aid guidelines have had an obvious impact on which aid areas have been designated by the Member States (and Norway) for the period from 1 January 2000. Equally, and in a much more formalised manner than was previously the case[25], the new guidelines determine the maximum award ceilings which can be made available in different categories of aid area. As Table 7.1 shows, maximum rates of award under the guidelines are explicitly related to the type of assisted area in question and to the situation in the area as measured by various problem region indicators (GDP per head, population density and unemployment).

[25] See Wishlade, F. G. (1998) ‘Competition Policy or Cohesion Policy by the Back Door? The Commission Guidelines on National Regional Aid’ *European Competition Law Review* No. 6, July.

Table 7.1: Maximum Rates of Award under the Regional Aid Guidelines

Assisted area type	**General maximum rate**	**SME supplement**
Article 92(3)(a) (outermost regions)	65% nge	15% gross
Article 92(3)(a) (standard ceiling)	**50% nge**	**15% gross**
Article 92(3)(a) (outermost with GDP > 60% EC average)	50% nge	15% gross
Article 92(3)(a) (GDP > 60% EC average)	40% nge	15% gross
Article 92(3)(c) (Northern Ireland)	40% nge	10% gross
Article 92(3)(c) (low population density)	30% nge	10% gross
Article 92(3)(c) (standard ceiling)	**20% nge**	**10% gross**
Article 92(3)(c) (GDP > EC av. & unemployment < EC av., outermost or low population or adjacent to Article 92(3)(a))	20% nge	10% gross
Article 92(3)(c) (GDP > EC av. & unemployment < EC av.)	10% nge	10% gross

Source: Wishlade, F. G. (1998) 'Competition Policy or Cohesion Policy by the Back Door? The Commission Guidelines on National Regional Aid' *European Competition Law Review* No. 6, July.

However, it is important to note that these figures are *upper limits*. According to the guidelines:

> "Beneath these ceilings, the Commission will ensure that the regional aid intensity is adjusted to reflect the seriousness and intensity of the regional problems addressed when examined in a Community context".

The implications of this were that the Commission had reserved for itself the discretion to set lower ceilings on an area-by-area basis. Perhaps as a result, not all Member States submitted aid ceiling proposals alongside their regional aid map. Equally, and as noted below, those who made rate proposals often generated negative responses from the Commission.

Table 7.2 compares the aid ceilings which applied in 1999 with those which have come into force under the new guidelines. The changes are clearly significant, especially in respect of Article 87(3)(a) areas in poorer Member States where the ceiling has been reduced from 75 percent in Greece Ireland and Portugal (and 60 percent in Spain) to 50 percent or less (62 percent in the poorest parts of Portugal, 40 percent in the Irish Objective 1 area). In Article 87(3)(c) areas, too, the cutbacks are noteworthy; where previously award ceilings in excess of 20 percent were common, the 20 percent standard ceiling set out in Table 7.1 is now very clearly in operation, with even lower ceilings applying quite widely.

Table 7.2: Rate Ceilings and Population Coverage - 1999 and 2000

Country	Regional Aid Ceilings 1999 (nge)	Population Coverage	Regional Aid Ceilings 2000 (nge)	Population Coverage
Austria	40 percent	1.8		
			35 percent	1.7
	30 percent	1.7	30 percent	1.7
	25 percent	2.3		
	20 percent	26.4	20 percent	19.1
			17.5 percent	4.5
	15 percent	3.0		
			12.5 percent	0.5
	Total	**35.2**	**Total**	**27.5**
Belgium	25 percent	12.6		
	20 percent	9.7	20 percent	n.a.
			17.5 percent	n.a.
	15 percent	12.6	15 percent	n.a.
			10 percent	n.a.
	Total	**35.0**	**Total**	**30.9**
Denmark	25 percent	4.9		
			20 percent	3.2
	16.9 percent	15.3		
			10 percent	13.9
	Total	**20.2**	**Total**	**17.1**
Finland	*35 percent gross*	12.7		
			30 percent gross	13.4
	27 percent gross	12.9		
			25 percent gross	6.9
	20 percent gross	16.0	*20 percent gross*	22.0
	Total	**41.6**	**Total**	**42.3**
France	30 percent	0.4		
	25 percent	1.5		
	22 percent	12.1		
			20 percent	n.a.
	15 percent	26.9	15 percent	n.a.
			10 percent	n.a.
	Total	**40.9**	**Total**	**33.9**
Germany	*35 percent gross*	13.0	*35 percent gross*	8.9
	28 percent gross	8.7	*28 percent gross*	8.9
	18 percent gross		*18/15/12 percent gross*	17.2
	15 percent gross	16.2	*15percent gross-small*	
	12 percent gross			5.7
			7.5 percent gross-med	
	Total	**38.0**	**Total**	**34.9 (40.6)**
Greece	75 percent			
	67.9 percent	14.0		
	64 percent			
	58.2 percent	30.0		
	54.2 percent	14.0		
			50 percent	n.a.
	47.4percent	42.0		
			40 percent	n.a.
	Total	**100.0**	**Total**	**100.0**

[Table continued

Table 7.2: *continued*

Country	Regional Aid Ceilings 1999 (nge)	Population Coverage	Regional Aid Ceilings 2000 (nge)	Population Coverage
Ireland	75 percent	2.4		
	71.4 percent	25.6		
	57.3 percent	72.0		
			40 percent	26.6
			20 percent	34.6
			18 percent -transitional	9.6
			17.5 percent	29.2
	Total	**100.0**	**Total**	**100.0**
Italy	50 percent	9.4	50 percent	
	40 percent	24.8		33.6
			35 percent	
	25 percent	0.4		
	25 percent	2.0		
			20 percent	
	10 percent	12.3		10.0
			8 per cent	
	Total (5 grades)	**48.9**	**Total**	**43.6**
Luxembourg	*25 percent gross*			
	20 percent gross	34.6		
	17.5 percent gross	7.9		
			10 percent	31.9
	Total (3 grades)	**42.7**		**31.9**
Netherlands	*25 percent gross*	1.7		
	20 percent gross	9.0	*20 percent gross*	10.0
	15 percent gross	6.6	*15 percent gross*	4.9
			10 percent gross	
	Total	**17.3**	**Total**	**15.0**
Portugal	*75 percent gross*	100.0		
			62 percent	
			50 percent	66.7
			40 percent	
			20 percent-transitional	18.4
			10 percent	14.9
	Total	**100.0**	**Total**	**100.0**
Spain	60 percent	31.6		
	50 percent	16.8	50 percent	n.a.
	40 percent	4.5	40 percent	n.a.
			37 percent	n.a.
			35 percent	n.a.
	30 percent	6.8	30 percent	n.a.
			30 percent	n.a.
	25 percent	5.8		
	20 percent	9.7	20 percent	n.a.
	15 percent	0.8		
			10 percent	n.a.
	Total	**75.7**	**Total**	**79.2**

[Table continued

Table 7.2: *continued*

Country	Regional Aid Ceilings 1999 (nge)	Population Coverage	Regional Aid Ceilings 2000 (nge)	Population Coverage
Sweden	*35 percent gross*	5.9	*35 percent gross*	n.a.
	25 percent gross	12.6		
			20 percent gross	n.a.
	Total	**18.5**	**Total**	**15.9**
United Kingdom	47.4 percent	2.9		
			40 percent	2.9
			35 percent	8.6
	30 percent	15.5	30 percent	
	20 percent	17.5	20 percent	
			15 percent	19.2
			10 percent	
			Tier 3	n.a.
	Total	**35.9**	**Total**	**30.7**
Norway	30 percent	2.0	30 percent	2.0
	25 percent	10.6		
			20 percent	10.6
	15 percent	13.0	15 percent	13.0
	Total	**25.6**	**Total**	**25.6**

In order to gain more of an insight into the changes recorded in Table 7.2, it is useful to review the changes briefly on a country-by-country basis.

In ***Austria***, the award ceiling in 10 (out of 24) areas was reduced in 1998 when the coverage of the aid area map was extended until the end of 1999. The ceiling in east Obersteiermark fell from 25 percent to 20 percent; in six areas where the ceiling had been 20 percent it was cut to 17.5 percent and in three 15 percent areas the rate maximum was reduced to 12.5 percent. These cutbacks were continued in 2000 with further (minor) reductions in the population coverage of those areas facing the 20 percent and 12.5 percent ceilings. In addition, the rate ceiling in mid and south Burgenland was reduced from 40 percent to 35 percent but remained at 30 percent in north Burgenland. This compares with the 40 percent guideline ceiling for Article 87(3)(a) areas with GDP per head of more than 60 percent of the EU average (see Table 7.1). Overall, the Austrian system currently has five different award ceilings; it is, however, worth noting that nearly 70 percent of the overall designated aid area population (and almost 80 percent of the Article 87(3)(c) area population) are located in areas where the 20 percent nge maximum applies.

In ***Belgium*** overall designated aid area population coverage fell from 35 percent to 30.9 percent of the national population. Award ceilings were also reduced. There was a move from a three-tier system, with award maxima of 25 percent, 20 percent and 15 percent, to a four-tier system with aid ceilings of 20 percent, 17.5 percent, 15 percent and 10 percent. Since the previous 25 percent maximum had applied to an area holding 12.6 percent of the national population, it is clear that the overall matrix of award ceilings is now at a considerably lower level than was previously the case.

In ***Denmark***, both the Priority Areas and the Ordinary Areas suffered a reduction in population coverage – from 4.9 percent to 3.2 percent and from 15.3 percent to 13.9 percent respectively. More important, the aid ceilings in the areas were significantly cut back – from 25 percent to 20 percent and from 16.9 percent to 10 percent respectively. On the other hand, there is no regional aid on offer in Denmark at present: these ceilings are of relevance only in the context of support to firms under the Objective 2 programme.

In ***Finland***, it can be seen from Table 7.3 that the ceilings introduced in the new map are generally well below those available under the new guidelines, the more so since the ceilings for small firms in Development Area 1 and for all firms in Development Areas 2 and 3 are 10 percentage points below those listed except in 'justified cases'. Comparing the ceilings under the new and old maps, the only increase is in respect of small firms in Development Area 1. This reflects the fact that the designation of this area under Article 87(3)(a) was, this time round, explicitly taken into account.

Table 7.3: Award Ceilings in Finland (percent)

	New Guidelines		**New Map**		**Previous Map**	
Assisted Area	SME	Large	SME	Large	SME	Large
Area 1 (Art 87(3)(a))	55	40	40	30	37	35
Area 2 ((3)(c)-sparse)	40	30	34	25	37	27
Area 3 (Art 87(3)(c))	30	20	25	20	30	20

In ***France***, rates of award were an issue of contention in the submission of the map to the Commission. In particular, the rates proposed in some areas explicitly exceeded the rates set out in the guidelines and so were bound to be rejected; DATAR knew in advance that this would be the case, but there was local demand for higher award rates and it was deemed easier to let the proposal be turned down by the Commission than to argue the point domestically. The solution reached on rates of award under the new map was to continue the banding that had been in place under the previous regime. As a result, in the higher rate areas (those where the maximum rates were 34, 28 or 25 percent gross up to end 1999) the maximum rate is now 23 percent gross (a net grant-equivalent of 20 percent); in the areas were the ceiling was 17 percent gross up to end 1999, this ceiling will remain (a net grant-equivalent of 15 percent). The only exception to this concerns eligible areas in Alsace and Franche-Comté where the ceiling will be 11.5 percent gross, a net grant-equivalent of 10 percent, reflecting levels of GDP per head and unemployment rates compared with the European average. Overall, a pragmatic solution to the question of award maxima was reached by continuing existing rate discrimination, but subject to the new (lower) ceilings.

The Commission also took issue with certain of the rate proposals in ***Germany***, even though the same basic award matrix applied under the previous German system (see Table 7.4)

Table 7.4: Proposed Award Ceilings in Germany (percent) - gross

	SMEs	**Other**	
Problem Area A	50	35	new *Länder* - weak
Problem Area B	43	28	new *Länder* - strong
Problem Area C	28	18	west Germany

The only difference of note was that the proportion of new *Länder* residents in the weaker regions (Problem Area A) was reduced from 60 percent to 50 percent. For 10 percent of the population in the new *Länder* there was, therefore, a significant reduction in maximum award rates. Commission concerns related to two issues: the undifferentiated nature of the 18 percent maximum (28 percent for SMEs) throughout Problem Area C and, related, the fact that the 18 percent gross ceiling exceeded (in the Commission's view) the 10 percent nge ceiling set for Article 87(3)(c) areas with above average GDP per head and below average unemployment. Neither of the points was accepted by the German authorities. In the event, the award matrix set out below was eventually agreed to by the Commission. Whereas Problem Areas A to C are covered by the regional aid guidelines, the Problem Area D ceilings reflect the SME aid guidelines.

Table 7.5: Actual Award Ceilings in Germany (percent) - gross

	SMEs	Other
Problem Area A	50	35
Problem Area B	43	28
Problem Area C	28	18
Problem Area D	15% for small firms; 7.5% for medium-sized firms	maximum €100,000 within three years of first receipt of financial assistance

In ***Greece***, the new aid ceilings mirror the rate maxima set out in the guidelines (see Table 7.1) – 50 percent generally but 40 percent in those areas with GDP per head more than 60 percent of the EU average. As noted earlier and as can be seen from Table 7.2, these ceilings represent a significant reduction on those which previously applied.

The picture in ***Ireland*** is similar in some respects. In the remaining Article 87(3)(a) area (the BMW region) the new award ceiling was set at 40 percent in line with the guidelines. This represents a significant reduction on the ceilings which had previously applied (these ranged from 57.3 percent to 75 percent depending on location). In the (new) Article 87(3)(c) areas, a general ceiling of 20 percent was proposed in line with the guidelines, but with lower maxima in the Mid-East (18 percent) and Dublin (17.5 percent). After negotiation, agreement was reached on these ceilings, with the Dublin limit coming into force immediately while the new maxima in the other Article 87(3)(c) areas will be phased in over time – being reduced from 40 percent in 2000 to the agreed ceilings by 2004.

In ***Italy***, in the Article 87(3)(a) areas, the aid ceiling has been set at 50 percent in Calabria and at 35 percent elsewhere. The latter rate represents a reduction from the previous 40 percent limit and is also below the 40 percent ceiling stipulated in the guidelines for Article 87(3)(a) areas with GDP per head above 60 percent of the EU average. In the Article 87(3)(c) areas, the ceilings agreed in September 2000 were (for large enterprises) 20 percent in Molise and Abruzzo and 8 percent elsewhere (ie. in eligible Centre-North areas). This compares with previous rate maxima for this size group of 30 percent in Abruzzo, 25 percent in Molise and 10 percent in the eligible Centre-North.

In ***Luxembourg***, all the regions eligible for support have above EU average GDP per head and below EU average unemployment. As a result, an aid ceiling of 10 percent was agreed with the Commission in line with the guidelines. This represents a significant lowering of the previous ceilings which ranged from 17.5 percent to 25 percent.

In the ***Netherlands***, no aid maxima were specified in the initial (March 1999) map submission but the implication was that a uniform award ceiling would apply to all eligible locations. However, the Commission considered that, in order to conform to the guidelines, the aid ceiling for Overig Groningen should not exceed 10 percent since the region had above average GDP per head and below average unemployment The Dutch response was to highlight the statistical anomalies which explained this result. The Commission replied that "figures are figures".[26] The Ministry of Economic Affairs has had to accept this but remained disappointed that the Commission did not respond more positively. To help ameliorate the situation (which is viewed as unfair by the Dutch), a new regulation was introduced for SMEs in the area (under the *de minimis* rule) which will allow a ceiling of 20 percent gross to be reached for SMEs. In the revised (April 2000) map submission (which was eventually approved by the Commission in mid-July), the aid ceilings set out in Table 7.6 were specified. This compares to previous aid ceilings in the north of 20 percent for setting up projects and extensions within five years of setting up and 15 percent for extension projects after five years. The previous ceiling in the transitional areas in Twente and South Limburg was 15 percent.

Table 7.6: Aid Ceilings in the Netherlands (percent)

Location	Aid Ceilings (percent)
3 northern provinces, excluding Overig Groningen but including Steenwijk and Hardenberg	20 gross
Flevoland (Lelystad and Urk)	20 gross
Twente and South Limburg (NUTS III)	15 gross
Overig Groningen (NUTS III)	10 net
Middle Limburg (NUTS III)	10 net

Source: Ministry of Economic Affairs

In ***Portugal***, the proposal made to the Commission for the Article 87(3)(a) areas set aid ceilings of 62 percent net grant-equivalent for the Azores and Madeira, 50 percent for Centro and Alentejo and 40 percent for Norte and the Algarve. This compared to the previous 75 percent limit. Regarding Lisboa and Vale do Tejo - which is eligible under Article 87(3)(c) as an ex-Article 87(3)(a) area - the proposal provided for a progressive fall in maximum award values to apply to the whole region over the four-year transitional period provided for in the guidelines. The Commission objected to this proposal claiming that, according to the guidelines, the geographical scope of this transitional arrangement applied only to 10.2 percent of the Portuguese population.

[26] This has echoes of the points made by the Dutch authorities to the Commission in the context of the designation of Flevoland for Objective 1 purposes over the 1994-99 period, in large measure as a consequence of statistical anomalies.

The Commission therefore opened the Article 88(2) procedure against aid to the Lisboa e Vale do Tejo region.[27]

Following a period of negotiation, the Commission approved the aid map for the Lisboa e Vale do Tejo region in June 2000.[28] This decision provided for aid levels in the Grande Lisboa (NUTS III) region to be limited to a net grant-equivalent of 10 percent with immediate effect and for transitional provisions to apply to the remainder of the Lisboa e Vale do Tejo NUTS II region such that aid levels be gradually reduced from 47.68 percent net grant-equivalent in 2000 to 20 percent net grant-equivalent in 2004. An important point arises from this outcome. Although the guidelines make reference to four-year transitional periods for rates of award in regions losing Article 87(3)(a) status, there is no indication that this is subordinate to the provisions regarding maximum levels of aid for regions where both GDP per head is higher than the EU average and unemployment rates are lower than the EU average (the case of Grande Lisboa). In other words, the guidelines do *not* state that the 10 percent ceiling for the better-off Article 87(3)(c) areas should be immediately applicable in the case of ex-Article 87(3)(a) areas in this position. However, this is what the Portuguese authorities had to accept in order to have their map approved.

In ***Spain***, the new map saw an increase in rate modulation, certainly over what is required under the guidelines. Within the Article 87(3)(a) areas, the agreed ceilings were:

- 50 percent nge in Extremadura, Andalusia and the Canary Isles

- 40 percent nge elsewhere, except in the following NUTS III areas:

  - 37 percent nge in Segovia, Palencia and Valencia
  - 35 percent nge in Burgos, Valladolid and Castellon
  - 30 percent nge in Guadalajara

Within the Article 87(3)(c) areas the ceiling set was generally 20 percent nge, but was 30 percent nge in parts of Aragon and 10 percent nge in parts of Catalonia. In Cantabria, a former Article 87(3)(a) area, it was agreed that the ceiling be progressively reduced from 40 percent to 20 percent nge between 2000 and 2004. The revised ceilings created few domestic difficulties since rates of award in Spain are typically much lower than the available maxima.

In ***Sweden***, the maximum award rate in Aid Area A is now 35 percent while in Aid Area B it is 25 percent for SMEs and 20 percent for larger companies. This compares with the previous award maxima of 35 percent in Aid Area 1 (40 percent for SMEs) and 20 percent in Aid Area 2 and the temporary areas (35 percent for SMEs).

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[27] IP/99/958 *Commission approves part of Portugal's regional aid map for 2000-2006 but launches investigation in aid to "Lisboa e Vale do Tejo" region,* Brussels, 8 December 1999.

[28] IP/00/672 *The Commission approves the part of the regional aid map for the "Lisboa e Vale do Tejo" region in Portugal,* Brussels, 28 June 2000.

In the ***United Kingdom***, close reference to the guidelines was made in the original submission to the Commission[29]. The ceilings proposed were: 40 percent nge in Tier 1 (ie Article 87(3)(a) areas); 40 percent nge in Northern Ireland - viewed as an "exceptional case"; 20 percent generally in Tier 2 (ie Article 87(3)(c) areas) but 30 percent nge in the sparsely populated Highlands and Islands NUTS II area and 10 percent nge for areas with above average GDP per head and below average unemployment. Apart from Tier 1, these proposed ceilings generally lay below the previous maxima of just over 47 percent nge in Northern Ireland, 30 percent nge in Development Areas and 20 percent nge in Intermediate Areas. However, the proposals did not prove acceptable to the Commission. The map finally approved had the following rate maxima:

- a ceiling of 40 percent net in Northern Ireland
- a ceiling of 35 percent net in Tier 1
- in general, ceilings of 10, 15 and 20 percent net in Tier 2, depending on the socio-economic status of the particular region
- but a ceiling of 30 percent net in Tier 2 areas facing special problems arising from low population densities
- support was also made available to SMEs in Tier 3 under the SME aid guidelines.

Overall, these ceilings introduce significant rate modulation compared both to the previous rate of award matrix and to the general maxima set out in the guidelines.

Finally, in ***Norway***, the new guidelines have also had an impact on aid ceilings in line with the European Economic Area (EEA) agreement. As part of a May 1998 aid area review, Zone A in the far north of the country lost its Article 92(3)(a) status. As a result, rate ceilings in this zone were adjusted so that, from 1 January 2000, they reflected the maxima set for sparsely-populated Article 92(3)(c) areas. This can be seen from Table 7.7.

Table 7.7: Award Ceilings in Norway (percent)

	Pre May 1998		**1998-99**		**From 2000**	
Assisted Area	SME	Large	SME	Large	SME	Large
Zone A	50	35	45	30	40*	30*
Zone B	30	25	30	25	25	20
Zone C	25	15	25	15	20	10

Note: *45 percent in four municipalities in Finnmark.

The rate maximum for SMEs in Zone A fell by 5 percentage points on 1 May 1998 and again by the same amount on 1 January 2000; the Zone A maximum for large projects also fell by 5 percentage points on 1 May 1998. A 5 percentage point cut also applied from the start of 2000 to large projects in Zones B and C.

[29] See *The Government's Proposals for New Assisted Area*, URN 99/963, 15 July 1999.

Summing up, it is clear that the new guidelines have had a major impact on rate maxima. More than this, the Commission insistence that what it considered to be appropriate rate modulation be introduced has caused a fair number of ceilings to lie below the rate maxima stipulated in the guidelines. Interestingly, rate modulation was a disputed aspect in the map negotiations in a majority of the Member States. Given the lower ceilings now in force, it seems likely to become an even more disputed aspect of policy in future.

8. CONCLUDING POINTS

There are a number of broad themes which arise from this review, many but not all of which reflect the impact of the new regional aid guidelines on national regional policy:

- the breadth and depth of the review process has clearly been considerable, though the full scale and impact of the changes made will only become apparent after all the revised elements of policy have been approved by the Commission and brought into force

- the following general themes have emerged from the review process:

  - there has been a tendency for the policy focus to shift towards wealth creation from wealth distribution, with an increasing emphasis on regional competitiveness and on creating an environment in which *all* regions can contribute to national development

  - related, there has been a growing stress on areas of development potential, with urban areas and agglomerations being viewed as the key motors of development

  - in most countries, there has also been an enhanced emphasis on regional-level inputs in policy implementation; however, the role of the centre continues to be seen as vital, with a view to coordinating policy actions, providing balance and assuring equity

  - instead of concentrating solely on narrow regional economic development initiatives, there are some pressures for broader policy approaches to be adopted to the development of the regions, not least in response to the need for Structural Fund co-financing; certainly, moves towards policy devolution have increasingly placed the policy spotlight on the spatial distribution of general government expenditure in the regions

  - there has been growing concern about the limited role that subsidiarity appears to play in regional policymaking; to what extent should regional policy in the Member States be Europeanised, nationalised, regionalised?

- the influence of the regional aid guidelines (and competition policy pressures more generally) on the form of aid is clear, with the virtual elimination of on-going forms of support (for instance, social security concessions) but with moves to introduce new wage-related subsidies as now permitted under the guidelines; on the other hand, not all developments in respect of incentive type have been guideline driven – the steadily reduced stress on investment-related support over the years, the growing emphasis on 'softer' measures to improve the business environment (including programme-based support) and the increasing tendency for assistance to be made available on a competitive basis up to a specified budgetary limit all reflect broader influences, not the least of which is the need to demonstrate value-for-money in policy spending

- three clear administrative trends have emerged from the review process:

  - there has been an increased focus on the sub-national level in the operation and implementation of regional policy in recent years

  - to some extent related, there has been a growing emphasis on policy coordination, not only at the regional level but between the regions and the centre

  - there has also been more selectivity, more discretion in regional incentive administration – so much so that, over the past two decades, regional incentives have moved from a position where their award was a legal entitlement in some countries to the current position where an increasing number of aid schemes are awarded on a competitive basis

- the regional aid guidelines have ensured that there have been very significant reductions in designated aid area population coverage in most Member States, ranging up to one quarter of the previously-eligible population; the nature of the guidelines also ensured that the designation process was a difficult one for most Member States, with disputes with the competition policy authorities on a range of issues including the population ceilings set, the units of analysis used for area designation purposes and the degree of rate differentiation employed

- while most coverage changes have related to the areas within which regional policy operates, there have also been changes in respect of eligible project size groups (with, in general, SMEs being favoured), eligible project sectors (with a widening of coverage towards 'new', often IT- and service-related, sectors and with a tendency for awards to become more sectorally selective) and eligible project types (with new start-ups favoured in a number of countries over expansion projects)

- finally, the new guidelines have had a major impact on rate maxima, not only at a global level but, following the Commission's insistence that appropriate rate modulation be introduced, leading to significant rate discrimination between regions within countries; while rate ceilings were a common source of dispute in the negotiations surrounding the new regional aid maps they seem likely to become an even more disputed aspect of policy in the years to come.