REGIONAL INCENTIVE POLICIES IN THE EUROPEAN UNION: RATES OF AWARD AND AWARD VALUES

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Regional and Industrial Policy Research Paper
Number 23

Published by:

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June 1997

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1. INTRODUCTION

Decision-making on regional aid awards is frequently characterised as a blind auction in which agencies compete for potentially mobile investment. It was this perception that led, in the early days of the European Community, to moves to introduce some discipline into a process that was often considered only to benefit firms without adding to overall welfare at the level of the Community as a whole. Based on this premise, the European Commission devised, and over time has elaborated, a system of regulating regional aids which seeks to control the spatial availability of assistance, to encourage forms of assistance which are internationally-comparable in terms of their value and to set award maxima that reflect the severity of economic problems in EU regions. This paper considers the background to this framework for control and its impact on the design of policy in the Member States.

Following this introduction, the paper is divided into four sections. It begins in Section 2 by reviewing the European Commission’s approach to setting maximum award values within the context of the application of State aids rules. Section 3 presents the outcome in terms of the ceilings established by the Commission for each country both in relation to regional aids specifically and, where applicable, the higher rates authorised in respect of the cumulation of regional and SME support. Section 4 provides a country-by-country review of the award values in selected Member States considering the extent to which the Commission rules or other factors influence policy in practice. The final section highlights issues for further discussion.

2. THE COMMISSION APPROACH TO CONTROLLING REGIONAL AID VALUES

The main rationale for action on regional aids within the European Union was the perceived risk of competitive outbidding between regions for internationally-mobile investment. The Commission first proposed a system for co-ordinating regional aids in 1968; this culminated in the adoption in 1971 of the first set of principles for co-ordinating regional assistance.[1] These first principles were supplemented in 1975 and 1979.[2] Together these documents addressed a number of issues relating to the control of regional aids, notably: the need to establish maximum rates of award in the problem regions which reflect the severity of the difficulties experienced; the need to establish a common method of assessing the value of aid across countries; the need for transparency of aid; and the need for regional specificity. In 1988, these existing documents were supplemented by a further Communication.[3]

These documents together form the basis for the assessment by the Commission of the regional aid policies of the Member States. There are three principal aspects to this: first, the control of the spatial coverage of policy; second, the requirement that the aids offered must be in a form that is capable of being assessed under the common methodology; and, third, the stipulation of maximum rates of award that vary with the perceived intensity of the regional problem. The first of these is discussed only briefly since the focus of this paper is on award values. Nevertheless, it is important to note that the Commission approach to determining aid values varies by type of assisted area.

2.1 Commission Control of the Spatial Coverage of Regional Aids

The Commission methodology for approving the designated areas for regional policy is outlined in the 1988 Communication mentioned above. The methodology makes use of the exceptions from the prohibition of aid provided for in Articles 92(3)(a) and (c) of the EC Treaty and differs according to which paragraph of Article 92(3) applies.

Article 92(3)(a) provides that "aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment" may be considered to be compatible with the common market. The 1988 methodology interprets this as regions where *per capita* gross domestic product is equal to or less than 75 percent of the Community average. For the purposes of the methodology, regions are considered to be the so-called NUTS II level units.[4] The

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1 Council Resolution of 20 October 1971 on General Systems of Regional Aid, OJEC C 111; 4 November 1971.

2 CEC (1979); Communication on Regional Aid Systems, OJEC C 31; 3 February 1979.

3 Communication on the Method for the Application of Articles 92(3)(a) and (c) to Regional Aid, OJEC C 212; 12 August 1988.

4 NUTS refers to the Nomenclature of Territorial Units for Statistics established by the Statistical Office of the European Communities. Examples of NUTS II regions are the Spanish Autonomous Communities and the Italian regions.

GDP figures are expressed in terms of purchasing power standards (to allow for differences in the cost of living between countries) and are averaged over the last three years for which data are available. The result of applying this methodology is that the whole of the territories of Greece, Ireland and Portugal, much of Spain and the south of Italy are approved as assisted areas under Article 92(3)(a).

Article 92(3)(c) provides, among other things, that “aid to facilitate the development of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest” may be compatible with the Common Market. The interpretation of this provision is more complicated than that for assisted areas under Article 92(3)(a). Moreover, it differs in two substantial respects. First, the analysis is based on the NUTS level III region;[5] and second, the methodology takes account of the situation of a region not only in relation to the Community average, but also in relation to the national average. Designation is approved on the basis of a two-stage analysis: the first, essentially quantitative; the second, more qualitative.

The first stage involves an assessment on the basis of GDP and unemployment. To qualify under Article 92(3)(c), a region must normally display the following minimum disparity:

- *per capita* GDP/GVA at least 15 percent below the national average; and/or

- unemployment at least 10 percent above the national average.

In order to take the EU context into account, national averages are adjusted on the basis of European indices of GDP per head and unemployment. Using these indices, a formula is applied that determines the threshold that a region must reach in order to qualify for approval under Article 92(3)(c). The net result of applying the formula is that the better the situation of a Member State in relation to the EU average, the greater must be the disparity of a region within the national context for the availability of regional aid to be justified. Thus, regions in Denmark and Germany (among the more prosperous nations of the EU) must diverge from the national average to a greater extent than those in Italy and the UK in order to qualify.

The second stage of analysis under Article 92(3)(c) takes other factors into account. These may include the trend and structure of unemployment, demographic pressures, structure of economic activity, etc. These data are used in a discretionary manner; there is no set formula for analysis.

An important point to note about the methodology as a whole is that neither stage of the analysis is conclusive. Meeting the relevant threshold under the first stage does not necessarily mean that a region will be approved by the Commission; equally, regions excluded on the basis of the first stage may qualify on the basis of the second.

As a consequence of Commission intervention, almost all the northern wealthier EU Member States were forced to cut back on the spatial coverage of their regional aid policies in the course of the 1980s. In contrast, the impact of intervention by the

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[5] Examples of NUTS III regions are the German *Kreise* and the Belgian *arrondissements.*

Commission's Competition Policy Directorate (DGIV) on the poorer southern or peripheral Member States has been generally to increase the spatial coverage of regional aids. As a consequence, Commission control of national regional aid maps has become a highly controversial topic and the methodology has been exposed to much criticism from national policy-makers.

2.2 Application of the Common Method of Assessment

Provisions for a common method of assessing the value of different types of aid date back to the early 1970s. Underlying the development of the method is the desire to make aid "measurable" or transparent. The aim of the methodology is to enable different forms of aid to be measured as a percentage of investment after tax - the so-called "net grant-equivalent" (nge). To this end, the methodology makes a number of assumptions about the nature and composition of assisted investments, the expenditure eligible for assistance and the profitability of the recipient firm. In practice, however, it is clear that the nge of a given aid can only be measured *ex post* and on a case-by-case basis. This arguably raises serious questions about the genuine contribution of the method to improving transparency with regard to the value of aid.

Many aspects of the Commission methodology for measuring aid are arcane and complicated. However, Commission insistence on transparency has been influential in shaping the regional incentive policies of the Member States over the past two decades. Commission views have played a significant role in the demise of large-scale, non-project-related assistance (like the Regional Development Grant in Britain and the WIR Investment Account in the Netherlands) and have also led to support which might be considered to be ongoing in its nature (including social security concessions and transport subsidies) being called increasingly into question. Largely (although not entirely) as a consequence of Commission pressure, the main incentive on offer in all the EU countries (except Greece) takes the form of a project-related grant contingent upon initial investment or job creation.

2.3 Commission Control of Regional Aid Values

The third strand of Commission control of regional aids is to stipulate the maximum levels of assistance that may be offered, based on the common method of assessment. In broad terms, the distinction between Article 92(3)(a) and (c) is retained for the purposes of maximum rates of award. In Article 92(3)(a) areas the Commission can authorise investment aid of up to 75 percent net grant-equivalent. In contrast, in Article 92(3)(c) areas the Commission rarely authorises award rates exceeding 30 percent nge. In practice, however, as will be seen, the actual award ceilings approved by the Commission vary very widely and are frequently significantly below the 75 percent and 30 percent ceilings quoted in the 1988 Communication. On the other hand, where the ceilings authorised are less than the 75 percent or 30 percent maxima, there is scope for the maxima to be raised in the case of support for SMEs. This possibility is provided for in the Community Guidelines on State Aid for Small and

Medium-Sized Enterprises.[6] Under the Framework, rates of award for SMEs may be raised as follows:

- by 10 percentage points gross, but subject to an overall ceiling of 30 percent nge in areas approved under Article 92(3)(c); and

- by 15 percentage points gross, but subject to an overall ceiling of 75 percent nge in areas approved under Article 92(3)(a).

Two points are worth making about these provisions. First, for areas in which the maximum (30 or 75 percent) already applies, the SME supplement does not bring any advantage; the overall effect is thus to reduce the extent to which SME support favours the worst-off areas. Second, the approach involves combining ceilings expressed in nge and in gross terms. This seems difficult to justify on theoretical grounds. In practice, however, as will be seen, the Commission does not take a consistent approach to setting ceilings for regional aid purposes.

In general terms, Commission discipline over regional aid values is much less controversial among national regional policy-makers than is its control over the geographical coverage of policy. The main reason for this is that the Commission ceilings tend not to constrain regional aid administrators in making award offers. On the contrary, the average awards under the main regional incentive grants are typically between a quarter and a half of the maxima permitted.

As such, the award ceilings authorised by the Commission are of limited impact in terms of disciplining regional aids. This is principally because these ceilings have been determined by the level of assistance available in certain regions at the time the limits were first introduced rather than by any analysis of the severity of the problem in the various regions. Moreover, since the early 1980s, regional policy expenditure has tended to decline as most countries have experienced budgetary pressures; a consequence of this is that policy-makers have increasingly sought “value-for-money” in making grant offers with the result that the advertised maxima are rarely attained in practice.

Given the highly-evolved, if controversial, approach to approving assisted area coverage, it is surprising that the Commission should apparently have paid so little attention to the modulation of maximum rates of award. Indeed, the general practice of adopting Member States’ advertised maxima as the starting point for setting ceilings has resulted in a large number of different authorised ceilings with little in the way of rigour applied to establishing a relationship between the maximum award level and the severity of the regional problem.

This approach led to a 75 percent nge ceiling in many areas approved under Article 92(3)(a) simply because that was the prevailing rate in the Italian *Mezzogiorno* at the time that the basic principles on aid intensity were first enunciated. When Greece, Portugal and Spain joined the Community, the impact of the competition rules on their regional policies was to *increase* permissible rates of award over the levels of support

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6 OJEC No. C 213; 23 July 1996.

that had been available previously. This reflected the fact that these new Member States were less prosperous than the EU average and the higher ceilings were intended to maintain the competitive advantage of the problem regions of these countries in attracting mobile investment. In practice, however, these countries lack the budgetary resources to finance regional aids at these levels so that the higher ceilings authorised by the Commission are, in reality, largely theoretical.

3. APPLICATION OF THE RULES: EUROPEAN COMMISSION CEILINGS

This section begins by setting out the Commission award ceilings as they currently stand in respect of regional aid. The second part indicates the Commission maxima which apply when regional aid is cumulated with support for SMEs.

3.1 Regional Aid Ceilings

As mentioned above, the application of the Commission regional aid rules for award values has resulted in a large number of award maxima being applied. Moreover, and surprisingly given the Commission's apparent attachment to achieving comparability across countries, the Commission ceilings are set in gross terms for some countries and in net terms for others. These ceilings are set out in Table 3.1 and Table 3.2, respectively. It should be noted that, for the most part, these ceilings refer to the maximum levels of assistance available, including all cumulation possibilities. However, there are some regions in which higher ceilings are available for assistance to SMEs. These are discussed in further detail in Section 3.2 below.

It can be seen from Table 3.1 that Commission aid ceilings are expressed in gross rather than net grant-equivalent terms in six of the 15 Member States - Germany, Finland, Luxembourg, the Netherlands, Portugal and Sweden. There would seem to be no clear reason why the aid ceilings for this particular group of countries should be expressed in gross terms. The group includes one of the four Cohesion countries and two of the three Member States which have most recently joined the EU. Moreover, it consists of both Article 92(3)(a) areas (the whole of Portugal and the new *Länder* in Germany) and Article 92(3)(c) regions (the remainder). There would, thus, seem to be no obvious rationale for the choice of gross rather than nge ceilings; further, the use of gross maxima is difficult to understand in the context of the common method of assessment outlined in Section 2. In this respect, it is interesting to note that the Dutch authorities had, until recently, assumed that their ceilings were in nge. It was only in the light of a particular case where the ceiling was met on a nge basis but exceeded in gross terms that this issue has become the subject of discussions with the Commission.

If the first point to be made in connection with Table 3.1 is that there is no apparent logic (in the context of the common method of assessment) to the utilisation of gross rather than nge ceilings, then an obvious second point is that the real value of gross ceilings is considerably lower than the same ceilings expressed in nge terms; in the Dutch case referred to above, the difference is estimated to be of the order of seven percentage points.

Table 3.1: Commission Award Ceilings for Member States where Maxima are Expressed in Gross Terms

	Gross Award Ceiling (%)	Pop Coverage (%)
Finland	35	12.7
	27	12.8
	20	16.1
Germany	**35**	20.8
	18	11.1
	15	1.8
	12	3.9
Luxembourg	25	34.6
	17.5	8.1
Netherlands	25	1.5
	20	9.1
	15	6.7
Portugal	**75**	100.0
Sweden	35	5.9
	25	12.6

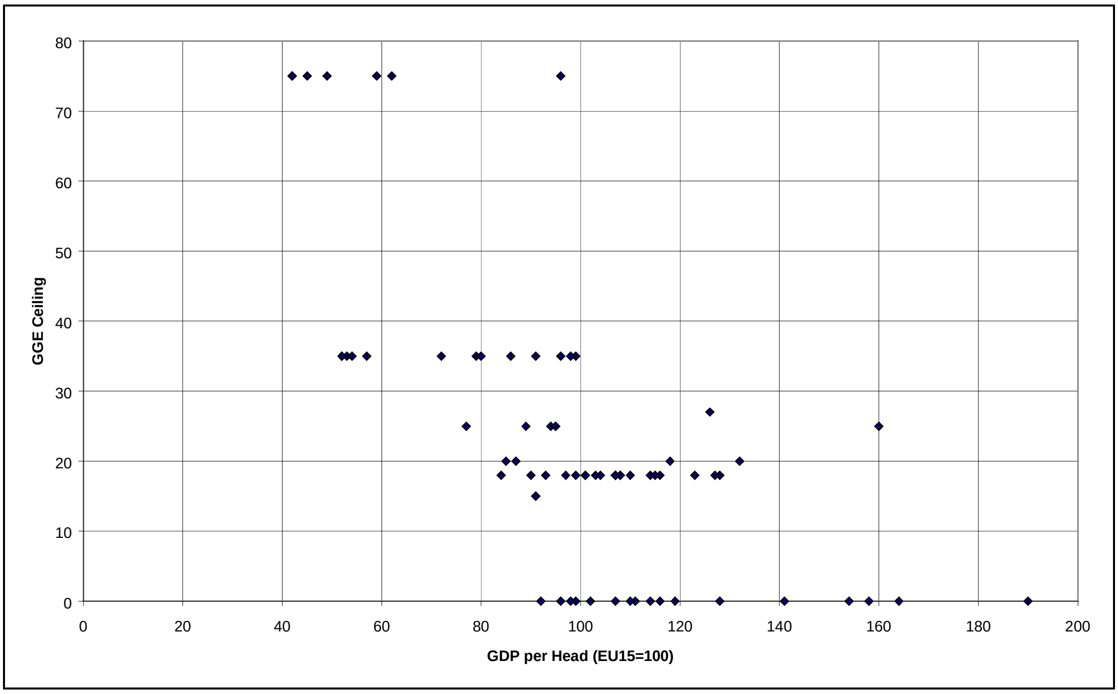
Note: Ceilings in bold type relate to Article 92(3)(a) regions; other ceilings relate to Article 92(3)(c) regions.

Source: DGIV, European Commission.

Third, it is important, once more, to underline the fact that the ceilings set do not reflect any comparative analysis of the intensity of the regional problem across countries; rather, they tend simply to mirror the advertised rates of award which applied in the countries and regions concerned at the time bilateral agreement was reached between the Commission and the relevant country. Thus, on the one hand, in one Article 92(3)(a) region (Portugal) the agreed ceiling is 75 percent while in another (the new *Länder* in Germany) it is 35 percent; and, on the other hand, a 35 percent ceiling also applies in the northern regions of both Finland and Sweden, neither of which are designated under Article 92(3)(a).

The overall relationship between GDP per head and maximum award values for NUTS II regions within the six countries covered by Table 3.1 is reflected in Chart 3.1. Although the *general* trend is as one would expect, with poorer regions in *per capita* GDP terms having higher gross award ceilings, there are a significant number of outliers. Of course, graphic representations such as Chart 3.1 should be treated with some caution. In particular, the GDP data are at NUTS II and levels of GDP per head have been plotted against the highest rate applicable in any part of the region concerned, no matter how limited its spatial coverage. It is interesting to note in passing that many countries do not produce GDP data at the NUTS III level, a fact which must severely limit the extent to which the Article 92(3)(c) methodology can actually be applied in practice.

Chart 3.1: The Relationship Between Gross Grant Equivalent Ceilings and GDP per Head

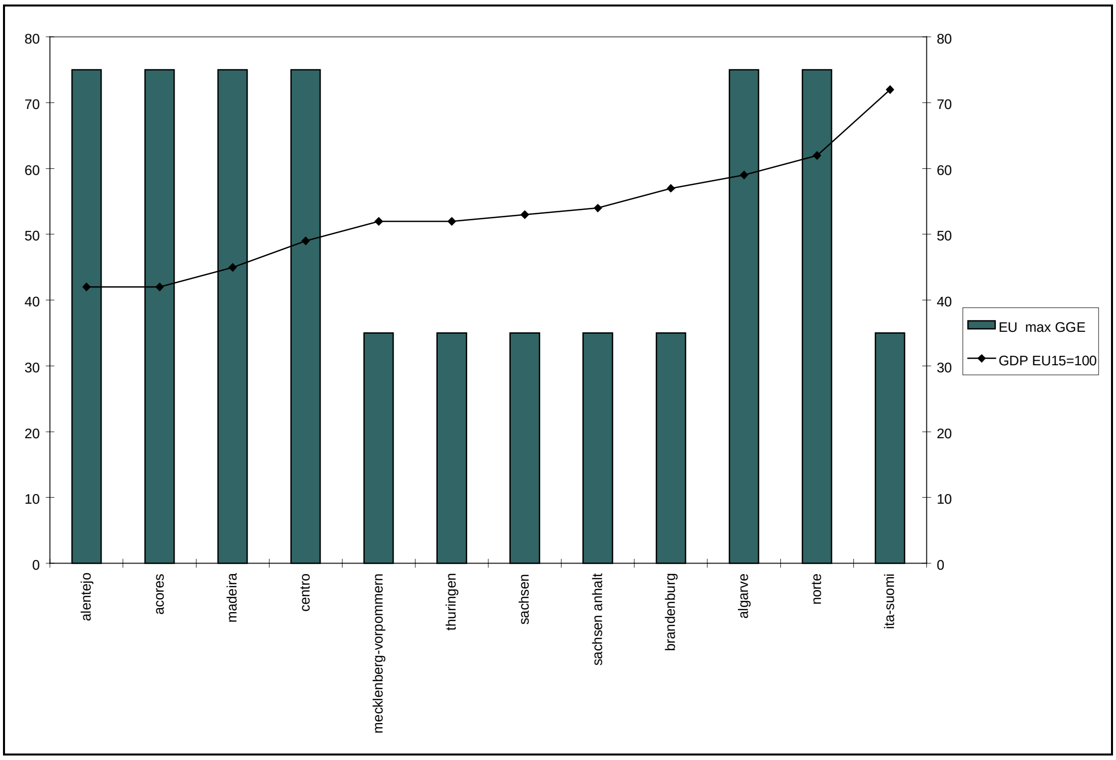


Source: EPRC Calculations from Yuill *et al* (1995), EUROSTAT (1996) and unpublished information kindly provided by DGIV.

The limitations of Chart 3.1 are mitigated somewhat in Chart 3.2. For the six countries where gross award ceilings apply, this plots the gross grant-equivalent ceilings of Europe's poorest regions (those with GDP/PPS per head of less than 75 percent of the EU average in 1993) against levels of GDP per head. This provides a more realistic assessment of the relationship between gross grant-equivalent ceilings and GDP per head since (except for Itä-Suomi in Finland) the regions concerned are approved under Article 92(3)(a) which uses GDP per head at NUTS II as the sole criterion for approval.

The striking feature about Chart 3.2 is that it suggests the very different treatment of Article 92(3)(a) regions according to *national* levels of prosperity. While this is perhaps not inappropriate, the 1988 Communication makes no provision for discrimination along these lines, relating Article 92(3)(a) designation solely to the position of the region in an EU context.

Chart 3.2: The Relationship between GDP/PPS and GGE Ceilings in Europe's Poorest Regions



Source: EPRC Calculations from Yuill *et al* (1995), EUROSTAT (1996) and unpublished information kindly provided by DGIV.

The ceilings for regional aid expressed in nge terms are set out in Table 3.2. As already mentioned, this covers the remaining nine Member States. Again, wide distinctions can be drawn between regions commonly classified under Article 92(3)(a). These face nge ceilings of 30-40 percent in Austria, 30-60 percent in Spain, 65 percent in France, 47.4-75 percent in Greece, 40-50 percent in Italy, 57.3-75 percent in Ireland and 47.4 percent in the UK. In similar vein, the ceilings set for the Article 92(3)(c) regions in the table also range widely - from a low of 10 percent within eligible areas in the Centre-North of Italy to 30 percent nge in the British Development Areas and in Corsica and Longwy in France.

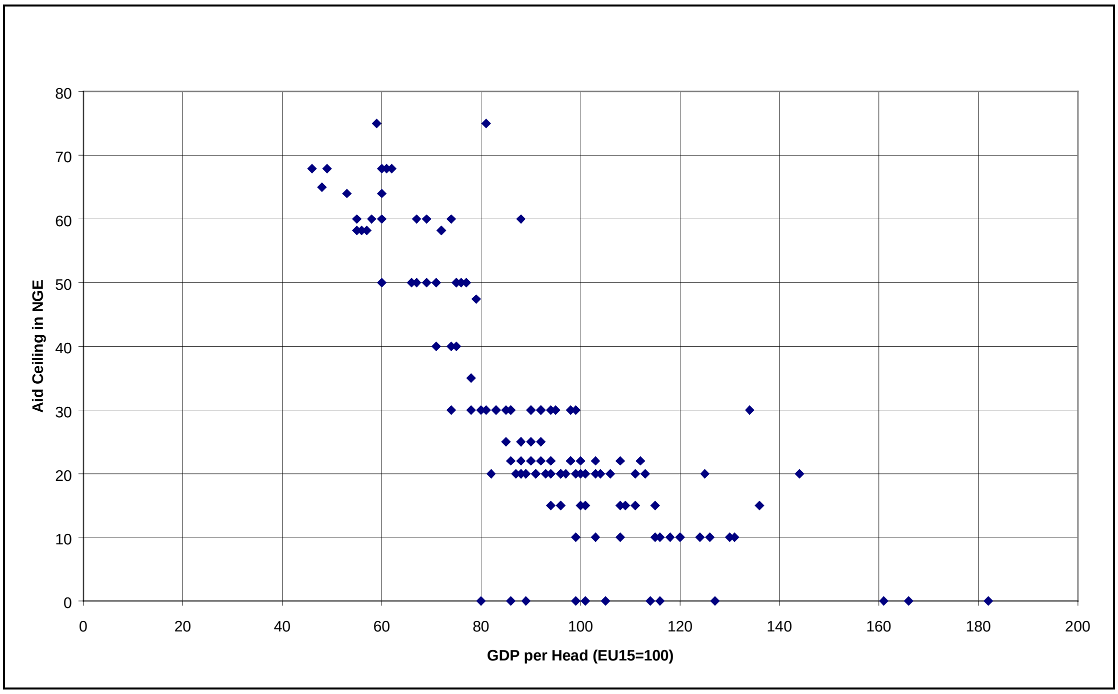
Table 3.2: Commission Award Ceilings for Member States where Maxima are Expressed in Net Grant-Equivalent Terms

	NGE Award Ceiling (%)	Pop Coverage (%)
Austria	**40**	1.8
	30	1.7
	25	2.3
	20	26.4
	15	3.0
Belgium	25	12.6
	20	9.7
	15	12.6
Denmark	25	4.9
	16.9	15.0
France	**65**	2.5
	30	0.4
	25	1.5
	22	11.8
	15	26.2
Greece	**75**	3.5
	67.9	3.5
	64	3.0
	58.2	35.0
	54.2	15.0
	47.4	40.0
Ireland	**75**	2.4
	71.4	31.5
	57.3	66.1
Italy	**50**	9.4
	40	24.8
	10	14.7
Spain	**60**	31.6
	50	16.8
	40	4.5
	30	6.8
	25	5.8
	20	9.7
	15	0.8
UK	**47.4**	2.9
	30	16.9
	20	18.3

Source: DGIV, European Commission.
Note: Ceilings in bold type relate to Article 92(3)(a) regions; other ceilings relate to Article 92(3)(c) regions.

As before, the relationship between regional prosperity (as reflected by *per capita* GDP) and the grant-equivalent ceilings set by the Commission is not always a clear one. This is illustrated in general terms in Chart 3.3. While the chart shows that, broadly speaking, nge aid ceilings decline as regional prosperity increases, there are, as was the case with Chart 3.1, a significant number of outliers. Moreover, and again repeating the position in the earlier chart, for any given award ceiling, there is often a marked variation in the GDP per head recorded in respect of those regions to which the common aid ceiling applies.

Chart 3.3: The Relationship Between Net Grant Equivalent Ceilings and GDP per Head

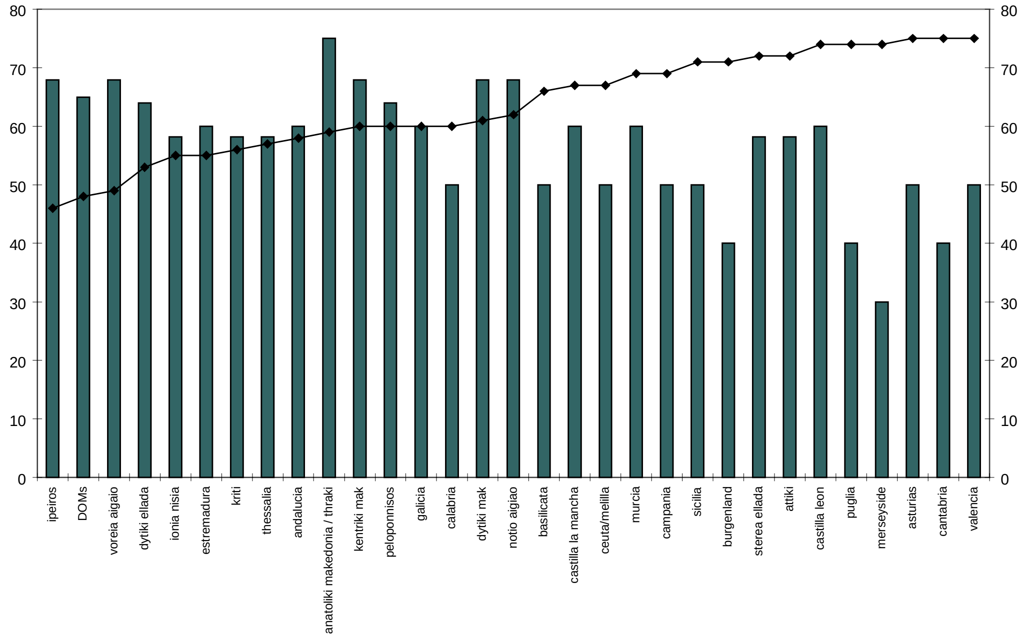


Source: EPRC Calculations from Yuill *et al* (1995), EUROSTAT (1996) and unpublished information kindly provided by DGIV.

The same caveats apply to Chart 3.3 as to Chart 3.1. In particular, levels of GDP per head have been plotted against the highest rate applicable in any part of the region concerned, irrespective of its spatial coverage. However, this qualification is overcome in large measure in Chart 3.4 which focuses on the position within the poorer regions of the countries covered.

The pattern that emerges is again far from uniform. On the other hand, it appears that the Commission *has* taken account of the national situation in approving award ceilings; almost without exception, higher ceilings have been approved in the poor regions of the Cohesion countries than in regions of equivalent prosperity that lie within the richer Member States. However, it is also worth noting that the award ceilings approved are not solely the product of Commission influence; for example, the Member States have taken differing stances on seeking higher award ceilings for areas designated as Objective 1. No such special treatment seems to have been sought for Merseyside in the UK, but higher ceilings have been approved in the French (Nord-Pas de Calais) and Belgian (Hainaut) Objective 1 regions (neither of which feature on Chart 3.4 since, by 1993, GDP/PPS per head was 85 and 86 percent of the EU average respectively).

Chart 3.4: The Relationship between GDP/PPS and NGE Ceilings in Europe's Poorest Regions



Source: EPRC Calculations from Yuill *et al* (1995), EUROSTAT (1996) and unpublished information kindly provided by DGIV.
Note: Regions are presented in ascending order of GDP/PPS (plotted against the right hand Y axis) where EU15=100. The bar chart shows EU nge ceilings.

3.2 Ceilings for the Cumulation of Regional Aid and SME Support

As noted above, the ceilings highlighted in Table 3.1 and Table 3.2 generally apply to all firms irrespective of size or source of assistance in relation to the same investment. However, in certain regions, higher ceilings may be available in respect of SMEs. For these purposes, the distinction between ceilings expressed in gross and net terms is retained. The ceilings for SMEs are set out in Table 3.3 and Table 3.4, alongside the standard ceilings drawn from Table 3.1 and Table 3.2.

As can be seen in Table 3.3, the supplement for SMEs is not available either in all countries or in all eligible areas within countries.

In Germany, there is a direct correlation between the general ceilings and the SME supplement. In the new *Länder* SMEs qualify for a 15 percentage point supplement while elsewhere in the GA areas the three existing rates of award are each raised by 10 percentage points. These SME supplements directly reflect the Commission Framework on State Aids to SMEs. The situation is more complicated in the other countries shown in Table 3.3; indeed, Germany appears to be the only country in which the SME aid guidelines have been applied consistently and to the full.

Table 3.3: Commission Award Ceilings for SMEs in Member States where Maxima are Expressed in Gross Terms

	Gross Award Ceiling (%)	Pop Coverage (%)	Gross Award Ceiling for SMEs (%)	Pop Coverage (%)
Finland	35	12.7	37	25.5
	27	12.8		
	20	16.1	30	16.1
Germany	**35**	20.8	**50**	20.8
	18	11.1	28	11.1
	15	1.8	25	1.8
	12	3.9	22	3.9
Luxembourg	25	34.6		
	17.5	8.1		
Netherlands	25	1.5	35	1.1
	20	9.1		
	15	6.7		
Portugal	**75**	100.0		
Sweden	35	5.9	40	5.1
	25	12.6	35	14.2

Source: DGIV, European Commission.
Note: Ceilings in bold type relate to Article 92(3)(a) regions; other ceilings relate to Article 92(3)(c) regions. For Luxembourg and Portugal, the ceilings given in Table 3.1 apply to SMEs.

In Finland, the top two bands of assisted area are merged for the purposes of the SME supplement so that the value of the supplement is either 2 or 10 percentage points depending on location. Nevertheless, higher rates of award apply to SMEs throughout the Finnish problem regions.

In the Netherlands, in contrast, the SME supplement is available only in a very restricted part of the country - the Objective 1 region of Flevoland (involving a 10 percentage point increase in respect of areas holding just 1.1 percent of the national population). In contrast, in Sweden, the area in which the SME supplement applies is more extensive than the assisted areas map (19.3 percent of the national population as opposed to 18.5 percent) and there is no direct correlation between the award bands which apply to SMEs and larger projects. It is, however, clear that the percentage point supplement is smaller in many of Sweden’s worst-off areas (5 percentage points) than it is elsewhere in the designated aid areas (10 percentage points). Both Sweden and Finland thus provide practical examples where rate discrimination between the worst- and better-off problem regions is less for SMEs than it is for larger firms.

Chart 3.5: SME Supplements for Countries with Gross Ceilings

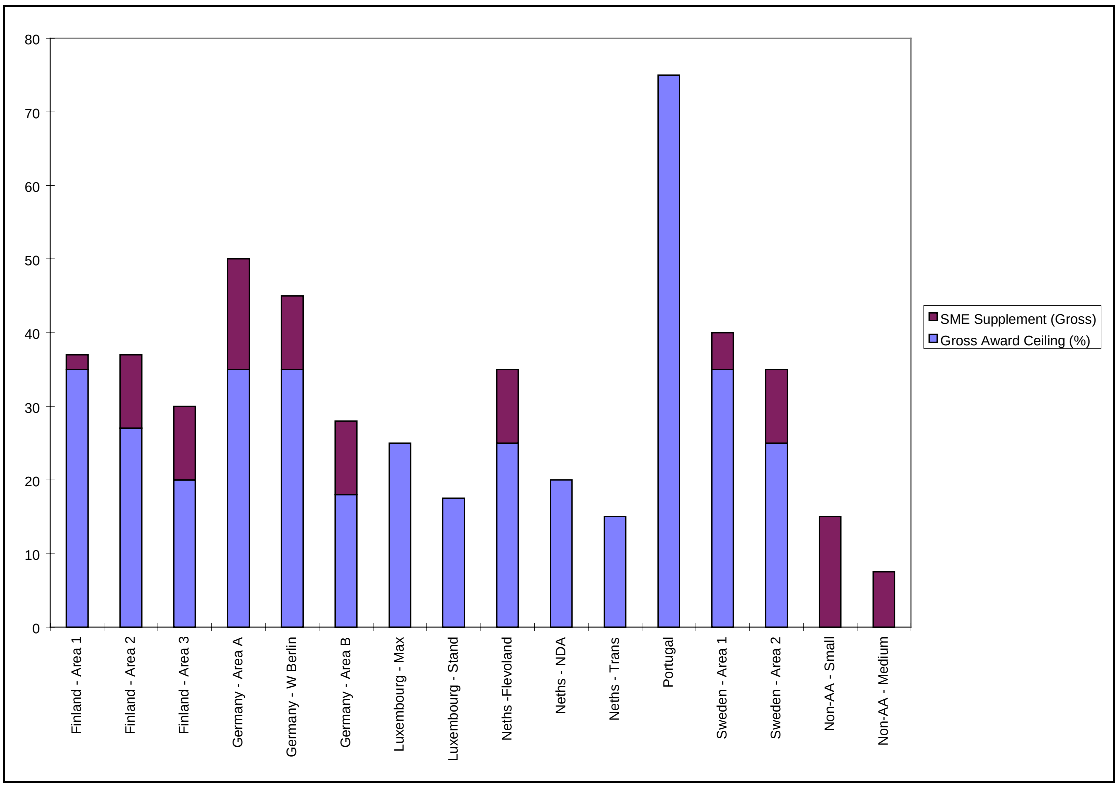


Chart 3.5 is a (somewhat simplified) graphical representation of Table 3.3. It shows clearly the varying impact of the SME supplements. By including the award maxima available to small and medium-sized firms outside designated assisted areas, it also underlines the reduced rate differential for SMEs between assisted and non-assisted areas.

With respect to the countries for which ceilings are set in nge terms, a similar picture emerges (see Table 3.4 and the associated, somewhat simplified, Chart 3.6). As both the table and the chart show, in a number of countries and regions no SME supplement is available - Denmark, Spain, Ireland, Greece and the UK. It is interesting that -bearing in mind the unchanged maximum for Portugal in Table 3.3 - the ceilings are not increased for SMEs in any of the four Cohesion countries; these areas combined account for most of the areas approved under Article 92(3)(a). Moreover, this is in spite of the fact that, with the exception of a very small part of Greece, the 75 percent nge ceiling is not currently reached anywhere within these countries by regional incentives alone. As was the case with Chart 3.5, the inclusion of the award maxima available to SMEs in non-assisted areas in Chart 3.6 again emphasises the reduced rate differentials which apply between assisted and non-assisted areas for this firm size group.

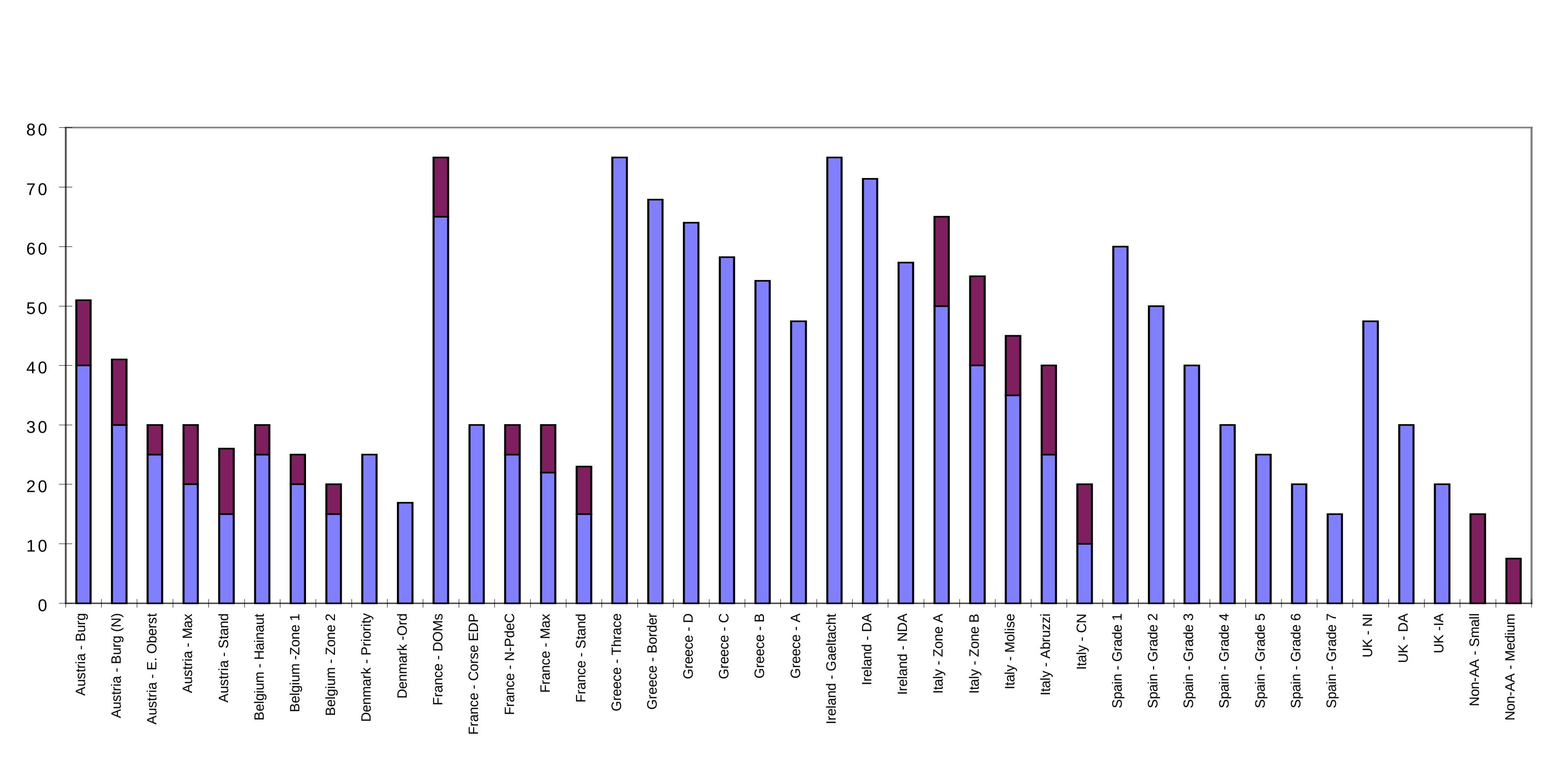
Table 3.4: Commission Award Ceilings for SMEs in Member States where Maxima are Expressed in Net Grant-Equivalent Terms

	NGE Award Ceiling (%)	Pop Coverage (%)	NGE Award Ceiling (%)	Pop Coverage (%)
Austria	**40**	1.8	51	1.8
	30	1.7	41	1.7
	25	2.3	30	28.7
	20	26.4		
	15	3.0	26	3.0
Belgium	25	12.6	30	12.7
	20	9.7	25	7.8
	15	12.6	20	2.5
Denmark	25	4.9		
	16.9	15.0		
France	**65**	2.5	75	2.5
	30	0.4	30	13.7
	25	1.5		
	22	11.8		
	15	26.2	23	26.2
Greece	**75**	3.5		
	67.9	3.5		
	64	3.0		
	58.2	35.0		
	54.2	15.0		
	47.4	40.0		
Ireland	**75**	2.4		
	71.4	31.5		
	57.3	66.1		
Italy	**50**	9.4		
	40	24.8		
	10	14.7	15, 20, 30	11.9
Spain	**60**	31.6		
	50	16.8		
	40	4.5		
	30	6.8		
	25	5.8		
	20	9.7		
	15	0.8		
The UK	**47.4**	2.9		
	30	16.9		
	20	18.3		

Source: DGIV, European Commission.

Note: Ceilings in bold type relate to Article 92(3)(a) regions; other ceilings relate to Article 92(3)(c) regions. For Denmark, Spain, Ireland, Greece and the UK the ceilings given in Table 3.2 apply to SMEs. In Italy, the higher rates available for SMEs in some regions discriminate between firms established by young persons (30 percent nge), small firms (20 percent nge) and medium-sized firms (15 percent nge). Note that the table above does not fully reflect the award ceilings in force in Italy - see Table 4.5.

Chart 3.6: SME Supplements for Countries where Ceilings are Set in NGE



As for the four countries highlighted in Table 3.4 where there *are* extra SME supplements (ie. Austria, Belgium, France and Italy), three points are worth making, One is that the supplements have been applied in nge terms even though the Commission Framework on State Aids to SMEs is on a gross basis (see Section 2.3). The second is that, as was the case with Table 3.3, the level of supplement varies between countries and regions. Thus, in Austria, the supplement is 5, 10 or 11 percentage points depending on location; in France, it is 0, 5, 8 or 10 percentage points; in Belgium, it is generally 5 percentage points; and in Italy, it is 5 percentage points for medium-sized firms, 10 percentage points for small firms and 20 percentage points for SMEs established by young persons. Third, it is not always the case that the worst-off regions receive the highest SME supplement. Reflecting this, levels of rate discrimination are generally less in Table 3.4 than in Table 3.2.

4. AWARD VALUES IN SELECTED MEMBER STATES

Clearly, through the application of the common method of assessment, the European Commission has an important influence on aid maxima in the Member States. In addition, however, there is a range of factors which conspire to determine award values in practice, perhaps most notably the budgetary resources available to the Member States. This section of the paper reviews the award rates and values for selected EU countries, focusing on the following: Spain, France, the UK, the Netherlands, Italy, Germany and Sweden.

4.1 Spain

In Spain, the main regional incentive is the Regional Investment Grant. The European Commission approved the scheme, the assisted areas map and the accompanying award maxima in the context of the accession negotiations in the mid-1980s. There are two main points to note about the Spanish map. First, the eligible areas authorised by the Commission were more extensive than those actually implemented by the Spanish authorities for the purposes of national regional incentive policy. Second, the rates of award authorised by the Commission were much higher than the Spanish authorities chose to offer. This is best illustrated by the fact that the Commission initially authorised a maximum rate of 75 percent net grant equivalent in most of Spain; in these areas the Spanish authorities set the ceiling at 50 percent gross in general, limiting the 75 percent ceiling to three very closely-defined regions.

More recently, early in 1996, the Commission authorised an even more extensive map;[7] however, it remains to be seen whether the Spanish authorities will take advantage of the scope to designate further areas. As far as rates of award are concerned, the same Commission decision imposed lower award maxima than had previously been authorised (these are shown in Table 4.1). The Spanish authorities have adjusted the advertised maxima in the areas affected; however, it is important to note that the practical importance of these lower ceilings is very limited. This is for two reasons: first, because the Spanish authorities never had taken full advantage of the ceilings authorised (so that, in many cases, no adjustment was required in practice); and second, because, in any event, the advertised maxima were themselves rarely, if ever, reached.

Table 4.1 illustrates the extent of the disparities between the maxima authorised by the Commission and the ceilings actually advertised by the Spanish authorities. In viewing this table, it is important to note that not only are the advertised maxima generally lower than the authorised ceilings but that they are expressed in gross rather than in net terms. Furthermore, it is clear from the average award figures in the table that the awards actually offered are substantially lower even than the advertised ceilings.

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[7] OJEC No C 25; 31 January 1996.

Table 4.1: Commission Ceilings and Advertised Maxima in Spain

Autonomous Community	Eligible Areas	EU ceiling at 31.12.95 (%NGE)	Advertised maximum at 31.12.95 (% gross)	Average awards 1988-95 (% of eligible investment
Galicia	El Ferrol remainder	75 75	75 50	35.8 17.8
Extremadura	Fregenal remainder	75 75	75 50	50.9 24.7
Murcia	Cartagena remainder	75 75	75 50	29.4
Andalucia		75	50	19.3
Canarias		75	50	15.1
Melilla		75	50	21
Ceuta		75	50	30.3
Castilla Leon	Leon etc. Valladolid etc	75 45	50 40	13.7
Valencia	interior	30	30	9.7
Castilla La Mancha	Albacete etc Guadaljara	45 45	50 40	15.9
Asturias	Langreo etc Aviles etc remainder	45 30 45	50 30 40	25.5
Cantabria		30	30	13.5
Aragón	Huesca ZE remainder	20 0	20 0	17.3
Cataluña	Barcelona remainder	20 0	0 0	
Pais Vasco	NE NW remainder	20 30 0	0 0 0	
Navarra	north remainder	20 0	0 0	
Madrid	north remainder	45 0	0 0	
La Rioja		0	0	
Baleares		0	0	

Source: Yuill *et al* (1995); information kindly provided by the Spanish government.
Note: Average awards by grade of area are only available for Extremadura and Galicia. Also, the ceilings and rates were adjusted early in 1996 in line with the revised Commission decision. The ceilings which now apply are given in Table 3.2.

In part, the discrepancy between the area coverage and award rates authorised by the Commission and those implemented by the national government reflects the role played by the Autonomous Communities (the Spanish regions) within the Spanish regional incentive system. The semi-federal institutional structure in Spain means that the Autonomous Communities have significant economic development responsibilities. As a result, although the Spanish government does not operate national regional policy in areas approved by the Commission in Madrid, Pais Vasco or Cataluña, for example, the governments of these regions are free to offer support from their own aid schemes and budgets - subject, of course, to the standard rules regarding notification, as well as those governing award maxima and spatial availability.

As Table 4.1 shows, actual award levels are very significantly below the advertised maxima. This reflects the considerable rate discrimination which is applied to applications for support. Rates of award are decided on the basis of a set of automatic, but unpublished, rules and take account of five factors: job creation; the use of indigenous raw materials; value-added, where the project is a start-up or increases in productivity for other project types; technological interest; and the interest of the project for the locality. Each of these five factors carries a percentage weighting in the project evaluation, with employment creation being the single most important factor. The evaluation of each applicant project results in a percentage rating which is applied to the maximum rate prevailing in the area concerned. In so-called preferential municipalities, the resulting rate is increased by 20 percent, although it may never exceed the overall aid ceiling for the locality.

Setting regional aid in the context of assistance available nationally, it is important to note that there is no other source of support available for large firms in respect of the same investment at the national level in Spain, although clearly assistance is available for projects involving R&D or environmental protection. However, the Autonomous Communities have the capacity to assist projects from their own resources. In addition, national (and regional) level support is available to SMEs, although minimum investment thresholds apply to the Regional Investment Grant making the scheme of less relevance to small firms. As far as cumulation possibilities are concerned, award levels are mainly regulated by the fact that applicants are required in law to declare all sources of assistance for which they have applied or intend to apply. For the most part, applications for the Regional Investment Grant are channelled through the regional level. In consequence, the Autonomous Community has the opportunity to consider whether to support the project from its own funds. This it may do if, for example, it considers that the assistance available under the Regional Investment Grant is likely to be insufficient to attract the project to the region. Ultimately, however, responsibility for ensuring that the cumulation ceilings are complied with rests with the Directorate General for Regional Incentives (DGIER) in Madrid. The cases where the ceilings are even approached are said to be extremely rare; where this does occur, the level of the Regional Investment Grant is adjusted to comply with the ceiling. The DGIER operates a computer program to calculate the net grant-equivalent of the aid being provided where there is a risk of the ceiling being breached.

4.2 France

The main regional incentive in France is the Regional Policy Grant, or PAT scheme. Recent negotiations with the European Commission resulted in an amended assisted areas map and greater rate discrimination within the map; these changes were introduced in 1995. Levels of award under the PAT scheme are based around an amount per job, but subject to a ceiling expressed as a percentage of eligible investment (for service sector projects, only the cost-per-job amount applies).

As Table 4.2 shows, the French authorities express rates of award in gross terms at levels that are nominally slightly above the net ceilings set by the Commission. The recent changes to the PAT scheme involved introducing four levels of rate discrimination rather than two, as previously. New maxima were stipulated for the Objective 1 area of Nord-Pas de Calais and for the Lorraine EDP (European Development Pole) and Corsica. In practice, it is important to note that the actual levels of award offered under the PAT scheme as a percentage of eligible investment are very substantially lower than the advertised ceilings - although the table suggests that the cost-per-job guidelines are quite closely adhered to. In view of a recent increase in the cost-per-job rates (which came into force in 1995 and saw the cost-per-job guidelines rise from FF 35,000-50,000 to FF 50,000-70,000), it is expected that the average rates of award as a percentage of eligible investment will increase.

Table 4.2: Commission Ceilings and Advertised Maxima in France

Eligible Areas	EU Ceiling (%NGE)	Advertised maximum (% gross)	Cost-per-job guideline	Average award 1988-95 (%)	Average award per job
Standard Rate Area	15	17	FF 50,000	6.5	FF45,316
Maximum Rate Area	22	25	FF 70,000		
N-P. de C. Objective 1 Area	25	28	FF 70,000		
Lorraine EDP and Corsica	30	34	FF 70,000		

Source: Yuill *et al* (1995); information kindly supplied by DATAR.

Note: Average award data is not available broken down by grade of designated area. In addition, it should be noted that, in the period covered by the figures, the award rates were 25 and 17 percent gross and FF35,000 and 50,000 per job respectively.

The low average rate of award as a percentage of eligible investment, which is indicated in Table 4.2 for the 1988-95 period, reflects the very tight budgetary constraints within which the PAT scheme has been operated.

There are some possibilities of cumulating assistance under other aid schemes with a PAT award. For example, in a number of areas so-called “reconversion companies” operate. These are subsidiaries of large, usually nationalised, companies undergoing restructuring. Reconversion companies may provide assistance in the form of soft loans or equity. In addition, firms locating in PAT assisted areas may qualify for a reduction in local business tax; the maximum concession is a complete exemption from the tax for up to five years. Each level of local authority in France is responsible for setting the rate applicable to its share of the tax (this means over 36,000 local authorities); in addition, those local authorities that fall within the PAT map are free to decide whether to offer the concession and, if so, at what level and for what duration. As a result, it is impossible to give any general indications of the value of the local business tax concession.

With a view to monitoring cumulation possibilities, both of these sources of assistance, together with any other public sources of funding, must be declared at the time of application for the PAT. It is rare for combined levels of assistance to approach the ceilings set by the European Commission, but there are mechanisms in place within DATAR to make the necessary nge calculation if it is considered that a particular award may be in danger of breaching the ceiling. In practice, however, because of the budgetary constraints under which the PAT is operated, the availability of other sources of support is likely to result in a reduction or complete withdrawal of PAT assistance.

4.3 The United Kingdom

In the UK, there are essentially two distinct packages of regional aid support: one for Northern Ireland and one for Great Britain (the rest of the UK). The main regional aid scheme in Great Britain is Regional Selective Assistance (RSA). A notable feature of rates of award under RSA is that they are determined by the lowest of three maxima: two confidential internal ceilings (one as a percentage of eligible expenditure, the other expressed in terms of cost-per-job) and the aid ceilings set by the EU. The confidential nature of the internal ceilings tends to ensure that the advertised maxima focus on the EU ceilings: 30 percent nge in the Development Areas and 20 percent nge in Intermediate Areas.

In reviewing the figures in Table 4.3 as they relate to Great Britain, it is important to note that, in considering RSA aid applications, the level of award is set at the *minimum necessary* to bring about the additional benefits associated with the project. This helps ensure that, as in the other countries discussed, actual award offers are, on average, substantially below the Commission limits - around a half of the maximum in the Intermediate Areas and just over two-fifths in the Development Areas.

In Northern Ireland, Selective Financial Assistance is an umbrella term for a package of measures which includes, amongst other things, capital grants, employment grants and loan-related subsidies. The package is project-related and discretionary and covers all eligible investment up to the level of a (confidential) cost-per-job limit. In addition, EU ceilings must obviously be met for the package as a whole. As far as advertised grant maxima are concerned, the grant element of the package is split in two: a fixed maximum percentage of 30 percent, plus a supplementary discretionary award of up to 20 percent for particularly attractive internationally-mobile projects. The discretionary nature of any supplementary award results in average awards which are well below the available maximum; from Table 4.3, it can be seen that, in recent years, average awards have tended to be about half the advertised maximum.

Table 4.3: Commission Ceilings and Advertised Maxima in the UK

Eligible Areas	EU ceiling (%NGE)	Advertised maxima	Average awards 1988-95 (% of eligible investment)	Average award per job created or maintained
Intermediate Areas	20	lowest of EU ceilings or internal maxima	9.9	£3,039
Development Areas	30	lowest of EU ceilings or internal maxima	12.8	£5,975
Northern Ireland	47.4	50 (gross)	25.4	£13,987

Source: Yuill *et al* (1995); Industrial Development Act 1982 Annual Report; Annual Report and Accounts 1994/5, IDB Northern Ireland.
Note: Figures for Northern Ireland refer to the period 1988-95.

4.4 The Netherlands

A feature of the regional incentive package in the Netherlands is that the advertised maxima under the Investment Premium scheme are fixed rates of award for setting-up projects of up to Fl 18 million of eligible investment and for extensions of up to Fl 8 million of eligible investment. Awards in respect of investment going beyond these ceilings are discretionary and are always less than the stipulated percentage maxima (20 percent for setting-up projects and for extensions within five years of setting up, 15 percent for extensions after five years). As a result, and as can be seen from Table 4.4, average awards are considerably less than the advertised maxima. Because of this - and because the advertised ceiling for extensions in the north after five years is lower than the EU-stipulated maximum - the EU ceiling has not, in general, represented a practical constraint. That having been said, there has been a recent case where the Commission ceiling was breached; this resulted from the fact that the Dutch authorities viewed the ceilings as being in nge terms, while the Commission opinion was that they were gross. This issue is currently the subject of discussion. The difference is an important one since, in the Dutch context, the distinction between 20 percent gross and 20 percent net can be as much as seven percentage points.

As far as the relevant regional incentive legislation is concerned (the Subsidies Decree for Regional Investment Projects, 1995), the law states explicitly that “the amount of the subsidy is established in accordance with the norms of the Commission of the European Communities”. In this context, the norms referred to are those set out in the EC Communication of August 1988 (discussed in Section 2). By way of clarification, the explanatory notes which accompany the 1995 Decree continue: “The net amount of regional aid may not exceed 20 percent of the total subsidisable investment sum per investment project and, depending on the region and the type of project, it may not exceed 20 percent or 15 percent gross. This applies to both individual regional subsidies as well as to the cumulative total of several regional subsidies from the central national government and investment contributions from the private resources from other public bodies”.

Table 4.4: Commission Ceilings and Advertised Maxima in the Netherlands

Eligible Areas	EU Ceiling (% gross)	Advertised maximum (% gross)	Average award 1989-94 %
Objective 1 - Flevoland	25	no IPR(1)	n.a.
IPR - north: setting up(1)	20	20(2)	10.5(4)
extension(2)	20	15(2)	8.6(4)
IPR - transitional	15	15(3)	n.a.

Source: Yuill *et al* (1995)

Notes: (1) The sole Dutch regional incentive, the Investment Premium (IPR), is not available in Flevoland; however, job-related support is available under the Objective 1 Programme up to a maximum investment ceiling of 25 percent. (2) The award rates are 20 percent of eligible costs for setting-up projects and extensions within five years of setting up and 15 percent for extensions after five years. Rates are standard in respect of investment up to Fl 18 million (Fl 8 million for extensions) and are discretionary in respect of investment beyond these limits. (3) Support in the transitional areas (Twente and South Limburg) is limited to projects of over Fl 30 million eligible investment. (4) Industrial projects.

Finally in the Dutch case, it should be noted that the ‘transitional’ areas in Twente and South Limburg were designated only until the end of 1996. In these areas, the intention had been to remove designated status in 1993 but the Dutch parliament was concerned with the competitive position of these areas with similar (designated) regions in neighbouring countries (Belgium and Germany). As a result, designation was extended (with the agreement of DG IV). In these transitional areas only a very few awards were made in recent years, at least in part a reflection of the fact that only large projects were eligible for support (with eligible investment in excess of Fl 30 million). The maximum award in the transitional areas was 15 percent, but the average was said to be around 10 percent.

4.5 Italy

The new regional incentive system which became operational in Italy in April 1996 was notable for its direct utilisation of the aid ceilings agreed with the European Commission within its advertised award maxima. Basic rates of award under the Assistance for Development Areas scheme (under Law 488/1992) are as set out in Table 4.5.

An interesting feature of the scheme is that one of the three award criteria - on the basis of which projects are ranked - is the value of assistance sought as a proportion of the maximum rate applicable to the project. This criteria means that the lower the award applied for, the higher the project ranking and thus the greater the likelihood that the project will actually be aided. While Assistance for Development Areas has not been in operation long enough for average award information to become available, it seems clear that award averages will lie some way below the available maxima. In this context, it is of note that the fixed rates of award which apply under the Automatic Fiscal Assistance scheme - which is available to firms as an automatic alternative to Assistance for Development Areas (ADA) - are set at 60 percent of the ADA maxima.

Table 4.5: Commission Ceilings and Advertised Maxima in Italy

Location	Firm Size	Basic Maximum Award Rate (nge)	SME Rate Supplement (gross)
Objective 1: Zone A	SMEs Large Firms	50 percent 50 percent	15 percent n.a.
Objective 1: Zone B	SMEs Large Firms	40 percent 40 percent	15 percent n.a.
Abruzzo	SMEs Large Firms	40 percent 25 percent	n.a. n.a.
Molise	SMEs Large Firms	45 percent 35 percent	n.a. n.a.
Objective 2 and 5b within Article 92(3)(c)	Small Firms Medium-Sized Firms Large Firms	20 percent 15 percent 10 percent	n.a. n.a. n.a.
Objective 2 and 5b outside Article 92(3)(c)	Small Firms Medium-Sized Firms Large Firms	n.a. n.a. n.a.	15 percent 7.5 percent n.a.
Article 92(3)(c) areas outside Objectives 2 and 5b	Small Firms Medium-Sized Firms Large Firms	20 percent 15 percent 10 percent	n.a. n.a. n.a.

4.6 Germany

One of the intentions of the fundamental and wide-ranging review of the GA Framework which took place in 1994/95 in Germany was to simplify considerably the incentive system, including the elimination of detailed rate discrimination by project type and location. Whereas previously, rate maxima varied by project type and location, creating a complex matrix of so-called “maximum preferential award rates”, the new proposed rate maxima distinguished simply between two types of problem area - A areas, currently the new *Länder*, and B areas, designated regions in the old *Länder*. Reflecting the EU maxima for the areas concerned, the GA ceiling was set at 35 percent in the A areas (plus 15 percentage points for SMEs) and 28 percent in the B areas. Under the simplified system, these maxima could be reached either through GA support alone (a new provision) or through cumulation with other types of assistance (as before). Previous highly complicated cumulation regulations were discarded. Instead, the aim was to give the *Länder* the maximum possible flexibility under the EU subsidy control rules.

However, the proposed new rates became the subject of lengthy discussions with DGIV which was of the opinion that the proposed 28 percent ceiling for Problem Area B represented an increase in aid intensity. Reflecting DGIV’s concerns, the agreed award rate maxima have now been set at 35 percent in Problem Area A and 18 percent in Problem Area B (see Table 4.6). In addition, increased rates of award are available for SMEs. In Problem Area A (excluding West Berlin), the increase can be by 15 percentage points (to a total of 50 percent), while in West Berlin and Problem Area B, the increase can be by 10 percentage points (to totals of 45 and 28 percent respectively). In addition, for firms in Problem Area B which do not fall within the specified definition of an SME, the rate maximum can be increased by 10 percentage points (to 28 percent) through cumulation with non-regional incentives. The overall consequence is that the system has become more complex than was intended at the time of the GA review, though it remains far more straightforward than was previously the case.

Table 4.6: Commission Ceilings and Advertised Maxima in Germany

Eligible Areas	EU ceiling (% gross)	Advertised maximum (% gross)	Average award 1991-93 (%)
Problem Area A	35	35	18.0
Problem Area B	18/15/12	18	9.0

Source: DGIV, European Commission (see Table 3.3) and Yuill *et al* (1995)

Note: An additional 15 percentage points is available for SMEs in Problem Area A (except West Berlin). In West Berlin and Problem Area B, the SME supplement is 10 percentage points. For non-SMEs in Problem Area B, the rate maximum can also be increased by 10 percentage points through cumulation with non-regional incentives.

Finally in the context of Germany, the point is worth making that, under the revised guidelines, maximum award levels can only be achieved if “particular structural benefits” are foreseen for the region. This is a discretionary decision taken by the *Länder* on the basis of a number of criteria. A particular structural effect can be assumed to occur when a project is designed to combat quantitative and qualitative deficits in the economic structure and labour market situation of the assisted area through, for example: investments which contribute to the increase or stabilisation of employment in areas with serious labour market problems; investments which strengthen the regional innovation potential; investments linked to new firm start-ups; and investments which create employment and training places for women and young people. Given such criteria, it is clear that award maxima are reached only rarely. As Table 4.6 shows, average awards are very considerably below the available maxima.

4.7 Sweden

Aid ceilings in Sweden are shown in Table 4.7. It can be seen that the advertised maxima are in line with the EU ceiling (35 percent gross) in Aid Area 1 but are below the EU ceiling in the other eligible areas. In these locations the advertised maxima are generally 20 percent gross while the EU ceiling is 25 percent gross.

In considering average awards, it should be noted that, similar to the “minimum necessary” stipulation under the British RSA scheme, the general principle under the Swedish Location Grant is that the award should not be greater than that needed to ensure the realisation of the project. As a result, average awards are less than the available maxima. As can be seen from Table 4.7, the overall average grant award over the past five years has been just under 27 percent of eligible expenditure.

Table 4.7: Commission Ceilings and Advertised Maxima in Sweden

Eligible Areas	EU ceiling (% gross)	Advertised maximum (% gross)	Average award 1990/1-94/5 (%)
Area 1	35	35(2)	26.9(3)
Area 2	35/25(2)	20	
Temporary Areas	25	20	

Source: Yuill *et al* (1995)

Notes: (1) The 35 percent gross ceiling relates to 5.9 percent of the Swedish population: this includes all of Area 1 and part of Area 2. **(2)** For SMEs, the maximum is 40 percent gross or 35 percent gross depending on location. **(3)** This average relates to all Location/Development Grant awards.

5. DISCUSSION ISSUES

This paper has considered a range of issues relating to the value of awards offered under regional incentive systems in the EU Member States.

Section 2 of the paper described the Commission approach to controlling regional aids in general, and award values, in particular. The most notable feature of the approach concerns the Commission's attempt to assess award values on a comparative basis. This led to the establishment of the so-called common method of assessment which seeks to place incentives of all types on an equal footing for the purposes of assessing their value. Central to this is the notion of net grant-equivalent values by which means the Commission calculates the after-tax value of assistance.

The third section of the paper considered the application of the Commission methodology in practice. This showed that the Commission approach is far from consistent. In six of the Member States, regional aid ceilings have been set in gross rather than nge terms. Moreover, even although the SME aid guidelines stipulate SME aid ceilings in gross terms, for four countries they are set in net grant-equivalent terms. In addition, in a number of countries, no SME aid supplement is provided for on top of the regional aid ceiling. A further point to note is that the structure of the SME aid supplement is such as to reduce the aid differential between the different grades of assisted area (to the disadvantage of the worst-off areas) since the 30 and 75 percent ceilings continue to apply overall.

In spite of this, the Commission approach to award values appears to cause relatively little concern among the Member States. The reason for this emerges from the discussion of individual countries in the fourth section of the paper. This showed that in Spain, for example (and the same is true of the other Cohesion countries), even the advertised award maxima are almost invariably well below the ceilings authorised by the Commission. Moreover, a common characteristic of rates of award in the four Cohesion countries is that the rates of award authorised by the European Commission tend not to be reached in the practical application of the scheme. As a result, the recent Commission trend of reducing award maxima from 75 percent nge, a ceiling which was previously commonplace, has met with no serious resistance from the governments of the Cohesion countries. On the other hand, there is concern within these countries that the central and more prosperous countries do have the budgetary capacity to reach *their* ceilings; in the view of the Cohesion countries the net effect of the greater resources available in the richer countries is to reduce the rate advantage that the poorer countries are intended to have under the Commission system. Nevertheless, as the discussion on the northern Member States showed, even the more prosperous countries tend not to exhaust the ceilings available, at least under the main regional incentive schemes. Moreover, there is little evidence that other sources of assistance, such as support for SMEs, take aid to levels which are likely to breach Commission ceilings, at least on a regular basis.

To conclude, it is worth highlighting a number of issues for further consideration.

5.1 The Commission system for setting award rates lacks coherence both at a conceptual level and in practice.

The notion of nge is intended to ensure comparability. However, it is based on *assumptions* about the composition and timescale of the project and the profitability of the firm; this cannot but undermine the practical relevance of the calculation. In reality, the nge value of an aid can only be calculated *ex post* and on a case-by-case basis. It has no meaning for the purposes of general *ex ante* cross-country comparisons especially without a specific project in mind.

In addition, the methodology is not always applied in practice. The tables in Section 3 make clear that the Commission is inconsistent in its approach, using net calculations for some countries and gross for others; it is impossible meaningfully to compare gross and nge limits.

5.2 There is no direct relationship between the award ceilings set and the level of prosperity of the region concerned.

While the charts in Section 3 show that, in general, aid ceilings decline as regional prosperity increases, there are a number of clear “outliers”. Moreover, there is often marked variation in the GDP per head recorded in respect of those regions to which common aid ceilings apply. Given the complicated methodology outlined in the second section of the paper, it is surprising that the Commission should apparently have paid so little attention to relating maximum award values to the severity of the regional problem. The pattern of maximum values seems merely to have evolved as a product of history and bilateral negotiations rather than having a consistent and rational basis.

5.3 The formalistic approach to calculating award ceilings ignores a number of factors that impact on actual award values.

The real value of regional assistance is affected by a number of factors, notably the rate of taxation (particularly for countries where the ceilings are set in gross terms); the timing and phasing of payment; and the actual definition of eligible expenditure, rather than its theoretical composition. The Commission methodology takes no account of these. In addition, and of particular relevance for a number of countries, the methodology takes no account of the regional aid budget. In general, this is the single most important factor governing award values.

5.4 There must be significant reservations about the use of differentiated net grant-equivalent aid ceilings for the purposes of competition policy control.

In theory, rigorous application of the nge methodology could produce comparable *ex post* award values. However, this seems to be of little value for the stated purpose of EU policy in controlling regional aids, namely to prevent competitive outbidding between countries and regions. A much more rational approach would be for the "headline" values of the aid schemes on offer to be comparable. As such, it would make more sense for Commission ceilings for all countries to be expressed in gross terms, leaving to the Member States the decision about whether to reduce the value of the assistance on offer by making grants taxable.

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ANNEX: THE RELATIONSHIP BETWEEN GDP/PPS AND THE COMMISSION AID CEILINGS

The charts that follow illustrate the relationship between levels of GDP per head and the maximum award values set by the European Commission. This provides the same information as given in Chart 3.2 and Chart 3.1 but for all of the Member States where there is a NUTS II breakdown (Denmark, Ireland and Luxembourg are therefore excluded).

Considerable caution should be exercised in viewing these charts. In particular, the rates of award that have been attributed to any given region are the highest rates available in the region, even if the area designated as such is only small.