Mapping the next steps in competition policy control of regional aid

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EXECUTIVE SUMMARY

In contrast with recent developments in Cohesion policy and the preparations for the next MFF, this is a quiescent period in State aid control. Two major reform agendas – SAAP and SAM – have been completed and have overhauled almost every aspect of policy.

In recent policy statements, the Commission has emphasised continuity and stability, rather than policy change, and a prioritisation of its efforts, characterised as 'big on big, and small on small'. At the same time, there are hints of a retreat from State aid control as a means of improving the effectiveness and efficiency of public spending.

The two major frameworks that regulate how and where regional aid can be used are due for review: both the Regional Aid Guidelines and the General Block Exemption Regulation expire at the end of 2020. The RAG, in particular, needs a long lead time for review owing to the need to redraw national assisted area maps ahead of time. A look back at the schedule for preparing the 2014-20 Guidelines suggests that the Commission will ***need to extend the current guidelines and associated maps beyond 2020.***

Spatial coverage is the defining feature of regional aid. This paper uses the most recent data to look at what the effects would be of 're-running' the 2014-20 RAG spatial coverage methodology for EU27_2019 – ie. excluding the United Kingdom.

The outcomes of this exercise involve some changes to the 'a' regions, notably in the Baltic countries and the Czech Republic, in line with the changes to Less Developed Region coverage under Cohesion policy. Perhaps more significant, at least in the short-term (since regions losing 'a' status automatically have transition status), ***the method for determining 'c' area coverage looks under increasing strain.*** A number of countries could expect to see assisted area coverage halved, even if overall population coverage were held at almost half the population.

As well as spatial coverage, other aspects of regional aid control and the GBER, will be part of any review. This raises a number of issues for discussion.

- i. **Do you think the current approach to spatial coverage can be rolled forward?**
- ii. **Do you think that the treatment of large firms in 'c' regions should be reconsidered?**
- iii. **What can and should be done with the outcomes of the evaluations underway?**

MAPPING THE NEXT STEPS IN COMPETITION POLICY CONTROL OF REGIONAL AID

1. INTRODUCTION

In contrast with the intensive activity surrounding the preparations for the new budgetary period and Cohesion policy post 2020, few concrete steps have been taken on the future of regional aid control. Indeed, State aid control policy generally seems to be in a relatively quiescent period. This is scarcely surprising after the major State aid reform programmes – SAAP and SAM - of the past decade or so, which together touched on almost every area of relevance to State aid discipline; at one level, there is perhaps little left to do.

Major State aid reform initiatives of the past

The *2005 State aid action plan* (SAAP)[1] was part of the wider Lisbon Strategy for growth and jobs, and aimed to achieve 'less and better targeted aid', a refined economic approach and shared responsibility between the Commission and Member States in enforcement. These aims fed into important changes in regional aid control under the Regional Aid Guidelines (RAG) for 2007-13. Specifically, in relation to lower assisted area coverage, more sophisticated scrutiny of aid to large investment projects and the first block exemption provisions for regional aid.

The successor to SAAP, the 2012 *State aid modernisation initiative* (SAM)[2] was developed in the wake of the financial and economic crisis, and linked to the Europe 2020 strategy for smart, sustainable and inclusive growth. It emphasised that "State aid control is crucial in order to improve the efficiency and effectiveness of public spending". It was accompanied by an emphasis on the identification and targeting of market failure and the promotion of measures with 'incentive effect'. This provided the backdrop for some important shifts in regional aid control under RAG 2014-20, notably the virtual exclusion of regional aid to large firms in the 'c' areas and the scope to impose an evaluation on aid schemes with high budgets as a condition of compatibility.

By the end of 2014, the Commission had largely finished its reform programme under SAAP and SAM, the final element being the 2016 Notice on the 'notion' of State aid[3] - not so much a reform, but a long-awaited compilation of case law and decisional practice. Together SAAP and SAM had recast the basis for the assessment and compliance of State aid across a range of policy areas and substantially increased the 'self-policing' element of State aid discipline through wide-ranging General Block Exemption Regulations (GBER).

[1] European Commission (2005) State aid action plan: less and better targeted aid – a roadmap for State aid reform 2005-2009, COM(2005)107 final, 7 June.
[2] European Commission (2012) EU State aid modernisation (SAM), COM(2012)209 final, 8 May.
[3] Commission Notice on the notion of State aid referred to in Article 107(1) of the Treaty on the Functioning of the European Union, OJ C262/1; 19 July 2016.

A new leitmotif?

Since the SAM objectives were completed, State aid control has lacked an overarching agenda, even though it has adopted a number of high profile, often controversial, decisions especially in the field of taxation. However, there are hints that policy may have 'overreached' itself in some respects.

Compare the 2012 SAM[4] claim that….

> *modernisation of State aid control is needed to strengthen the quality of the Commission's scrutiny and to shape that instrument into a tool promoting a sound use of public resources for growth-oriented policies*

…with Commissioner Vestager speaking in June 2018:[5]

> *We're not here to take over from governments, or tell them how they should spend their own taxpayers' money. Those political choices are for national governments to make.*

It is early yet to know whether this implies a retreat from the emphasis on the efficiency and effectiveness of public spending that underpinned the SAM agenda. However, if there is an emerging narrative guiding Commission action on State aid control it appears to be "big on big, and small on small."[6] This reflects not only the Commission's intent to focus on those cases with most implications for competitive distortion, but also to eliminate as far as possible its involvement in scrutinising measures with purely local effects. To this end, it has periodically highlighted decisions on measures that do not involve aid with a view to persuading domestic authorities to reach their own informed decisions rather than notifying.[7] This of course entails and element of risk for national and regional policymakers.

Continuity and stability

In parallel, and apparently reflecting feedback from Member States, the Commission is emphasising continuity and stability of the rules, where possible.[8] Clearly, however, action is required where existing regulations and guidelines have an explicit end date, as is the case for the Regional Aid Guidelines[9] and the General Block Exemption Regulation, [10] which are both set to expire at the end of 2020.

[4] SAM at point 6.
[5] State aid rules for fair competition, Commissioner Vestager speech to High Level Forum on State Aid Modernisation, 19 June: https://ec.europa.eu/commission/commissioners/2014-2019/vestager/announcements/state-aid-rules-fair-competition_en
[6] European Commission (2017) EU competition policy in action: http://ec.europa.eu/competition/publications/comp_in_action/index.html
[7] See Rapid press release (2015) State aid: Commission gives guidance on local public support measures that can be granted without prior Commission approval: http://europa.eu/rapid/press-release_IP-15-4889_en.htm
[8] Lattenberger, J (2018) European and national funding working together – How EU State aid rules can contribute, speech to High Level Forum of State Aid, 19 June: http://ec.europa.eu/competition/speeches/text/sp2018_09_en.pdf
[9] Guidelines on regional State aid for 2014-2020, OJEU C209/1 of 23 July 2013 as amended by Communication from the Commission amending Annex I to the Guidelines on regional aid for 2014-20, OJEU C231/1 of 25 June 2016.
[10] Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJEU L187/1 of 26 June 2014, as amended by Commission Regulation (EU) 2017/1084 of 14 June 2017 amending Regulation (EU) No 651/2014 as regards aid for port and airport infrastructure, notification thresholds for aid for culture and heritage conservation and for aid for sport and multifunctional recreational infrastructures, and regional operating aid

It is unclear whether an *overall* review of the GBER is envisaged.[11] However, a number of suggested changes were put forward alongside the post-2020 budget proposals.[12] Some these require amendment of the 'Enabling' Regulation,[13] which if approved, allows the Commission to add two further categories of aid to the GBER, namely:

- Provisions for national financing combined with InvestEU instruments,[14] with a view to ensuring that Member State funds channelled through the proposed new EU instruments are readily State aid compliant; and
- Aid for European Territorial cooperation. Ensuring the State aid compliance of ETC programmes has often been troublesome, though it could be argued that legitimate concerns are rare as many ETC projects involve little or no economic activity. This provision would broaden the scope of the current limited exemptions for ETC in the GBER.

In addition, the Commission proposes to facilitate domestic funding of projects qualifying for Horizon Europe funding or awarded the 'Seal of Excellence'. The aim of this proposal is analogous to that for InvestEU insofar as it removes the discrimination between instruments funded at EU level (which do not involve State aid because there are no Member State resources or discretion) and domestic funding of identical activities. In both case, however, the scope of the exemption is likely to be tightly proscribed to include only those measures that conform strictly to EU set criteria.

Regional aid reform timetable?

Initial provisions for a review of the Regional Aid Guidelines appear to have been made,[15] with a public consultation scheduled for the first half of 2018, but at the time of writing, this had not been launched.

The preparation schedule for RAG 2014-20 suggests that the process of renewing the guidelines post-2020 will be delayed and that new rules are unlikely to be in place for the start of January 2021. The current guidelines took almost four years from initial thinking to entry into force (see Figure 1). In part this owed to the Commission's determination to constrain aid to large firms in 'c' areas, a controversial policy shift that entailed significant negotiating time; in addition, the RAG had to be dovetailed with complex negotiations over the GBER. Even so, there are some mandatory elements to the regulatory process that cannot readily be shortened. Moreover, changes to the regional aid guidelines require most Member States to redraw their regional aid maps. This is often a complex domestic exercise, so sufficient time must be allowed between the adoption of the new rules and the expiry of the current ones to enable this to take place. ***In short, the current state of play implies that the Commission will need to extend the current guidelines and associated maps beyond 2020.***

schemes for outermost regions and amending Regulation (EU) No 702/2014 as regards the calculation of eligible costs, OJEU L156/1 of 20 June 2017.

[11] The better regulation initiative implies that

[12] Proposal for a Council Regulation amending Council Regulation (EU)2015/1588 of 13 July2015 on the application of Article 107 and 108 of the TFEU to certain categories of horizontal aid, COM(2018)398 final.

[13] Council Regulation (EU) 2015/1588 of 13 July 2015 on the application of Article 107 and 108 of the Treaty on the Functioning of the European Union to certain categories of horizontal State aid, OJ L 248/1 of 24 September 2015.

[14] See also: Wishlade, F (2018) Financial Instruments and EU Cohesion Policy: What next, and how and where does InvestEU fit in? EoRPA Briefing Paper, July 2018: http://www.eprc-strath.eu/eorpa/partner-pages/policy-briefings.html

[15] See: https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-2607008_en

Figure 1: Preparations of the 2014-20 Regional aid guidelines

2010

- Commission begins review process
- December: Roadmap for revision of RAG

2011

- March: Member State workshop
- April: Impact assessment steering group (IASG) meets
- September:Impact evaluation study launched

2012

- January: IASG meets
- January to April: 1st public consultation (c120 contributions)
- February: non-paper on RAG orientations presented at 1st multilateral
- December: IASG meets

2013

- January to March: 2nd public consultation (c120 contributions)
- February: draft RAG presented at 2nd multilateral; EP Regional policy committee hearing; CoR own-initiative report
- March: Impact assessment steering group meets (twice); EESC own-initiative opinion
- May: Impact evaluation study published; public consultation on draft GBER
- June: RAG 2014-20 adopted; inc extension of RAG 2007-13 to June 2014

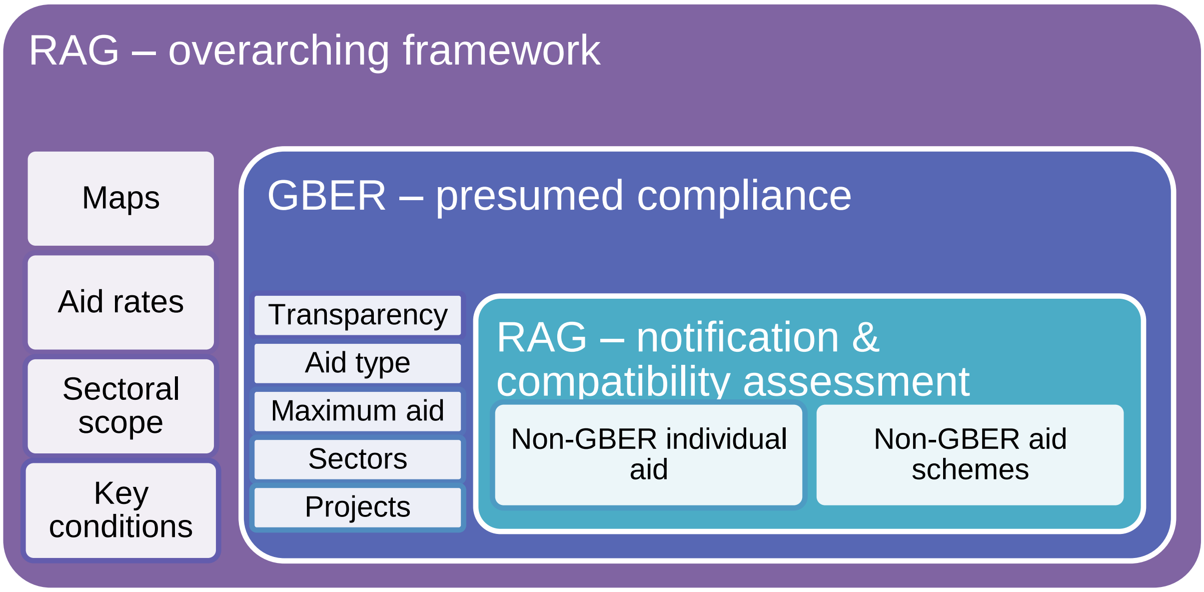
2014

- Existing maps and aid schemes re-notified and extended to June 2014
- February to September: new regional aid maps approved
- June 2014: RAG 2014-20 and GBER 2014-20 enter into force

Source: Compiled from Staff Working Document accompanying the Communication from the Commission – Guidelines on regional state aid for 2014-2020, SWD(2013)214; and Wishlade, F (2014) Another generation in Competition policy control of Regional development policy, EoRPA paper 14/5.

The framework for regional aid control is rather complex. The Regional Aid Guidelines fulfil two main functions: first, they sets out the parameters for the regional aid maps and aid values; and second, they specify the assessment criteria for measures that are not exempted under the GBER and are therefore subject to notification. As such, the conditions under which regional aid is compatible with the Treaty depend on the interplay between the GBER and the RAG.

Figure 2: Regulatory framework for regional aid control



Source: EPRC

Reflecting this architecture, there are two main dimensions to policy:

- Spatial coverage, population ceilings, area designation criteria and associated aid intensities – set by the regional aid guidelines
- Substantive eligibility criteria - framed by the GBER, with a residual role for the RAG.

Both elements will be subject to review as part of the reform process, but the focus of this paper is on the implications for spatial coverage. This is discussed in Section 2; Section 3 highlights some of the issues arising and wider elements that might be open for reform as the basis for discussion.

2. REGIONAL AID GUIDELINES – WHAT FUTURE FOR SPATIAL COVERAGE?

Overall methodology

The Commission has used the same basic approach to determining the spatial coverage of national assisted areas maps in successive guidelines since 2000. These have been adapted to accommodate enlargement and the impact of the crisis on certain countries, but a few 'tweaks' aside, the fundamentals of policy have remained unchanged.[16]

Looking ahead, and even assuming that the overall scheme of the RAG remains substantially unchanged, there are a number of detailed questions to address:

- What would be the overall initial population coverage?
- Would NUTS 2016 boundaries be used? These new boundaries would likely affect eligibility in Latvia, Poland and Ireland, with the possibility that Cohesion policy and domestic maps could diverge).
- Would the 'a' threshold remain unchanged, adjusted for Brexit (ie NUTS 2 regions with GDP(PPS) per head less than 75 percent of the EU27_2019 average)?
- Would any adjustment be made, if required, for 'a' regions losing that status due to Brexit?
- Would the same system of 'predefined' and non-predefined 'c' areas be applied?
- How would the non-predefined 'c' area population be divided between countries?
- What 'floors', 'ceilings' and transitional arrangements might apply?

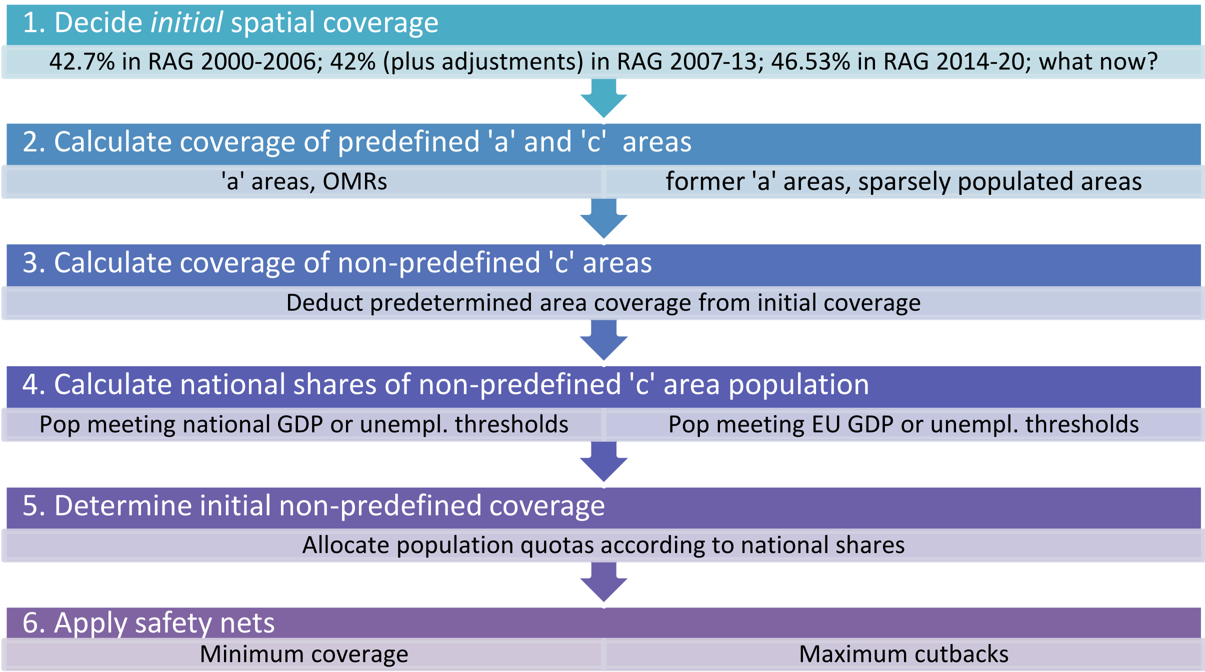
Figure 3: Key spatial coverage parameters

	2014-20	Post-2020?
Initial population coverage	46.53% EU27_2013	% population EU27_2019 ?
GDP data NUTS 2 ('a' areas)	2008-2010 (initial) 2012-2014 (mid-term review)	2015-2017 (initial)?
GDP data NUTS 3 ('c' areas)	2008-10	2015-17?
Unemployment data at NUTS 3 ('c' areas)	2010-12 [partial]	No longer published at NUTS 3 – use NUTS 2 2017-19?
'a' region threshold	GDP(PPS) per head <75% EU27 (ex HR) average (+OMR)	GDP(PPS) per head <75% EU27_2019 average? (+OMR)
Predefined 'c' areas – former 'a' regions	Areas losing 'a' region status	Areas losing 'a' region status; also areas losing 'a' region status due to 'Brexit effect', if applicable?
Predefined 'c' areas – sparsely-populated regions	NUTS 2< 8 inh per km^2 NUTS 3 <12.5 inh per km^2	NUTS 2< 8 inh per km^2? NUTS 3 <12.5 inh per km^2?

[16] Wishlade, F (2017) State aid control of regional development policy at 60: harder, sharper, but not yet crystal clear? EoRPA Paper 17/4.

The starting point for exploring what a 'rolling forward' of the current approach might imply using the latest data is that the basic mechanics of spatial coverage would stay the same as under RAG 2014-20. This involves the steps set out in Figure 4.

Figure 4: Determining spatial coverage under the regional aid guidelines



Population ceiling

A **first stage** involves setting the overall initial population ceiling for 'a' and 'c' areas; *ultimate* coverage will almost certainly increase once the safety nets are applied.

In 2000-6 final coverage was capped at 42.7 percent of the EU population, this being the minimum required to enable the coincidence of the national and Cohesion policy maps, for those countries that desired it.[17]

A challenge to the methodology brought by the German authorities[18] meant that the 2007-13 guidelines set an *initial* population ceiling (42 percent), which increased to 46.6 percent when the safety nets were applied.

The initial population ceiling set in RAG 2014-20 was 46.53 percent of the EU27 population (equivalent to 47 percent of the EU28 population – i.e. following the accession of Croatia).[19] This higher ceiling

[17] Cohesion policy at that time distinguished Objective 1 and 2 areas, but did not cover the entire population. In fact, coverage rose to 43 percent with the inclusion of Northern Ireland, the treatment of which had been ambiguous in the 2000-6 guidelines.

[18] The German authorities had challenged the methodology whereby coverage in some countries had to be cut in order to accommodate minimum coverage in others to respect the overall ceiling. Although Germany lost the case for other reasons, the Advocate-General shared the negative view of this aspect of the methodology, which was omitted from later RAGs. C-242/00 *Federal Republic of Germany v Commission* [2002] ECR I-05603.

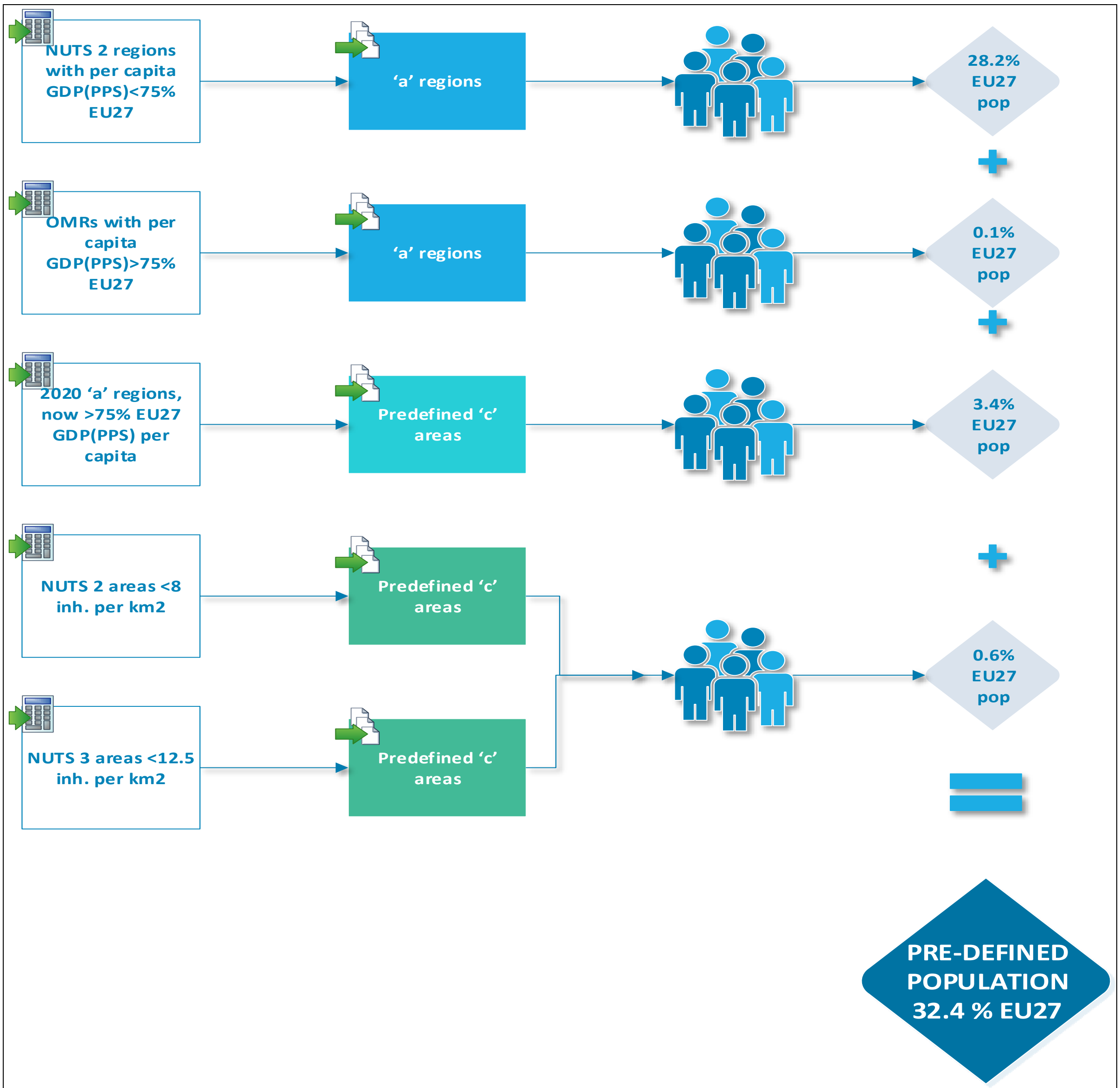
[19] RAG 2014-20, para 148.

partly reflected Commission recognition of the impact of the crisis (there were no cuts in coverage for countries receiving support under the various 'bailout' mechanisms)' however, the Commission could perhaps afford to be more relaxed on coverage because, in general, support large firms could no longer be offered in 'c' areas.

Coverage of predefined 'c' and 'c' areas

The **second stage** involves calculating the coverage of predetermined 'a' and 'c' areas. The mechanism for this is set out in Figure 5. On the basis of the latest data available, this yields predetermined coverage of 32.4 percent of the EU27_2019 population. [20]

Figure 5: Calculating the coverage of the predefined 'a' and 'c' areas



Note: Based on RAG 2014-20, using EU27_2019 GDP(PPS) data for 2014-16 and population density data 2016.

[20] That is, the EU28, excluding the UK; Eurostat uses this formulation to distinguish it from the EU27 preceding the accession of Croatia.

The **outcome** of this exercise, expressed as a proportion of the population is shown in Table 1. Map 1 illustrates the 'a' regions and former 'a' regions; Map 2 shows those areas that qualify as predefined regions on the basis of low population density.

Table 1: Predefined population as percent of national and EU27_2019 population

MS	'a' region	OMR above GDP threshold	Former 'a' region	Sparsely-populated	Predefined population
EU	**28.2**	**0.1**	**3.4**	**0.6**	**32.4**
BG	70.2	-	29.8	-	100.0
CZ	47.8	-	40.1	-	87.9
EE	-	-	100.0	-	100.0
EL	61.8	-	-	-	61.8
ES	25.1	-	3.2	0.5	28.8
FR	2.7	0.6	-	-	3.3
HR	100.0	-	-	-	100.0
IT	32.1	-	-	-	32.1
LV	100.0	-	-	-	100.0
LT	-	-	100.0	-	100.0
HU	69.4	-	-	-	69.4
PL	78.4	-	7.5	-	85.9
PT	68.4	-	-	-	68.4
RO	88.4	-	-	-	88.4
SI	52.8	-	-	-	52.8
SK	88.2	-	-	-	88.2
FI	-	-	-	23.5	23.5
SE	-	-	-	11.8	11.8

Source: Own calculations from Eurostat data.

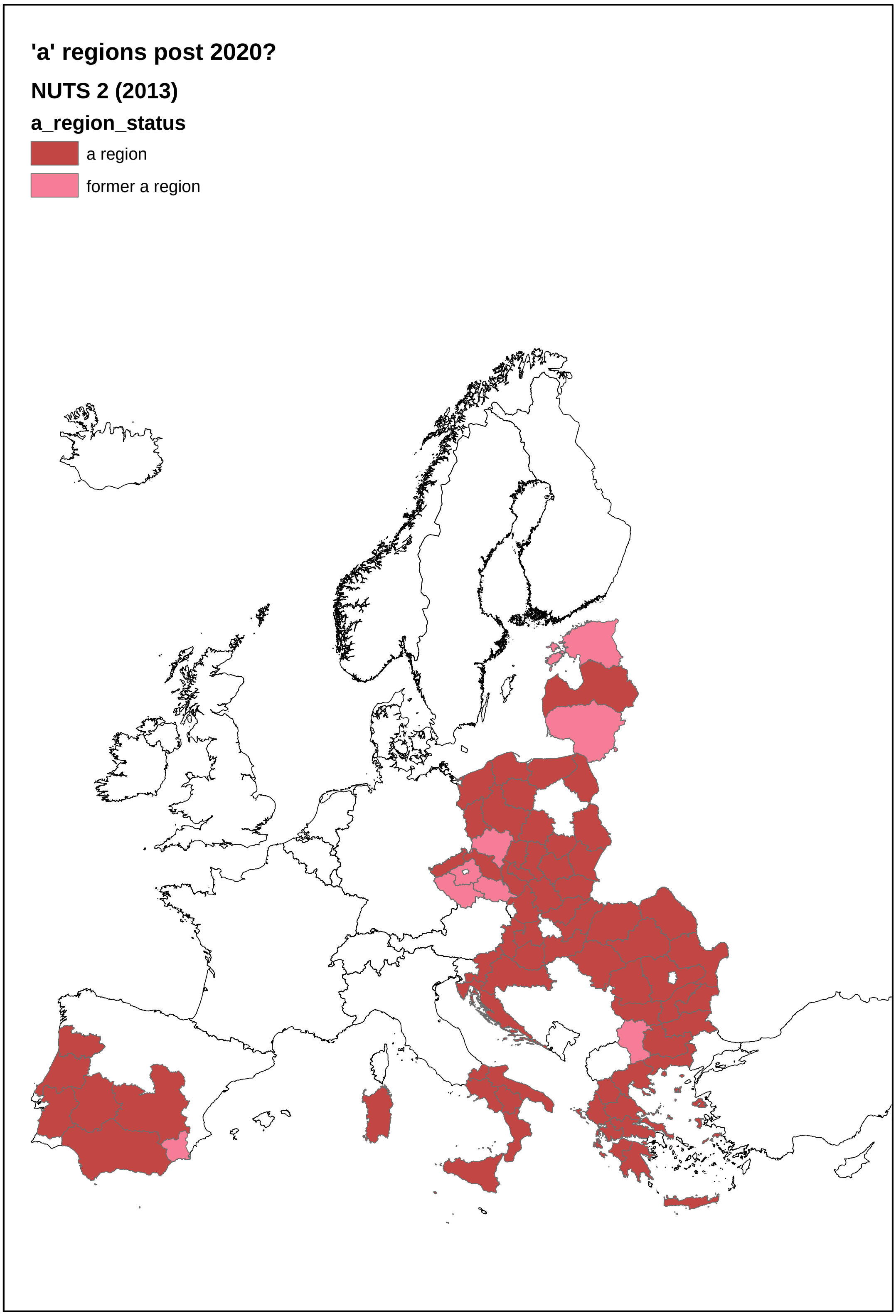
The **key changes** in the coverage of the predefined areas concern 'a' regions. Estonia and Lithuania would lose 'a' region status in 2014-20, as would six regions, mainly in the Czech Republic, but also in Bulgaria, Poland and Spain. This leaves just Croatia and Latvia wholly covered by 'a' status.

Table 2: Regions losing 'a' status post-2020?

MS	Region	GDP(PPS) per head EU27_2019 =100
BG	Yugozapaden	77.4
CZ	Strední Cechy	80.2
CZ	Jihozápad	77.6
CZ	Jihovýchod	82.0
EE	Eesti	76.2
ES	Región de Murcia	75.6
LT	Lietuva	76.1
PL	Dolnoslaskie	76.8

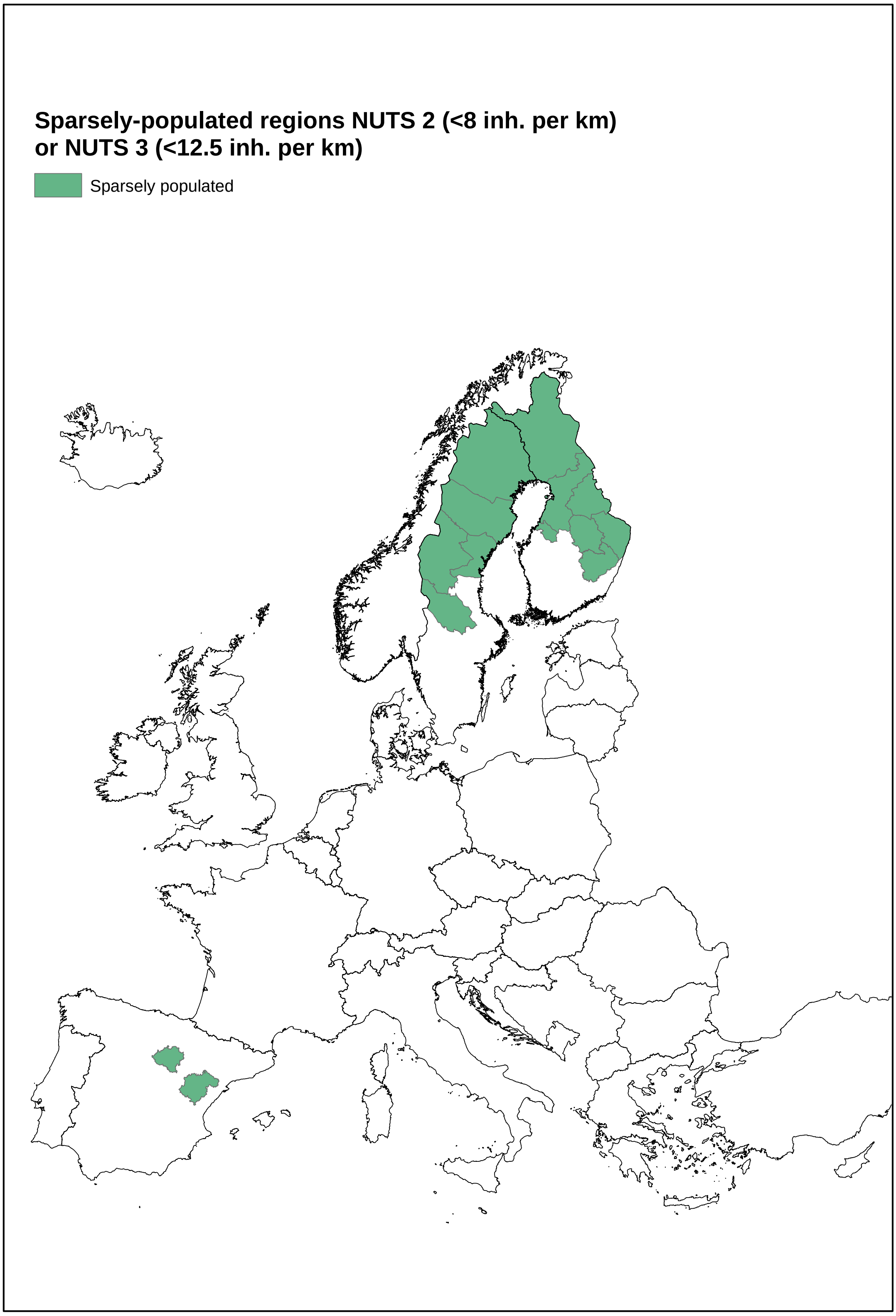
Source: Own calculations from Eurostat data GDP(PPS) 2014-2016.

Map 1: Predefined areas post-2020 – ‘a’ regions and former ‘a’ regions



Source: Own calculations from Eurostat data.

Map 2: Predefined areas post-2020 – sparsely-populated areas



Source: Own calculations from Eurostat data.

Is there a 'Brexit effect'?

There is small 'Brexit effect' arising from the use of EU27_2019 GDP(PPS) averages rather than EU28. However, only Murcia loses 'a' region status as a consequence of this. On the other hand, it is interesting to note that without Brexit, UK 'a' region coverage would include West Wales & the Valleys and Cornwall & the Isles of Scilly, Tees Valley and Durham as now, but would also cover South Yorkshire and Lincolnshire.

Coverage of non-predefined areas

The **third stage** involves calculating the population available for non-predetermined areas; this is simply the result of deducting the pre-defined population (here calculated as 32.4 percent of the EU population), from the initial population ceiling.

As a first step, the calculations below assume an initial ceiling of 42 percent, which means that initial 'c' population would be 9.6 percent of the EU27_2019 population; the implications of the initial population ceiling and impact of different options is discussed below.

Calculating national shares of 'non-predetermined 'c' area population

The **fourth stage** of the methodology involves distributing the 'non-predefined' 'c' population among countries, having set aside those regions than meet the predefined criteria. As Table 1 shows, five countries are entirely covered by predefined areas (BG, EE, HR, LV, LT); and several other main so. These are areas are excluded from this analysis.

A rather complex method is used to determine the share of 'c' population that each country should receive. This involves calculating population of NUTS 3 regions without predefined status where:

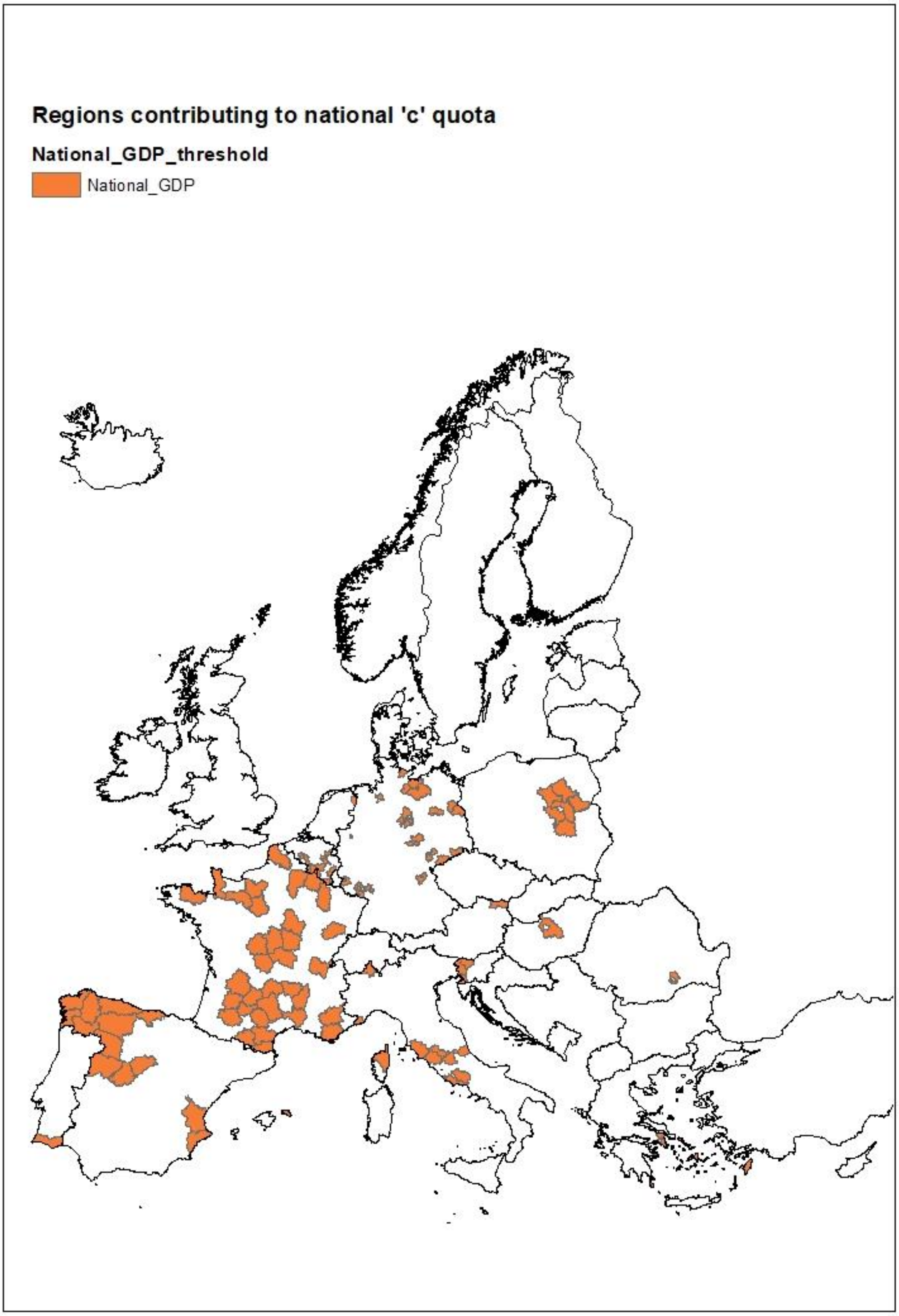
- GDP per head is equal to or below the national disparity threshold[21]
- GDP per head is equal to or below 90 percent of the EU average
- The unemployment rate is equal to or above the national unemployment disparity threshold[22]
- The unemployment rate is equal to or above 125 percent of the EU average

The regions concerned are illustrated in the four maps that follow.

[21] National disparity thresholds for GDP and unemployment are themselves calculated according to a formula that takes account of the national situation in an EU context – see RAG 2014-20, Annex II, notes 2 and 4.

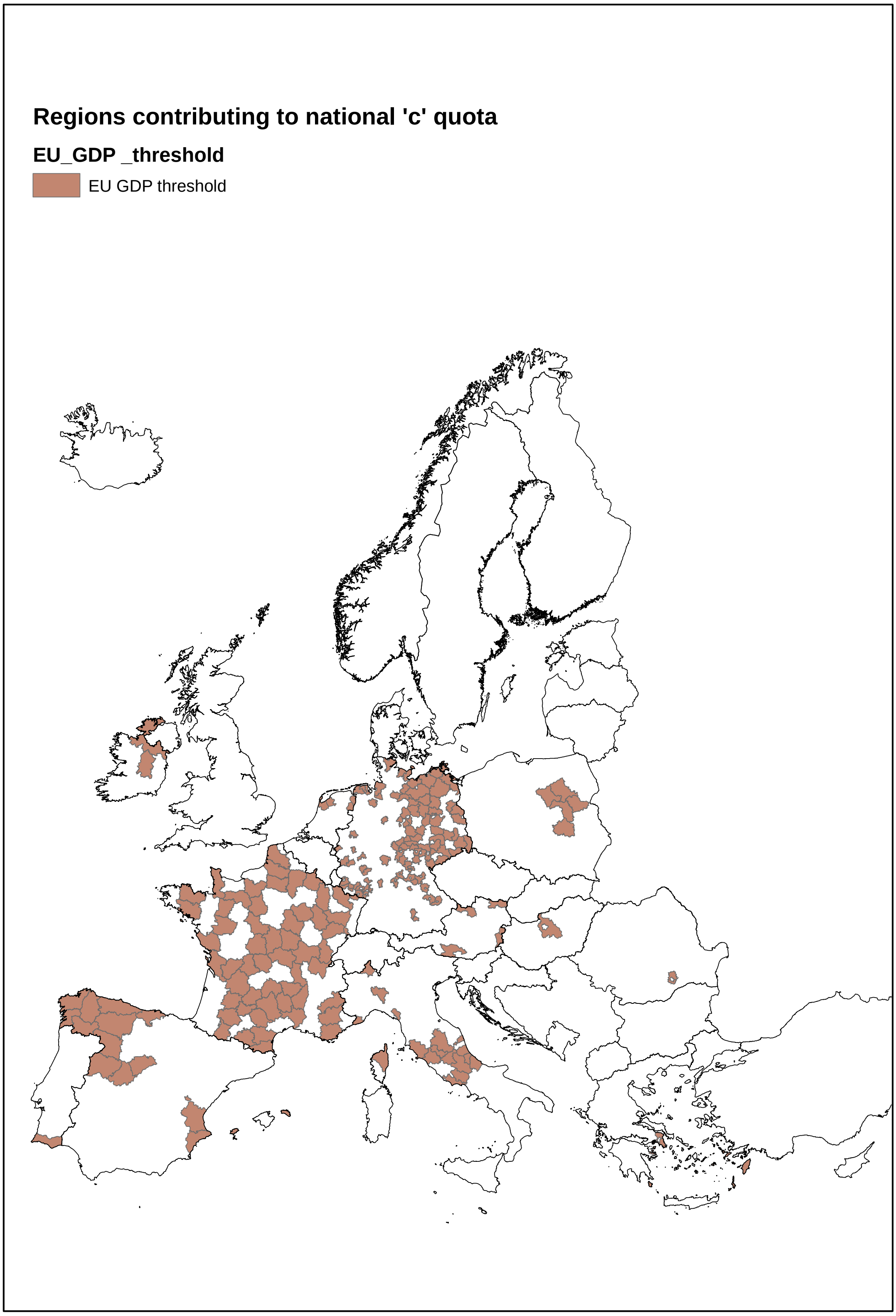
[22] Note that NUTS 3 unemployment rate data is no longer published by Eurostat. RAG 2014-20 states that NUTS 2 data should be used where NUTS 3 is unavailable – see Annex II, note 3.

Map 3: Regions with GDP per head below the national disparity threshold (NUTS 3)



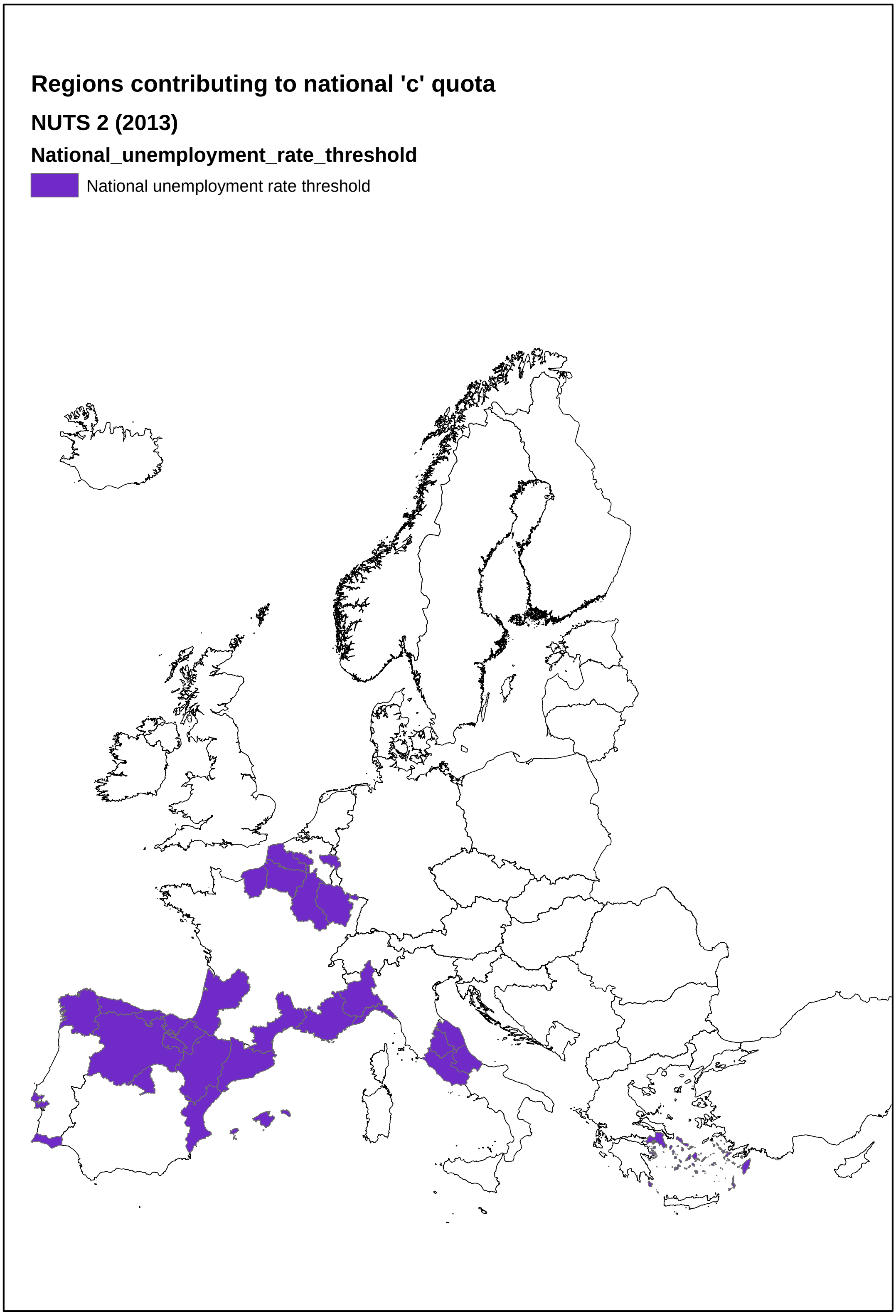
Source: Own calculations from Eurostat data.

Map 4: Regions with GDP per below the EU disparity threshold (NUTS 3)



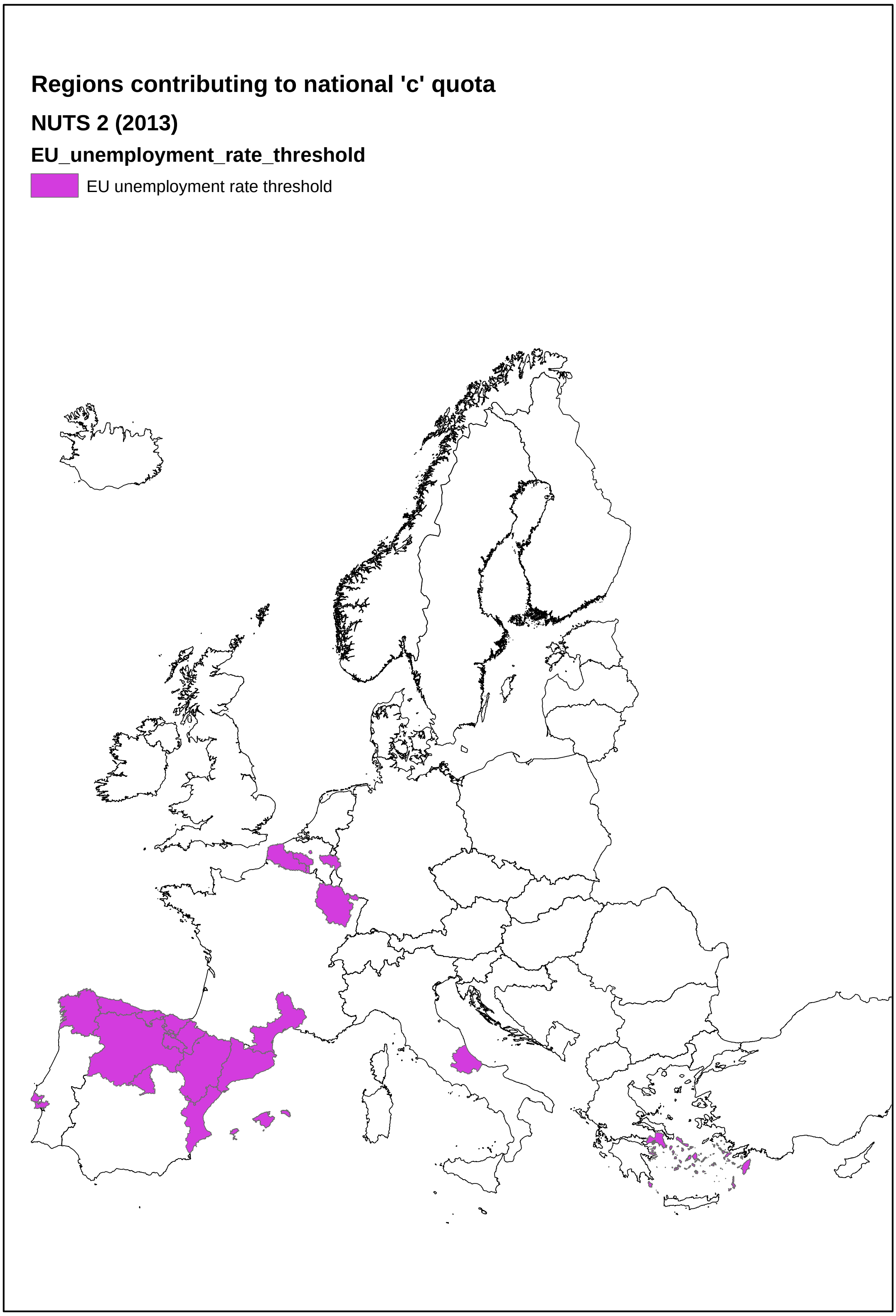
Source: Own calculations from Eurostat data.

Map 5: Regions with unemployment above the national disparity threshold (NUTS 2)



Source: Own calculations from Eurostat data.

Map 6: Regions with unemployment above the EU disparity threshold (NUTS 2)

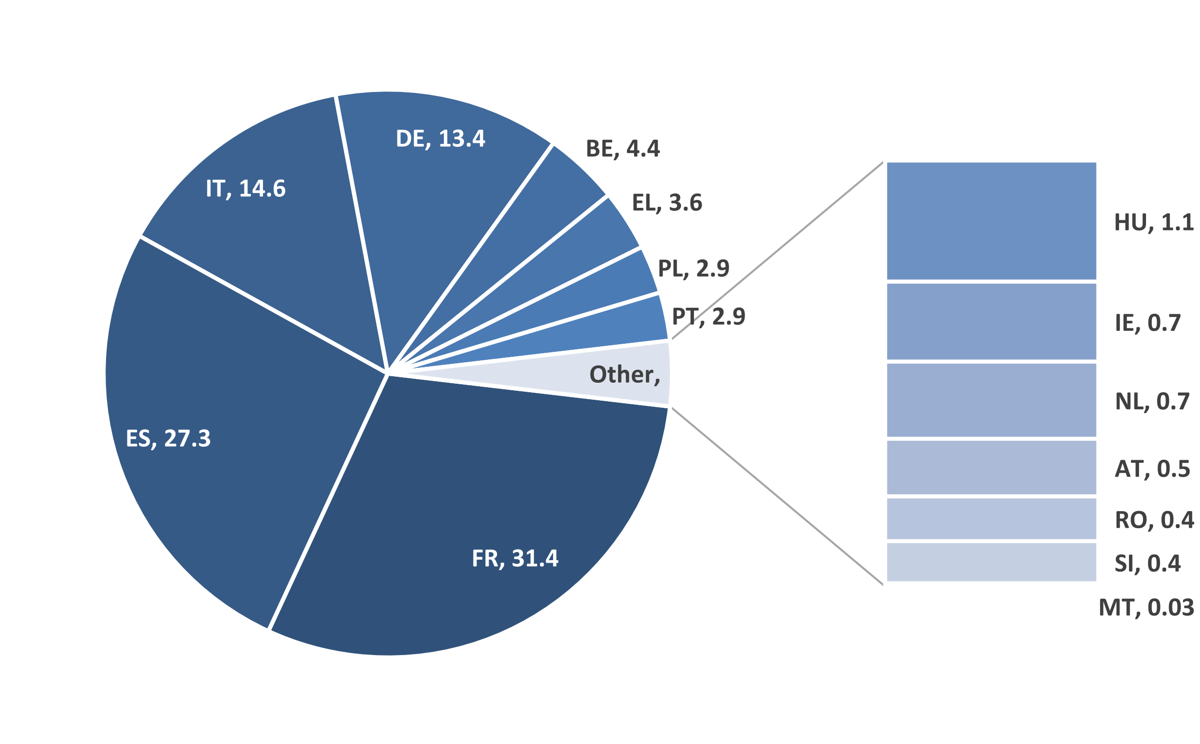


Source: Own calculations from Eurostat data.

The population of the regions 'contributing' to the national 'c' quota are summed and used as the basis for sharing the available 'c' population total between countries.

The resulting *shares* of the 'c' population is shown in Figure 6. This shows that France would account for approaching a third of the 'c' population, and France and Spain together for more than half.

Figure 6: National shares of potential 'c' population



Source: Own calculations from Eurostat data.

Initial 'a' and 'c' population coverage

The **fifth stage** of the methodology involves distributing the 'shares' of 'c' population among countries to establish the initial coverage.

This is illustrated in Table 3 alongside coverage in 2014-20. Here, it is noteworthy that EU27_2019 coverage exceeds 51 percent (as opposed to 47.67 percent of EU28).[23] This owes to the omission of the United Kingdom from the calculations – it being a relatively populous country (over 65 million), but with limited spatial coverage in 2014-20 (27.05 percent initially, and 27.78 percent after the mid-term review). This is turn means that an initial population ceiling of 42 percent would entail a significant reduction in coverage for EU27_2019.

[23] See Table 1 in Wishlade, F (2013) The final frontier, or just another staging post? The 2014-20 Regional Aid Guidelines, EoRPA paper 13/5.

Table 3: Initial coverage post-2020? (% of population)

MS	2014-20 coverage	Predefined ‘a’ and ‘c’ coverage	Initial non-predefined ‘c’ coverage	Pre-‘safety net’ ‘a’ and ‘c’ coverage
EU27_2019	***51.3***	***32.36***	***9.64***	***42.0***
BE	29.95	-	16.38	16.4
BG	100.0	100.0	-	100.0
CZ	88.1	87.9	-	87.9
DK	7.97	-	-	-
DE	25.85	-	6.82	6.8
EE	100.0	100.0	-	100.0
IE	51.28	-	6.36	6.4
EL	100.0	61.8	14.10	75.9
ES	68.66	28.8	24.59	53.4
FR	24.17	3.3	19.62	22.9
HR	100.0	100.0	-	100.0
IT	35.52	32.1	10.10	42.2
CY	50.0	-	-	-
LV	100.0	100.0	-	100.0
LT	100.0	100.0	-	100.0
LU	8.0	-	-	-
HU	76.71	69.4	4.70	74.1
MT	100.0	-	2.58	2.6
NL	7.5	-	1.72	1.7
AT	25.87	-	2.50	2.5
PL	100.0	85.9	3.17	89.1
PT	85.02	68.4	11.69	80.0
RO	100.0	88.4	0.87	89.2
SI	100.0	52.8	7.78	60.6
SK	88.48	88.2	-	88.2
FI	26.03	23.5	-	23.5
SE	12.26	11.8	-	11.8

Source: Own calculations from Eurostat data.

Safety nets and minimum population coverage

The **sixth stage** of the methodology (and the last) involves adjusting the outcomes to ensure that all Member States have some coverage and that cutbacks are not excessive. In RAG 2014-20, the safety nets were as follows:

i. No coverage reduction for countries receiving financial assistance under EFSF, EFSM, ESM or the facility for non-euro-area Member States
ii. Total ‘a’ and ‘c’ coverage reductions capped at 50 percent
iii. Minimum population coverage of 7.5 percent.

As the various 'bailout' programmes have now concluded, it is assumed that (i) would not apply. The result of applying (ii) and (iii) is illustrated in Table 4.

Table 4: Applying the safety net and minimum coverage (% of population)

	2014-20 coverage	Pre-'safety net' 'a' and 'c' coverage	Addition for 50% maximum reduction	Addition for 7.5% minimum coverage	Total coverage after corrections	% change compared to 2014-20
EU	*51.3*	42.0	1.82	0.20	44.02	-14.1
BE	29.95	16.4			16.4	-45.3
BG	100.0	100.0			100.0	-
CZ	88.1	87.9			87.9	-0.2
DK	7.97	-	3.99	3.52	7.5	-5.9
DE	25.85	6.8	6.11		12.9	-50.0
EE	100.0	100.0			100.0	-
IE	51.28	6.4	19.28		25.6	-50.0
EL	100.0	75.9			75.9	-24.1
ES	68.66	53.4			53.4	-22.3
FR	24.17	22.9			22.9	-5.3
HR	100.0	100.0			100.0	-
IT	35.52	42.2			42.2	18.9
CY	50.0	-	25.00		25.0	-50.0
LV	100.0	100.0			100.0	-
LT	100.0	100.0			100.0	-
LU	8.0	-	4.00	3.50	7.5	-6.3
HU	76.71	74.1			74.1	-3.4
MT	100.0	2.6	47.42		50.0	-50.0
NL	7.5	1.7	2.03	3.75	7.5	-
AT	25.87	2.5	10.44		12.9	-50.0
PL	100.0	89.1			89.1	-10.9
PT	85.02	80.0			80.0	-5.9
RO	100.0	89.2			89.2	-10.8
SI	100.0	60.6			60.6	-39.4
SK	88.48	88.2			88.2	-0.3
FI	26.03	23.5			23.5	-9.5
SE	12.26	11.8			11.8	-4.1

Source: Own calculations from Eurostat data.

This suggests that eight countries would depend partly or wholly on the maximum 50% reduction for coverage (DK, DE, IE, CY, LU, MT, NL and AT); and that three (DK, LU, NL) would, in addition, depend on the minimum coverage.

In terms of **outcomes**, 20 Member States would see a reduction in coverage, one an increase and six would remain unchanged. More specifically:

- Five Member States (AT, DE, IE, CY, MT) would see coverage reduced by 50 percent

- In four further countries, there would be reductions exceeding 20 percent (BE, SI, EL, ES)
- In six Member States there would be no change (NL, BG, EE, HR, LV, LT)
- Only one country would see an increase in coverage (IT)

What if the initial population ceiling were higher?

The results in Table 4 assume initial population coverage of 42 percent, which historically was used as a starting point by the Commission, The key principle from a Commission perspective is that:

> *…the combined population of 'a' and 'c' areas in the union must be lower than that of the non-designated areas. The total coverage of those designated areas should therefore be less than 50% of the Union's population*[24]

This suggests that the initial population could be higher than 42 percent – indeed it could rise to 48.95 percent while still respecting the overall limit of less than 50 percent. However, a key issue is that the effects of changing the population ceiling are highly uneven: ***those countries that depend on the safety nets for coverage would not benefit from increases in the initial population coverage.***

As Table 5 shows, increasing the initial population coverage would principally benefit Belgium, France and Spain, and to a lesser extent Portugal and Italy.

What are the implications of these results?

These outcomes raise short and long-term issues.

In the **short-term**, most countries will benefit from an extension in current assisted area coverage, pending a review of the regional aid guidelines. Italy is the exception where, if current data were used, there would be an increase in population coverage amounting to 6.7 percent of the population.

Looking ahead, a simple reapplication of the current spatial coverage formula seems likely to be problematic.

[24] RAG 2014-20, para 146.

Table 5: What if the initial population ceiling were higher?

	2014-20	Post 2020 coverage scenarios			
		'Standard'	Intermediate	High	Maximum?
Initial ceiling		42	45	48	48.95
EU27_2019	**51.3**	**44.02**	**46.56**	**49.09**	**49.9**
BE	29.95	16.4	21.5	26.6	28.2
BG	100.0	100.0	100.0	100.0	100.0
CZ	88.1	87.9	87.9	87.9	87.9
DK	7.97	7.5	7.5	7.5	7.5
DE	25.85	12.9	12.9	12.9	12.9
EE	100.0	100.0	100.0	100.0	100.0
IE	51.28	25.6	25.6	25.6	25.6
EL	100.0	75.9	80.3	84.7	86.1
ES	68.66	53.4	61.0	68.7	71.1
FR	24.17	22.9	29.0	35.1	37.0
HR	100.0	100.0	100.0	100.0	100.0
IT	35.52	42.2	45.4	48.5	49.5
CY	50.0	25.0	25.0	25.0	25.0
LV	100.0	100.0	100.0	100.0	100.0
LT	100.0	100.0	100.0	100.0	100.0
LU	8.0	7.5	7.5	7.5	7.5
HU	76.71	74.1	75.5	77.0	77.5
MT	100.0	50.0	50.0	50.0	50.0
NL	7.5	7.5	7.5	7.5	7.5
AT	25.87	12.9	12.9	12.9	12.9
PL	100.0	89.1	90.1	91.1	91.4
PT	85.02	80.0	83.7	87.3	88.5
RO	100.0	89.2	89.5	89.8	89.8
SI	100.0	60.6	63.0	65.4	66.2
SK	88.48	88.2	88.2	88.2	88.2
FI	26.03	23.5	23.5	23.5	23.5
SE	12.26	11.8	11.8	11.8	11.8

Source: Own calculations from Eurostat data.

3. DISCUSSION ISSUES

Spatial coverage is the defining feature of regional aid, and is the focus of this paper. This and other aspects of regional aid control, as well as the GBER, will be part of any review. This raises a number of questions for discussion. These include, but are not limited to the following:

i. Do you think the current approach to spatial coverage can be rolled forward?

The calculations in this paper suggest that the method which the Commission has used to set spatial coverage in the past may need to be adapted for the future in order to produce usable outcomes. This could range from simple arithmetic options, such as capping coverage increases at national level to prevent the perverse effects of increasing the initial population coverage, to a more fundamental rethink about the basis for coverage. What options would you favour?

ii. Do you think that the treatment of large firms in ‘c’ regions should be reconsidered?

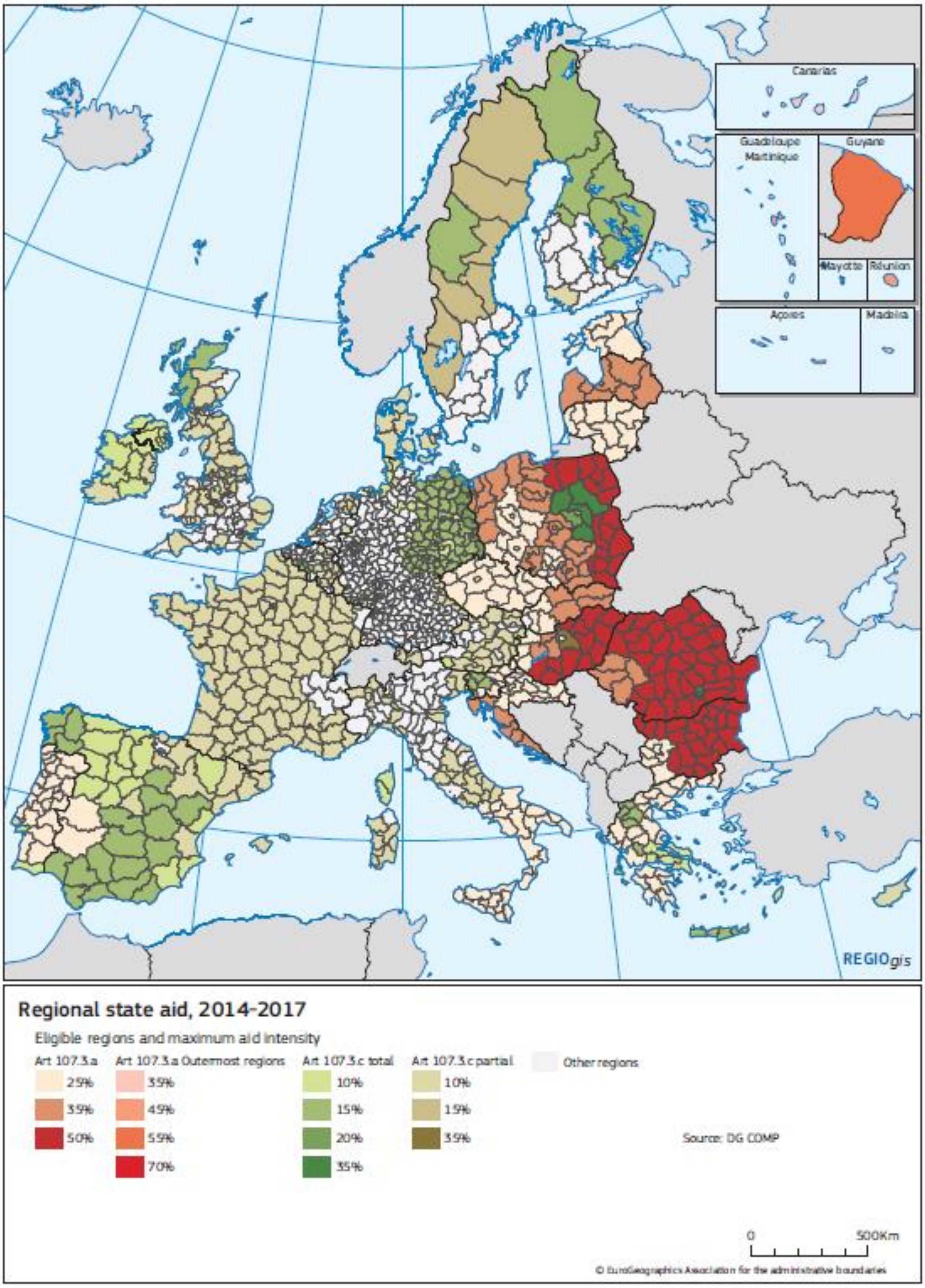
One of the most significant changes in RAG 2014-20 was the virtual elimination of aid to large firms in ‘c’ areas. In principle, such aid can be allowed under very narrow conditions; in practice, these conditions have scarcely been applied. Anecdotally it is known that notifications tend to be withdrawn if an investigative procedure is hinted at. Do you favour changes to the handing of aid to large firms? What form should this take? A different definition of ‘large’ enterprises to include median, but not multinational firms? A reversal of the current restrictions and a return to previous provisions?

iii. What can and should be done with the outcomes of the evaluations underway?

Another novel element of the GBER/RAG 2014 was the scope for the Commission to impose an evaluation on particularly large aid schemes. Several such evaluations have been underway for regional aid schemes for some time. However, it is not clear how the results might be used. As mentioned, at the start of this paper, SAM emphasised the efficiency and effectiveness of public spending, but more recent rhetoric has taken a more nuanced view of the respective roles of the Commission and domestic authorities. How might this play out in future Commission approvals of large aid schemes? Could the Commission refuse to authorise a scheme that had performed badly under evaluation? Are the methodologies sufficiently robust to justify such action?

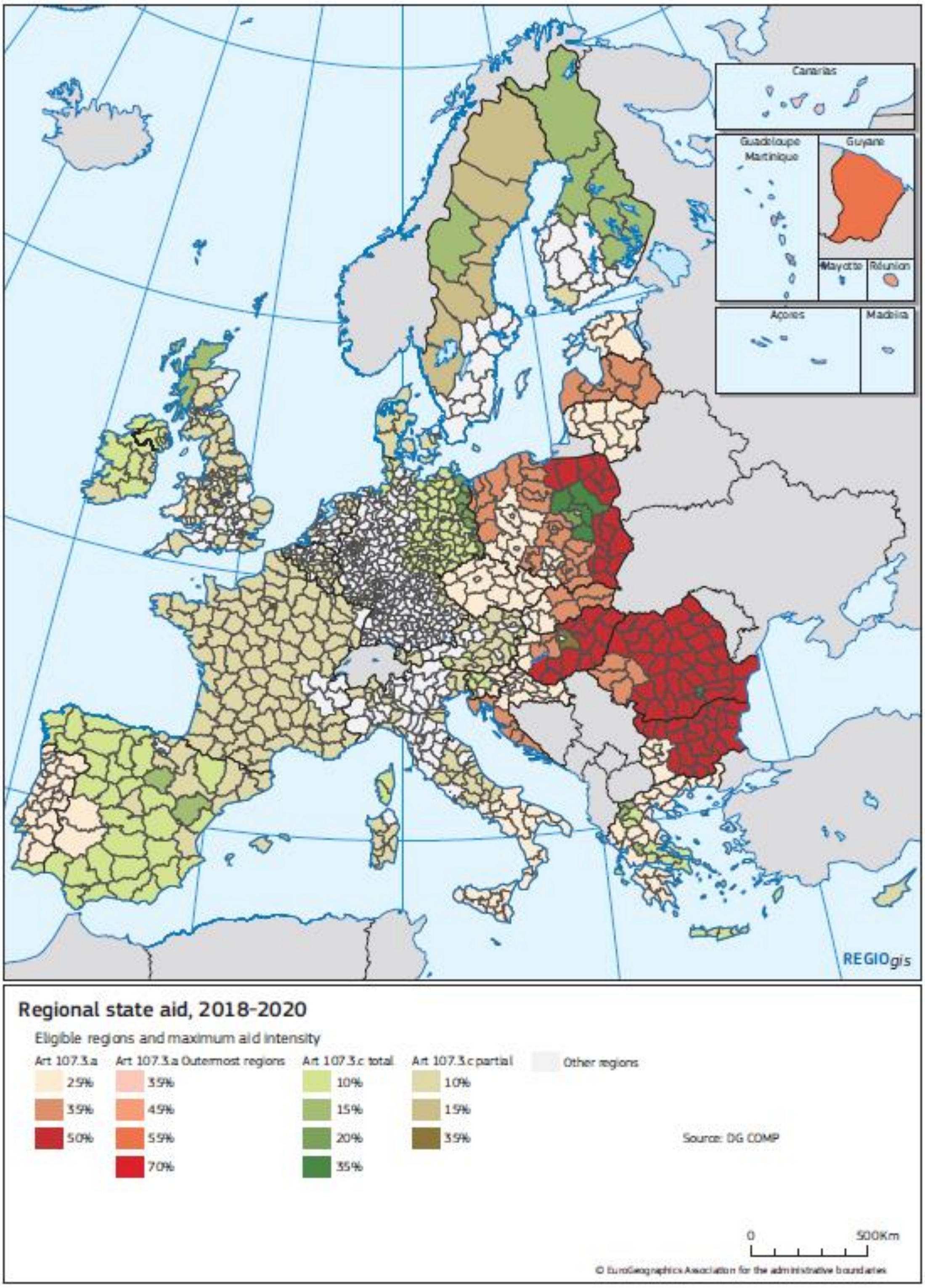
ANNEX I: ASSISTED AREA MAPS 2014-20

Map 7: Regional aid ceilings 2014-17



Source: DG COMP.

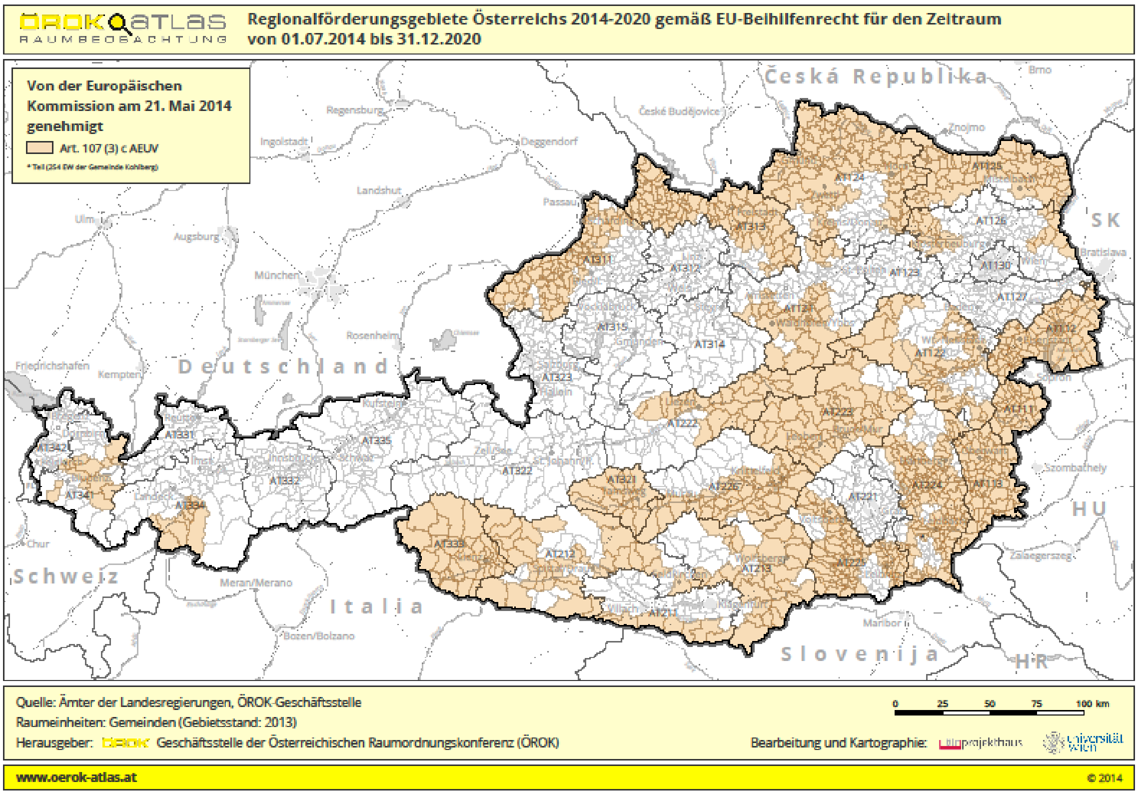
Map 8: Regional aid ceilings 2018-20



Note: Subject to notifications and approvals following on from Commission Communication amending Annex I to the Guidelines on regional aid for 2014-20, OJEU C231/1 of 25 June 2016.
Source: DG COMP.

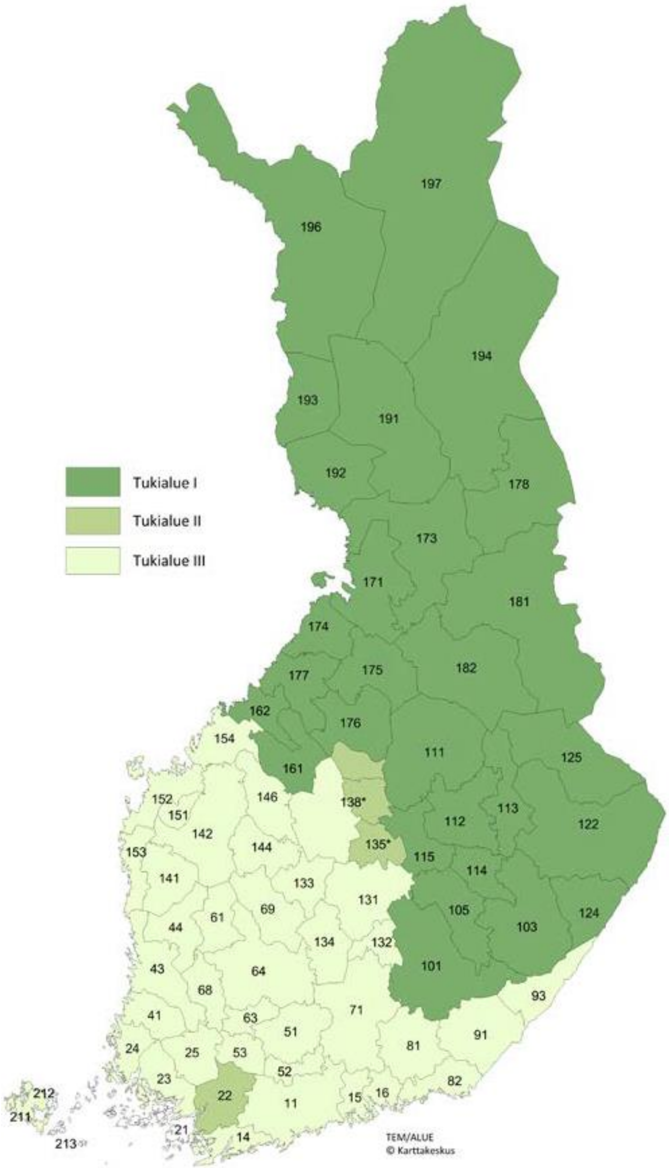
ANNEX II: NATIONAL ASSISTED AREA MAPS 2014-20

Map 9: Assisted Areas in Austria 2014-20

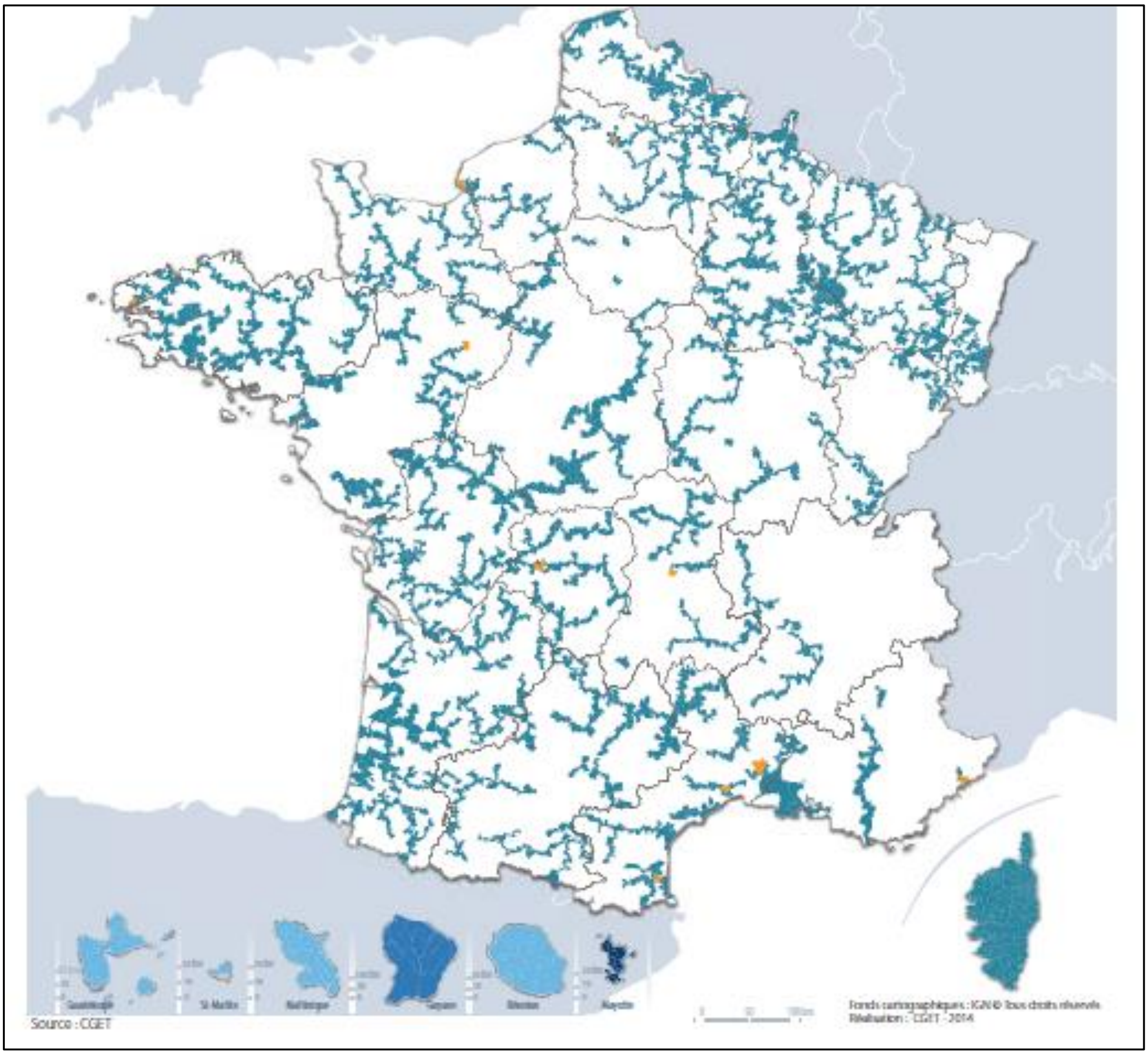


Map 10: Assisted Areas in Finland 2014-20

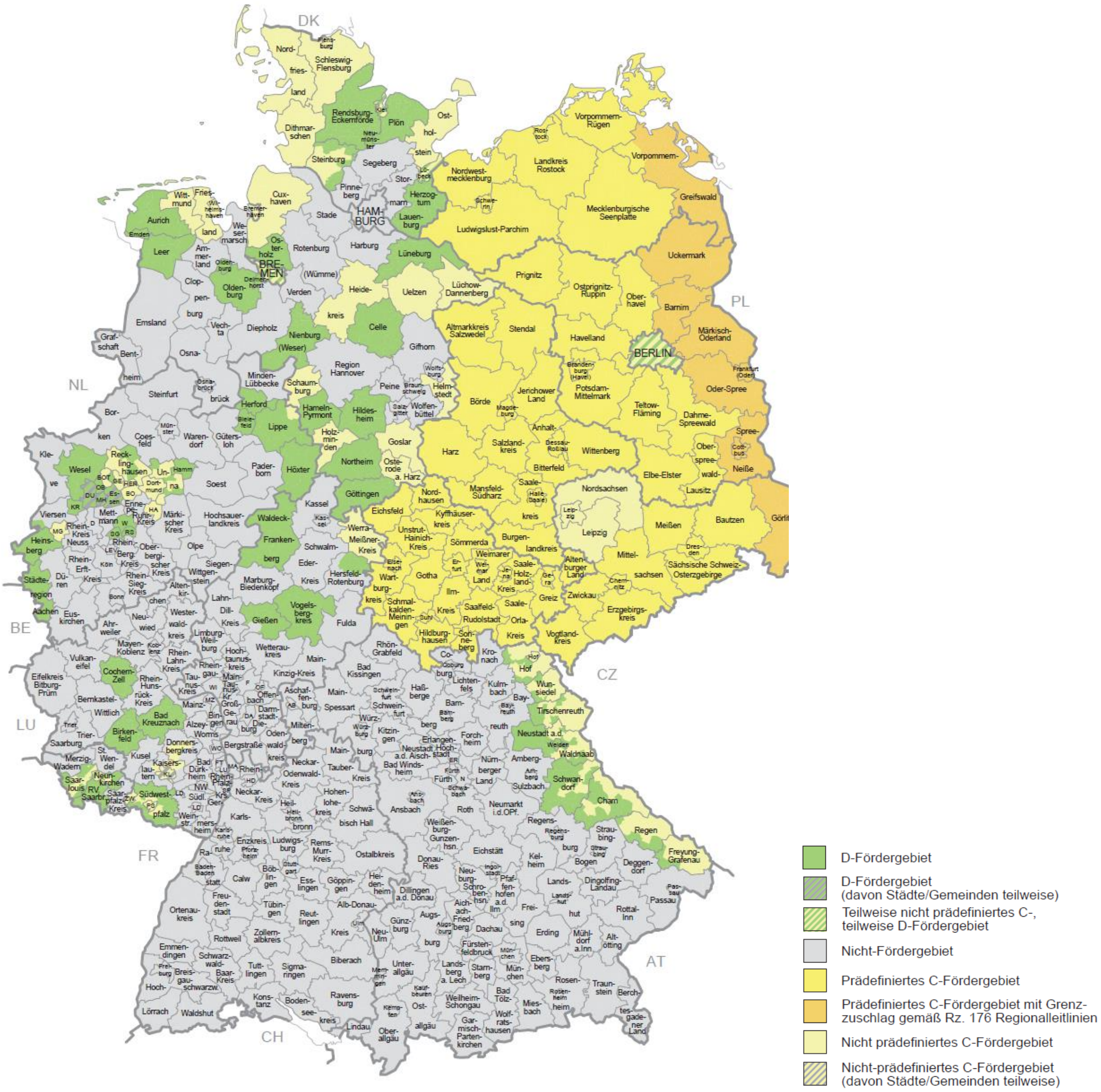
Aid Area 1	**Article 107(3)(c) predefined**
Central Ostrobothnia	
Kainuu	
Lapland	
Northern Karelia	
Northern Ostrobothnia	
Northern Savonia	
Southern Savonia	
Aid Area 2	**Article 107(3)(c) non-predefined**
Salo	
Äänekoski	
Viiitasaari	
Pihtipudas	



Map 11: Assisted Areas in France 2014-20



Map 12: Assisted Areas in Germany 2014



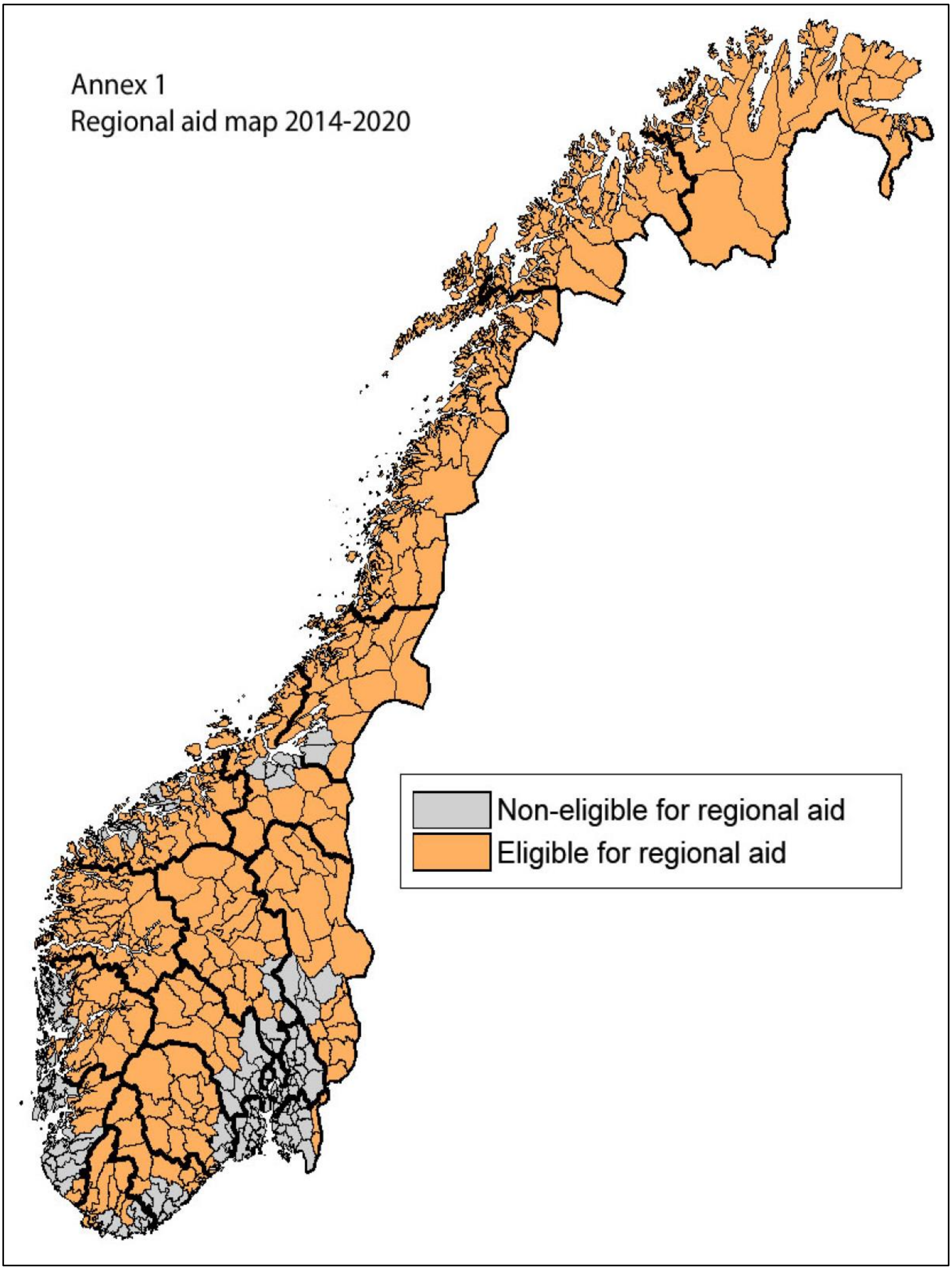
Source: Federal Ministry for Economic Affairs and Energy

Map 13: **Assisted areas in Italy**

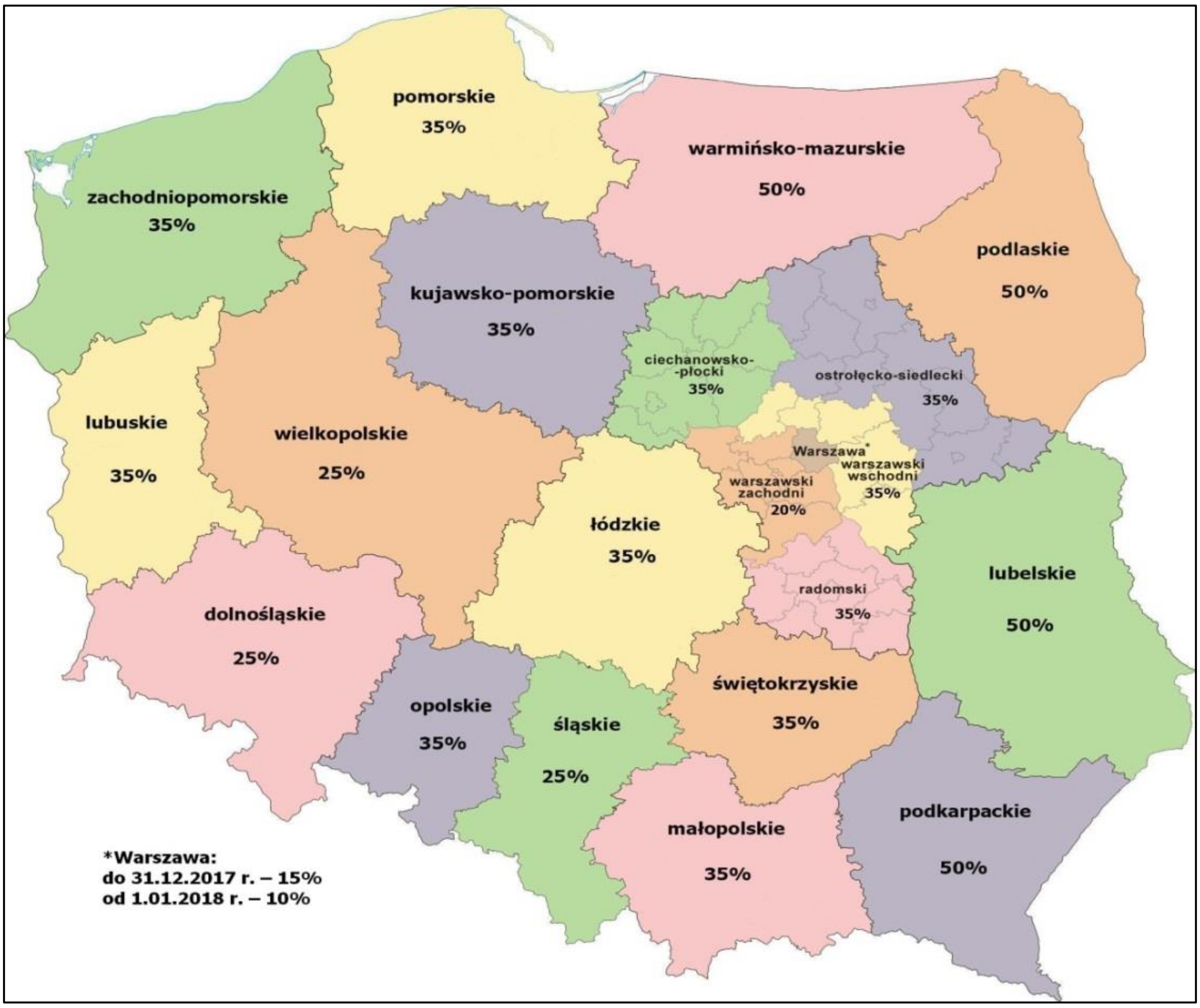
Note: The 2014-20 map does not show the 'upgrading' of Sardegna to 'a' region status – see Communication for the Commission amending Annex I to the Guidelines on regional aid for 2014-20, OJEU C231/1 of 25 June 2016.

Sources: http://www.aiutidistato.org/project/carta-degli-aiuti-di-stato-regionali-italia/

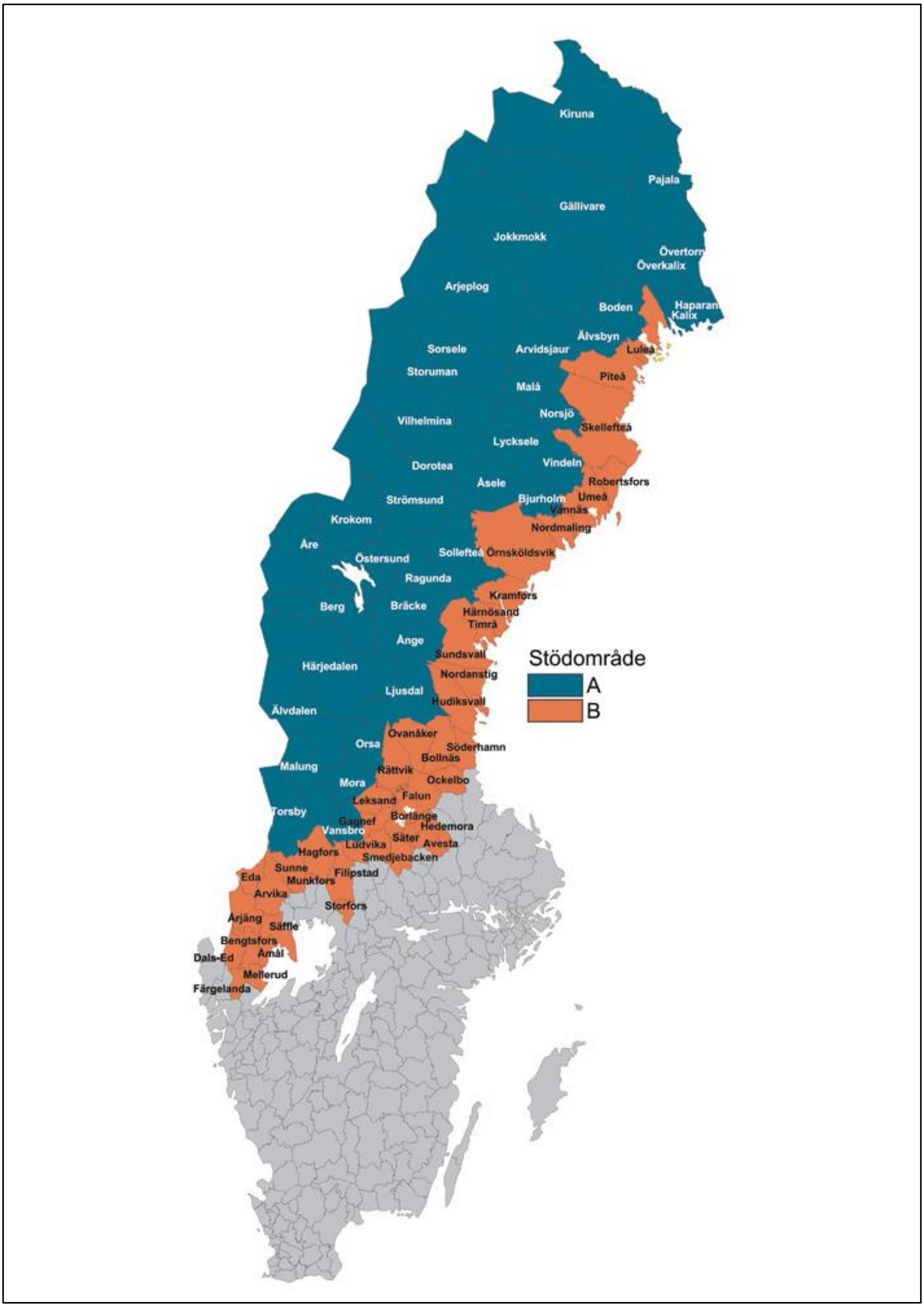
Map 14: Assisted Areas in Norway 2014-20 (Investment Aid)



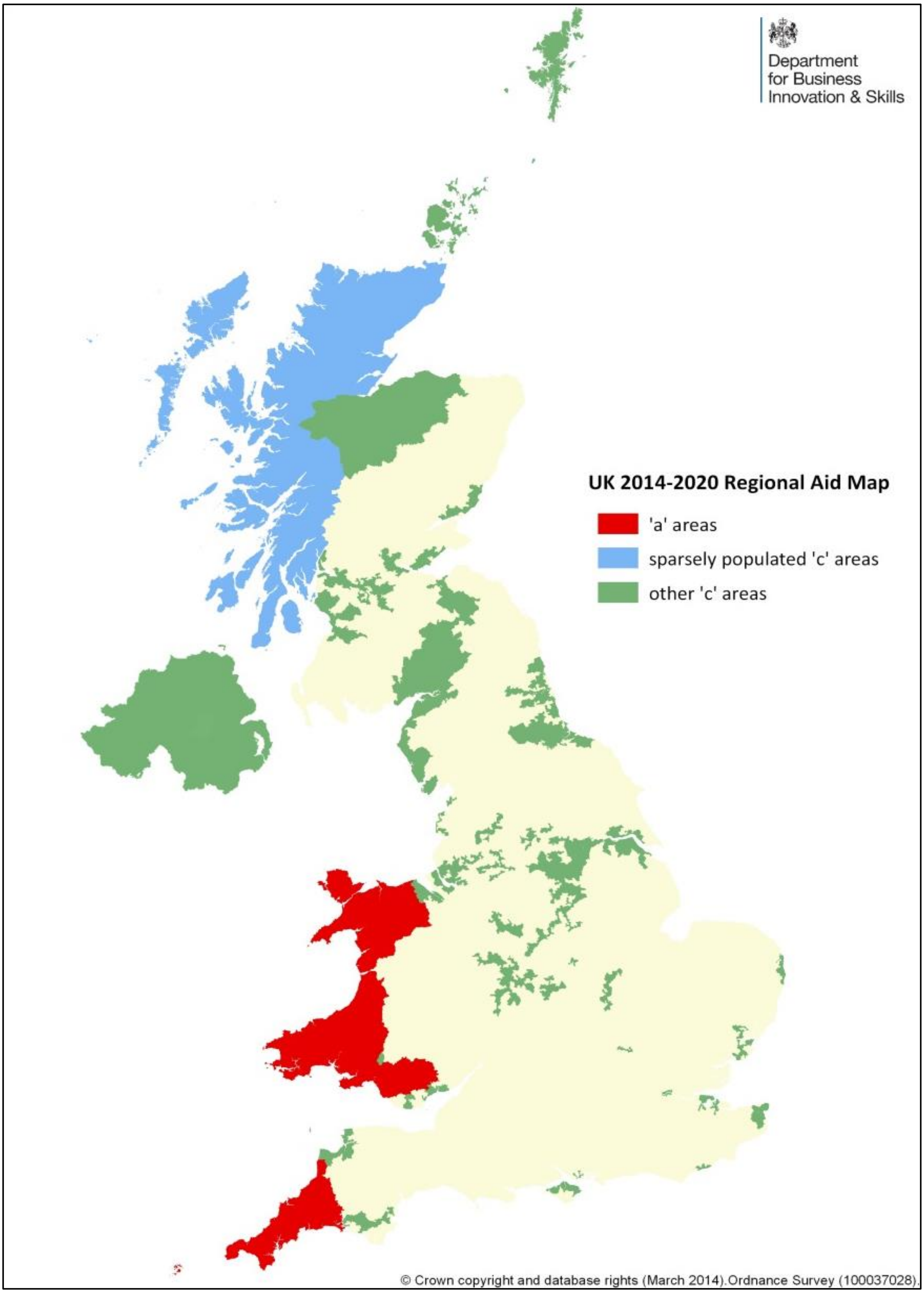
Map 15: Assisted Areas in Poland 2014-20



Map 16: Assisted Areas in Sweden 2014-20



Map 17: Assisted Areas in the United Kingdom 2014-20



Note: the map does not show the 'upgrading' of Tees Valley and Durham to 'a' region status – see Communication for the Commission amending Annex I to the Guidelines on regional aid for 2014-20, OJEU C231/1 of 25 June 2016.

EoRPA RESEARCH

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- Staatssekretariat für Wirtschaft (SECO, State Secretariat for Economic Affairs), Bern

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