Setting the Scene for Competition Policy Control of Regional Aid 2014+

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Preface

This paper reviews the prospects for competition policy control of regional aid post 2013. The report was prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), a grouping of government authorities from across Europe. The Consortium provides sponsorship for EPRC to undertake monitoring and analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. Over the past year, EoRPA members comprised the following partners:

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- Bundesministerium für Wirtschaft und Technologie (Federal Ministry for the Economy and Technology), Berlin
- Ministerium für Wirtschaft, Energie, Bauen, Wohnen und Verkehr des Landes Nordrhein-Westfalen (Ministry for the Economy, Energy, Construction, Housing and Transport of the Land of Nordrhein-Westfalen), Düsseldorf

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- Ministero dello Sviluppo Economico (Ministry of Economic Development), Dipartimento per lo sviluppo e la coesione economica (Department for Development and Economic Cohesion), Rome

Netherlands

- Ministerie van Economische Zaken, Landbouw en Innovatie (Ministry of Economic Affairs, Agriculture and Innovation), The Hague

Norway

- Kommunal-Og Regionaldepartementet (Ministry of Local Government and Regional Development), Oslo

Poland

- Ministerstwo Rozwoju Regionalnego (Ministry of Regional Development), Warsaw

Sweden

- Näringsdepartementet (Ministry of Enterprise, Energy and Communications), Stockholm

Switzerland

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

United Kingdom

- East Midlands Development Agency, on behalf of the English RDAs
- Department for Business, Innovation and Skills, London
- The Scottish Government, Enterprise, Transport and Lifelong Learning Department, Glasgow

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EXECUTIVE SUMMARY

Recent developments in State aid control have been dominated by the response to the financial and economic crisis. However, in the last few months, consideration has been given to the reform of the regional aid guidelines (RAG) for the post 2013 period. The aim of this paper is to set the scene for the reform process, highlight national perspectives on the different dimensions of policy and consider the implications of recent economic data for issues of spatial coverage.

The overall regulatory architecture for regional aid is essentially a risk-based approach: Member States may simply report aid measures that comply with the General Block Exemption Regulation (GBER); aid schemes that do not conform to the GBER must be notified and approved in advance on the basis of the RAG; and large amounts of aid to exceptionally large projects must be scrutinised by the Commission on a case-by-case basis. It is fair to say that there is general satisfaction with this overall architecture among the Member States. However, there are several inconsistencies between the GBER and the RAG and some of the provisions lack clarity. There is also general, but not universal, resistance to the idea of reinforcing the provisions on incentive effect. The rules on aid to large firms come in for particular criticism, though it is the substance of the rules (and lengthy processes) which are at issue, more than the principle of case-by-case scrutiny itself.

The spatial coverage of regional aid after 2013 is a major unknown. In particular, it is uncertain what overall population ceiling will be set (other than that it will be below 50 percent); it is not clear which regions will be 'earmarked' within that ceiling, and especially what account, if any, will be taken of transitional regions or the proposals for the reform of EU Cohesion policy. A number of scenarios and variants based on the current approach can be envisaged, but these have very different impacts between countries. Member States are generally opposed to further cutbacks in overall coverage, which are anyway not required to stay below a ceiling of 50 percent of EU27 population. However, there are divergent views on issues such as the definition of 'a' regions, the treatment of transitional regions and the need for a 'safety net' to ensure a minimum level of coverage for each Member State; this last point is likely to be key for some Member States which, on a simple rolling forward approach, might be set to have coverage halved a second time.

The selection of eligible areas – and specifically the 'c' areas - is closely tied to the question of spatial coverage. Historically, Member States have had varying degrees of freedom in area designation within their allotted population quota – with considerably more room for manoeuvre in 2007-13 than in 2000-6, albeit with a smaller population quota. The overriding theme of national responses on this issue is the need for more flexibility, for smaller population blocks (perhaps a percentage of population rather than a minimum 100,000) and for account to be take of territorial cohesion – through recognition of the special needs of islands, border areas and so on. A suggestion which merits further consideration is that of more extensive and distinct assisted area coverage for SME support.

Aid forms and values have tended not to be among the most controversial aspects of regional aid control, and many aspects of the policy dimension are now settled. However, consideration of the details of the existing rules reveals scope for clarification and greater

consistency and coordination between the various relevant texts. Although in the past, rates of award have often been set by the Commission at levels higher than required by the Member States, there is now evidence that maximum rates do bite; moreover, there is considerable resistance to any further lowering of maximum rates, the argument being that this would further undermine incentive effect and increase windfall gains. A further important issue concerns the need to reconcile Cohesion policy enthusiasm for financial engineering instruments with competition policy constraints, in advance of the next planning period.

Finally, early signs are that the approach to future reform of the regional aid guidelines is constructive rather than combative and that the outcome may involve more evolution than revolution.

1. INTRODUCTION

Recent developments in State aid control have been dominated by the financial and economic crisis and, latterly, by exit strategies from the special measures introduced to deal with the fall-out from the crisis. In the course of the last few months, however, consideration has also been given to the revision of the regional aid guidelines for the post-2013 period. The aim of this paper is to consider the issues raised by the European Commission and the Member States, particularly against the backdrop of regional economic change since the adoption of the current guidelines and in the context of the proposed Cohesion policy reforms for 2014-20.

The review process for the regional aid guidelines began informally in autumn 2010 with DG COMP's invitation to Member States to submit their observations on the operation of the guidelines in advance of a workshop scheduled for early 2011. In practice it seems that few, if any, Member States responded and the proposed workshop was eventually held in March 2011. This was billed as an opportunity for the Member States to provide feedback to the Commission on their experience with the regional aid guidelines with a view to determining which elements are perceived to function well and what should be amended. This was structured around a number of key issues in particular, the definition of initial investment, the notion of incentive effect, the role of the 'regional contribution' in award decisions, aid ceilings, eligible expenditure, specific rules on aid to large projects, national maps and operating aid. Notably *absent* from the agenda was any discussion of overall assisted area coverage, and the definition of those areas at the EU level. This largely owed to the lack of statistics on which eligibility decisions will be based and uncertainty about proposals for Cohesion policy which were not due until summer 2011.

In addition to verbal feedback at the workshop, most Member States undertook to provide written feedback in April 2011, though some, owing to internal consultation requirements at the subnational level, did not expect to be able to respond so promptly. For its part, DG COMP provided the following timetable for the review process:

Regional aid guideline review timetable	
Launch of impact assessment	April 2011
1st Multilateral meeting with Member States	October 2011
2nd Multilateral with Member States	Q1 2012
Impact Assessment final report	Q3 2012
Adoption of new Regional Aid Guidelines	End 2012
Notification of new maps and Commission decisions	During 2013
Entry into force of new RAG	1 January 2014

In practice, the written response from the Member States following the workshop has been rather partial. By August 2011, only around a third of Member States had responded, and in

many cases the responses are regarded as interim or confidential, or both. A further third expressed their intention not to respond at this juncture, but rather to await the Commission's proposals. For the remainder, feedback was still under consideration. Within DG COMP, discussions on the reform of the Guidelines are ongoing and a public consultation on the guidelines is expected in autumn 2011 as part of the impact assessment.

Against this background, the remainder of this paper assesses four key elements of regional aid control and explores the scope for reform after 2013. Accordingly, the paper is structured as follows. Section 2 looks at the overall **architecture of regional aid control** and the relationship between the different documents underpinning regional aid discipline. Section 3 provides a review and analysis of issues related to **spatial coverage,** drawing on latest statistical data and forecasts of regional economic trends. As just noted, this issue was absent from the March 2011 workshop agenda, but has the potential to be the most contentious element of the reform. Section 4 considers the rules governing the selection of **eligible areas** and the scope for flexibility in area designation. Section 4 reviews the rules governing **aid forms and values**. Last Section 5 highlights some issues for **discussion**.

2. THE REGULATORY ARCHITECTURE FOR REGIONAL AID

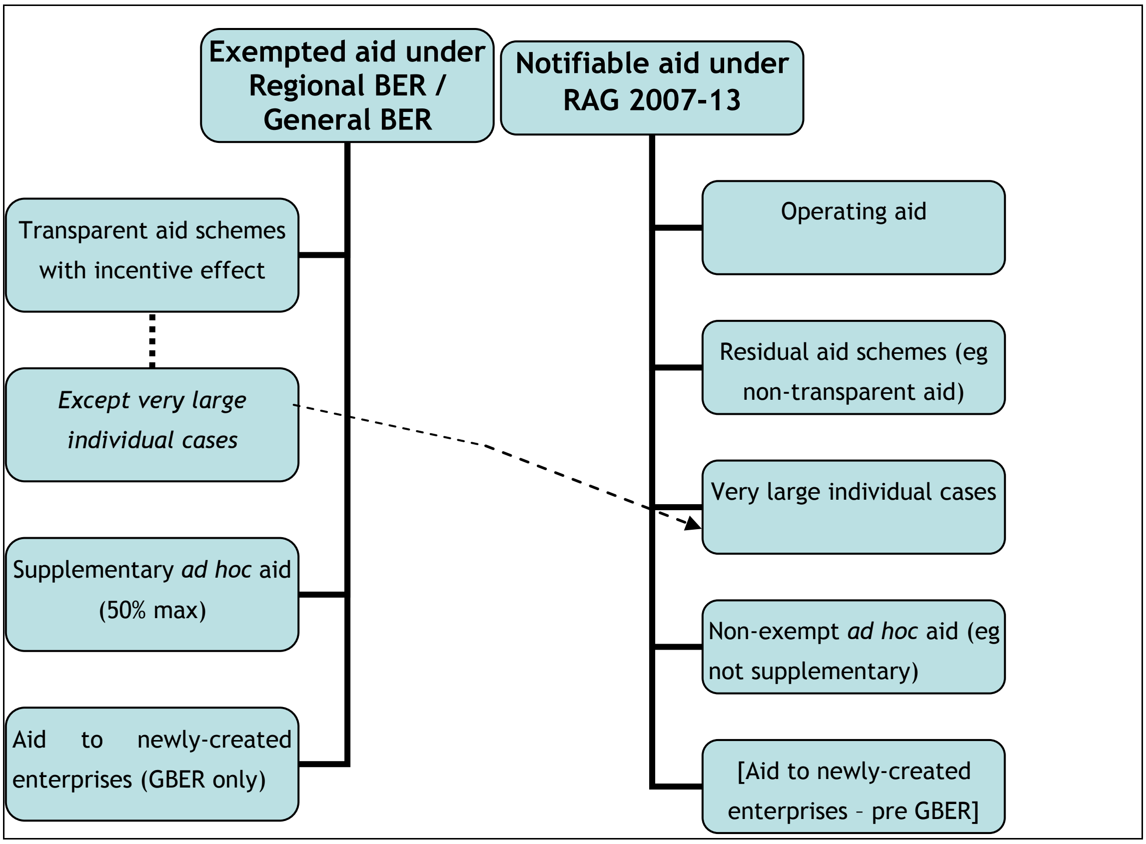
2.1 Background

In recent years the Commission has increasingly pursued a two-pronged approach to regional aid discipline, in line with objectives set out in the State Aid Action Plan (SAAP).[1] On the one hand, it takes a more relaxed approach to schemes meeting clearly specified criteria; on the other, large individual aids and certain types of measure are subject to scrutiny. In consequence the responsibilities of the Member States in relation to transparency, monitoring and reporting have increased – in part shifting the burden of policing regional (and other) aid to the national level.

The overall system for regulating the use of regional aid is summarised below. This illustrates the filtering and threshold approach which aims to target Commission resources on the scrutiny of those measures which it considers raise the most competition concerns.

[1] European Commission (2005) State Aid Action Plan, COM(2005) 107 final, 7 June 2005.

Figure 2.1: The regulatory architecture for regional aid control



The key elements of the system are threefold:

- the exemption from notification and prior approval of certain aid schemes and supplementary *ad hoc* aid under the General Block Exemption Regulation (GBER) (or Regional BER);
- the notification and prior approval of non-exempt schemes under RAG 2007-13
- and the scrutiny of individual awards either because of their size or because they involve *ad hoc* aid which does not qualify for an exemption.

In effect, the Commission's approach is calibrated according to its perception of risk to competition. In the 'low-risk' category are measures which meet the tightly prescribed criteria of the GBER, with the *qui pro quo* that the burden of policing falls largely to the Member States. In the 'medium-risk' category are measures which lack the transparency for exemption or which involve the subsidisation of ongoing costs; these require case-by-case scrutiny of the scheme, but not, in general, of individual awards under approved schemes. In the 'high-risk' category, and meriting individual analysis at the level of the firm, are very large awards, even when offered under schemes that are either approved or exempted, together with *ad hoc* awards offered independently of any aid scheme.

2.2 Regional aid under the Block Exemption Regulation

In order to fall within the scope of the GBER,[2] aid schemes must be 'transparent',[3] must comply with the geographical coverage[4] and aid ceilings[5] of the approved regional aid map and aid must have 'incentive effect'.[6] In addition, eligible expenditure must meet certain criteria, notably that investment be retained in the recipient region for at least five years (three for SMEs).[7]

In the context of the Regulation, *transparency* means regional investment aid schemes under which it is possible to calculate *ex ante* the gross grant equivalent (GGE) as a percentage of eligible expenditure. Such schemes include grants, interest rate subsidies and capped fiscal measures. Schemes which comprise a guarantee element may be considered transparent if the Commission has accepted the methodology used to calculate the aid intensity of the guarantee. Repayable advances are transparent if the total advance does not exceed the aid ceiling expressed as a percentage of eligible expenditure. The following are not considered transparent:[8] aid comprised in capital injections (without prejudice to the specific provisions on risk capital); and aid comprised in risk capital measures (except for risk capital aid schemes for SMEs that comply with the BER).

Regarding *incentive effect*, the GBER only exempts schemes from notification if, prior to work on the project starting, the beneficiary has submitted an application for aid. In the case of SMEs, fulfilment of this condition is sufficient to show incentive effect.[9] In the case of large firms, Member States must in addition, and prior to granting aid, verify that the documentation provided by the beneficiary establishes the incentive effect of aid on the basis of one or more of the following criteria:

i. a material increase in the size of the project/activity due to the aid;

ii. a material increase in the scope of the project/activity due to the aid;

iii. a material increase in the total amount spent by the beneficiary on the project/activity due to the aid;

iv. a material increase in the speed of completion of the project/activity due to the aid; and/or

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[2] The Regional BER applied to schemes put into effect between 31 December 2006 and 31 December 2008. The Regulation enabled schemes meeting certain criteria and whose legal basis cites the Regional BER to be exempted from prior notification and Commission approval. After 31 December 2008, the Regional BER was repealed by the GBER, but schemes already introduced under the Regional BER were unaffected and may remain in place until 31 December 2013. The remainder of this section outlines the terms of the GBER, which came into force on 29 August 2008.
[3] GBER, Article 5(1).
[4] GBER, Article 13(2).
[5] GBER, Article 13(3).
[6] GBER, Article 8(1).
[7] GBER, Article 13(7).
[8] GBER, Article 5(2).
[9] GBER, Article 8(2).

v. that the project would not have been carried out as such in the assisted region concerned in the absence of aid.[10]

These requirements do not apply to fiscal measures granted automatically without any discretion on the part of the awarding authorities and where the measure has been adopted prior to project start.[11]

Ad hoc aid which is used to supplement aid granted on the basis of transparent regional aid schemes, and which does not exceed 50 percent of the total aid, is also exempt from notification provided that the *ad hoc* aid fulfils all the criteria of the Regulation.[12] This provision enables, for example, a local authority to complement national level incentives (subject to the prevailing regional aid ceiling); however, it does not allow for the use of *ad hoc* aid independently, which must be notified and assessed on the basis of RAG 2007-13.

The following categories are *not* exempted from notification under the GBER and must be approved by the Commission on a case-by-case basis prior to implementation:

- Non-transparent regional aid schemes or those not meeting the criteria with respect to incentive effect.
- Regional aid schemes targeted at specific sectors of economic activity within manufacturing or services (schemes targeting tourism are not considered specific).
- Regional aid schemes which involve operating aid.
- Regional aid for large projects on the basis of existing schemes where the amount of aid exceeds the notification threshold – i.e. the amount that a €100 million investment could receive.
- *Ad hoc* aid, other than that which supplements exempted aid (as mentioned above).
- Aid to firms which are subject to a recovery order following the award of illegal and incompatible aid.

Member States must provide summary information on schemes they deem to be exempted from notification within 20 days of implementation.[13] The full text of the aid scheme must be published and the direct internet address of the publication provided.[14] Regional aids to large projects (those involving eligible expenditure exceeding €50 million) must be reported within 20 days of aid being granted.[15] Records of aid awarded under exempted schemes must be maintained; these must be sufficiently detailed for the Commission to establish that the conditions of the Regulation have been complied with. These records must be maintained for 10 years from the date of any individual award or, in the case of aid

[10] GBER, Article 8(3).
[11] GBER, Article 8(4).
[12] GBER, Article 2(5).
[13] GBER, Article 9(1).
[14] GBER, Article 9(2).
[15] GBER, Article 9(4).

schemes, from the date of the last award made under the scheme.[16] Last, the GBER provides for the monitoring of the implementation of the terms of the Regulation.[17]

2.3 Approval of schemes under the 2007-13 Regional aid guidelines

The 2007-2013 Regional aid guidelines (RAG 2007-13) set out the circumstances in which the Commission will approve regional State aid that does not fall within the ambit of the block exemption. RAG 2007-13 deals with three categories of aid scheme: regional investment aid;[18] operating aid;[19] and aid for newly-created enterprises.[20] Under the Regional BER, aid for newly-created enterprises was subject to authorisation under Article 107(3); however, the GBER brought this category within the scope of the exemption. The provisions for those categories of aid apply to all sectors apart from coal and fisheries, agricultural production,[21] steel and synthetic fibres.[22] In general, regional aid should be part of a multisectoral scheme which forms part of a regional development strategy with clearly defined objectives.[23]

In practice, the vast majority of ***regional investment aid*** schemes fall within the scope of the GBER, not least since many of the assessment criteria (for example, compliance with the regional aid map and accompanying aid intensities, eligible expenditure and eligible investments) under RAG 2007-13 are identical to those under the GBER. The principal exceptions are regional investment aids that do not meet the transparency criteria in the GBER, together with individual cases; these are assessed in relation to the provisions of RAG 2007-13 on a case-by-case basis.

Operating aid, i.e. aimed at reducing a firm's current expenses, is normally prohibited and cannot be exempted under the GBER; it is always subject to notification and Commission scrutiny. However, under RAG 2007-13, such aid may be granted in Article 87(3)(a) regions provided that it is justified in terms of its contribution to regional development, and provided that its level is proportional to the handicaps it seeks to alleviate. Member States are responsible for demonstrating the existence and scale of any such handicaps. In addition, certain specific forms of operating aid can be authorised in the low population density and least populated areas.[24] Operating aid should in principle only be granted for a pre-defined set of eligible expenditures (such as replacement investment, transport or labour costs) and should be limited to a certain proportion of those costs.[25] Operating aid intended to promote exports is excluded.[26]

Aid for newly-created enterprises was expressly provided for under RAG 2007-13, but has since been subsumed within the GBER. This means that schemes targeting this group of

[16] GBER, Article 10(2).
[17] GBER, Article 10(3).
[18] RAG 2007-13, paragraph 33-75.
[19] RAG 2007-13, paragraph 76-83.
[20] RAG 2007-13, paragraph 84-90.
[21] As specified in Annex I to the Treaty
[22] RAG 2007-13, paragraph 8.
[23] RAG 2007-13, paragraph 10.
[24] RAG 2007-13, paragraph 76.
[25] RAG 2007-13, paragraph 77.
[26] RAG 2007-13, paragraph 78.

firms, provided that they meet all the conditions of the GBER, may be exempted from notification and no longer fall to be assessed under the guidelines (unless, for example, they do not meet the transparency criteria of the GBER).

2.4 Individual cases: very large awards and ad hoc cases

At the 'high-risk' end of the spectrum in terms of competition effects, RAG 2007-13 sets lower rates of award to large investments and requires case-by-case prior approval by the Commission of awards to very large investment projects.

The provisions on ***large investment projects*** reduce rates of award under existing regional aid schemes[27] to projects with eligible investment of more than €50 million. This is achieved through a reduction scale (the larger the project, the lower the rate of award) incorporated into the regional aid schemes operated by the Member States, as set out in Figure 2.2.

Figure 2.2: Rate reduction matrix for large investments

Eligible expenditure	Aid ceiling
Up to € 50 million	100 % of regional aid ceiling
For the part between € 50 and € 100 million	50 % of regional aid ceiling
For the part exceeding € 100 million	34 % of regional aid ceiling

As Figure 2.2 shows, projects involving investments of less than €50 million are unaffected by the matrix. However, for larger projects the standard award rate is progressively reduced. The impact of this on the standard award maxima under RAG 2007-13 is shown in Figure 2.3. As would be expected, the higher the amount of eligible investment, the lower the rate of award applicable since an increasing proportion of the investment qualifies for aid at only 34 per cent of the prevailing regional aid rate. Thus, for an investment of €500 million, the maximum rate of award in a 10 percent rate 'c' area would be 4.22 percent of eligible investment – a maximum of €21.1 million.

Figure 2.3: Impact of the large investment project provisions on award rates

	Standard ceilings (% GGE)					
	10	15	20	30	40	50
Eligible expenditure	**Adjusted ceilings (% GGE)**					
€ 50 m	10.00	15.00	20.00	30.00	40.00	50.00
€ 100 m	7.50	11.25	15.00	22.50	30.00	37.50
€ 150 m	6.13	9.20	12.27	18.40	24.53	30.67
€ 200 m	5.45	8.18	10.90	16.35	21.80	27.25
€ 300 m	4.77	7.15	9.53	14.30	19.07	23.83
€ 500 m	4.22	6.33	8.44	12.66	16.88	21.10

[27] Whether block-exempted or notified and approved investment aid schemes.

Crucially, however, ***individual notification*** is required where the aid proposed is higher than that which a project involving eligible investment of €100 million could have obtained on the basis of the application of the formula.

Figure 2.4: Individual notification ceilings for large investment projects

	Standard ceilings (% GGE)					
	10	15	20	30	40	50
	Aid notification threshold (€ million)					
	7.5	11.25	15.0	22.5	30.0	37.5
Eligible expenditure	**Notification threshold (% of eligible expenditure)**					
€ 50 m	~	~	~	~	~	~
€ 100 m	~	~	~	~	~	~
€ 150 m	5.0	7.5	10.0	15.0	20.0	25.0
€ 200 m	3.75	5.63	7.5	11.25	15.0	18.75
€ 300 m	2.5	3.75	5.0	7.5	10.0	12.5
€ 500 m	1.5	2.25	3.0	4.5	6.0	7.5

As Figure 2.4 shows, for *very* large projects the notification thresholds bite at very low levels of aid when expressed as a percentage of investment. In a 10 percent rate area, the notification threshold in proposed aid would be €7.5 million, just 1.5 percent of a €500 million investment.

Where a project is notified to the Commission because of the size of the award, the Commission has a degree of discretion in the assessment criteria and the decision about whether aid up to that stipulated in the matrix can be awarded. The key issues in the assessment of aid to notified projects concern the market share of the beneficiary and the capacity created by the project.

For individually notifiable projects where either:

a. the aid beneficiary accounts for more than 25 percent of the sales of the products concerned on the markets concerned (either before or after the investment); or

b. the capacity created by the project is more than 5 per cent of the size of the market measured in apparent consumption, except in rapidly growing markets,

the Commission will only approve regional aid after opening the Article 108(2) ***investigative procedure*** and a "detailed verification… that the aid is necessary to provide an incentive effect for the investment and that the benefits of the aid outweigh the resulting distortion of competition and effect on trade". This verification is based on detailed guidance published by the Commission.[28]

The onus is on the *Member States* to demonstrate that a given project does not reinforce a high market share or increase capacity in a stagnant sector. Where no such competition concerns arise, the matrix given in Figure 2.2 is used to determine the maximum rate, as for projects under the €100 million investment threshold.

[28] Communication from the Commission concerning the criteria for an in-depth assessment of regional aid to large investment projects, OJEU No C 223/3 of 16 September 2009.

2.5 National perspectives on the operation of the regulatory architecture

Preliminary reactions suggest that national policymakers are reasonably content with the ***overall system*** of disciplining regional aid. Member States generally recognise and accept the need to calibrate the level of scrutiny to the perceived risk to competition. Also, many appreciate the capacity to be able to implement aid schemes without prior notification on the basis of the GBER; others, however, note that this shifts the responsibility for compliance and the associated administrative burden to the Member States, and there are some concerns about the implications of possible audits. A number of policymakers point to discrepancies of detail or wording between RAG 2007-13 and the GBER. It is widely assumed that these inconsistencies would be dealt with as part of the reform process. In addition, however, some suggested that the RAG and the GBER be combined into a single document in order that the rules relating to regional aid be consolidated. Notwithstanding the general satisfaction with the regulatory architecture, two main issues seem likely to be subject to discussion.

One area of inconsistency concerns the requirement for an ***incentive effect***. In RAG 2007-13 the sole requirement for demonstrating incentive effect is that the application should have been submitted prior to project start; by contrast, in GBER, the requirements are more demanding, at least in the case of large firms. It is assumed that in the forthcoming reform the more stringent line would be taken. However, views are divided on whether the demonstration of an incentive effect should be yet more demanding, with a view to improving the effectiveness of aid, or whether such steps would simply increase the administrative burden without any guaranteed improvement in efficacy. However, on balance, the vast majority of Member States who expressed an opinion were opposed to any reinforcement of the incentive effect provisions at the EU level, this being viewed as largely the concern of domestic policymakers.

Although Member States generally accept the need for a higher level of scrutiny to ***large investment projects***, concerns are raised about several aspects of the current rules. As outlined above, the treatment of large investment projects comprises two main elements: lower rates of award for eligible investment exceeding €50 million; and case-by-case notification and approval where the proposed award exceeds the amount that a €100 million could receive in that area. Many Member States now consider the notification threshold to be too low and propose that it be revised in line with inflation; there is also the suggestion that the threshold should be set in a different way. However, these views are not universally held and some see no need for a revision of the notification thresholds at all. A general issue is that the notification and approval procedure is considered too lengthy and complex. Several Member States point to the need to engage lawyers and consultants in order to provide supporting evidence, adding to the cost of the process for the Member States and the applicant firm. There is a widespread perceived need to simplify the process and clarify the information required and several countries point to the negative effect of the administrative burden on the attractiveness of the EU as an investment location. Other points raised concern: the need to review the possibility of retaining SME bonuses for large investment projects; and the need to clarify the notion of a single investment project.

3. SPATIAL COVERAGE

The current basis for approving the assisted area maps of the Member States are the 2007-13 Regional Aid Guidelines.[29] Section 3.1 describes the basic principles for determining the spatial coverage of regional aid under those Guidelines. Section 3.2 considers how spatial coverage might be determined post-2013.

3.1 Basic principles of spatial coverage under RAG 2007-13

The underlying principle governing spatial coverage in the Regional Aid Guidelines is the "exceptional nature of regional aid" so that the Commission considers that the total population of the assisted regions should be "substantially" less than that of the non-assisted regions.[30] On this basis, the Guidelines *set the initial ceiling at 42 percent of the EU25* population, this being "similar" to the limit set for the EU15 in 1998 (42.7 percent).[31] However, the application of the safety net, which ensures that no Member States would lose more than 50 percent of its current coverage, raises the overall ceiling to 43.1 percent of the EU25 population or 46.6 percent of the EU27 population, with the accession of Bulgaria and Romania which have 'a' region status in their entirety.[32]

3.1.1 Coverage of 'a' regions

(i) 'Classic' 'a' regions

Article 107(3)(a) provides that "aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment" may be considered compatible with the common market. The European Court of Justice has held that this provision applies only to areas which are disadvantaged in relation to the Community as whole.[33] For its part, the Commission takes the view that GDP per head in purchasing power standards (PPS) "is capable of reflecting synthetically both phenomena mentioned."[34] This seems a debatable interpretation both of the Treaty provisions and the statistical indicators: Article 107(3)(a) does not require low standards of living *and* underemployment to be present, but rather views them as alternatives; moreover, GDP(PPS) per head measures neither phenomenon. Nevertheless, it is clear that the Commission's view is now well-entrenched in State aid policy and practice and is further embedded by the use of the same indicators for Convergence regions under EU Cohesion policy. Accordingly, the 'a' areas for 2007-13 are defined as NUTS 2 regions where GDP(PPS) per head is less than 75 percent of the EU25 average for the period 2000-2. The 'a' regions, together with the other 'earmarked' areas (described below) are illustrated in Map 3.1.

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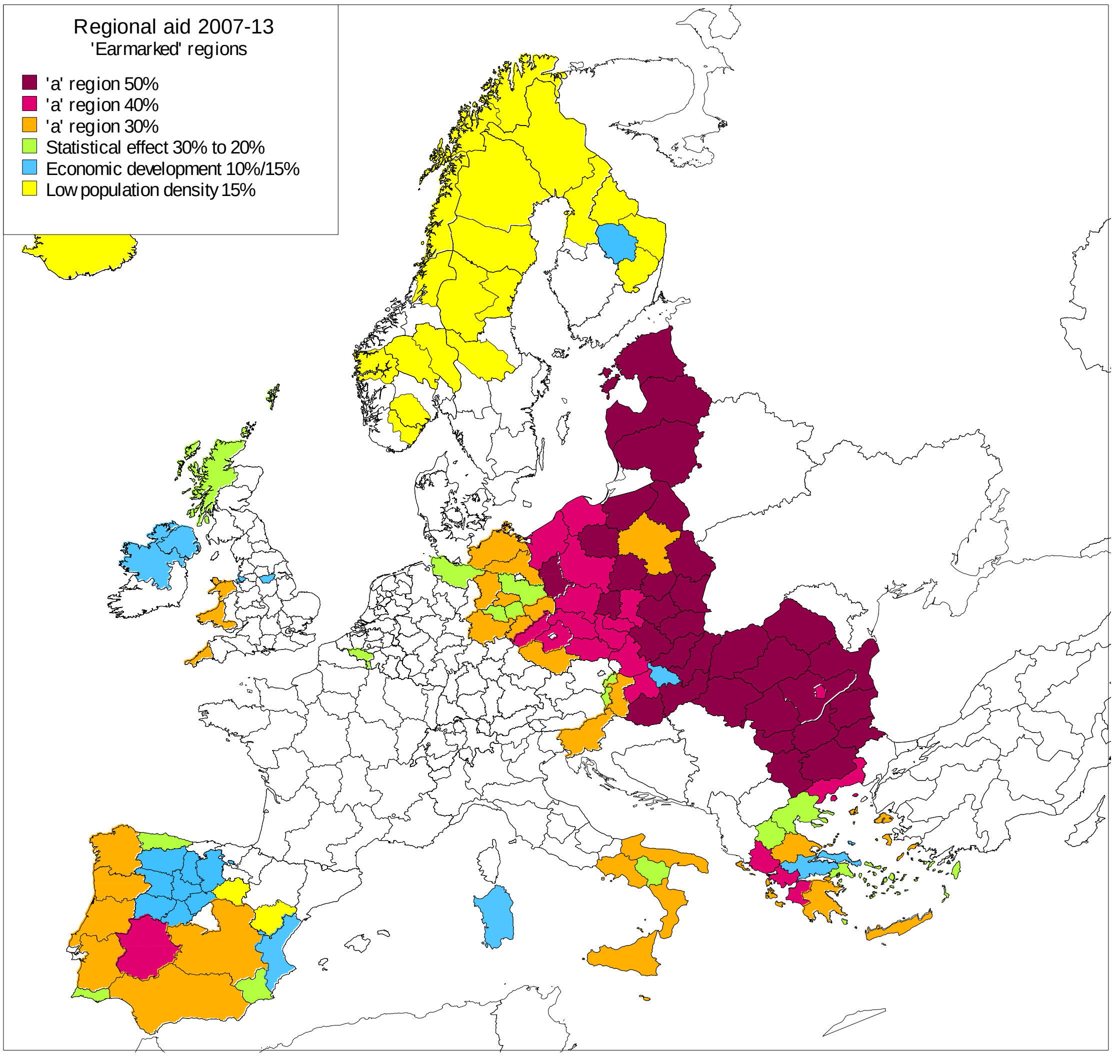
[29] Guidelines on National Regional Aid for 2007-13, OJEU No C 54 of 4 March 2006.
[30] Paragraph 12.
[31] The ceiling was set at 42.7 percent, see: *National ceilings for regional aid coverage under the derogations provided for in Article 92(3)(a) and (c)* [now Article 107] *of the Treaty for the period 2000 to 2006,* OJEC No C 16 of 21 January 1999. However, it was exceeded by the inclusion of Northern Ireland *in addition* to the UK quota, instead of within it. The resulting total was around 43 percent, see: Figure 34, pp 205, Wishlade, F. (2003) *Regional State Aid and Competition Policy in the European Union*, Kluwer Law international, The Hague.
[32] Paragraph 13.
[33] Case 248/84 *Germany v Commission* [1987] ECR 4013 at 4042.
[34] Paragraph 16, footnote 19.

Map 3.1: 'Earmarked' areas 2007-13



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

(ii) Outermost regions

In addition, under the 2007-13 Guidelines, the seven Outermost regions (OMR)[35] have 'a' region status, irrespective of whether they meet the GDP per head threshold. Five of the seven are below the threshold, but Canarias and Madeira both had per capita GDP of around 88 percent of the EU25 average under the dataset used for 2007-13. In spite of the emphasis on 'coherence' between the two policy areas, Canarias and Madeira have 'Phasing-in' status under the Competitiveness and Employment strand of Cohesion policy, rather than Convergence status, although special additional budgetary allocations were made to all OMRs for 2007-13.

(iii) Statistical effect regions

Last, transitional arrangements were made for the so-called 'statistical effect' regions. These are regions with GDP per head above the *EU25* qualifying threshold, but which would

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

have qualified as 'a' areas had it not been for enlargement (equivalent to Phasing-out regions under EU Cohesion policy); the qualifying threshold was 82.2 percent of EU25 GDP(PPS) per head. Significantly, not all of the eligible regions had 'a' region status in the pre-2000 period – namely: Hainaut (Belgium); Lüneburg (Germany); and Highlands and Islands (UK). Statistical effect regions will retain 'a' region status at least until 31 December 2010. During 2010 Commission reviewed the position of the regions concerned on the basis of the most recent GDP data available (2005-7). Regions where GDP per head had fallen to below 75 percent of the EU25 average retained 'a' region status; the remainder became 'c' areas from 1 January 2011. Consequently, Hainaut (Belgium), Basilicata (Italy), Kentriki Makedonia and Dytiki Makedonia (Greece) have full 'a' region status for 2011-2013 while the remaining statistical effect areas have 'c' area status.

3.1.2 Coverage of 'c' areas

Article 107(3)(c) provides that "aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest" may be compatible with the common market. The European Court has confirmed that this provision is wider than Article 107(3)(a) and that it gives the Commission the authority to allow Member States to offer regional aid in areas that are disadvantaged in relation to the *national* average.

The Guidelines stress that, because the 'c' areas are less disadvantaged than the 'a' areas, their geographical scope and the aid intensity must be strictly limited and only a small part of the national territory may normally qualify for aid.[36] The determination of the coverage of 'c' areas is a two-stage process: first, the Commission sets a population coverage ceiling for each Member State; second, eligible areas are selected by the Member States, subject to approval by the Commission. In addition, there are transitional provisions for some areas which previously had 'c' status.

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

- *Economic development:* each Member State automatically received a quota equivalent to the population of areas that had 'out-grown' 'a' area status and were also beyond the threshold for statistical effect regions – in other words, regions that would have ceased to qualify as 'a' regions even without the impact of enlargement on EU average GDP per head. Northern Ireland was added to this group; although it was not an 'a' area in 2000-6, it was considered to have benefited from the same aid intensities as many 'a' areas[37] - see Map 3.1.

- *Low population density*: NUTS 3 areas with fewer than 12.5 inhabitants per km^2 – again, see Map 3.1.

- *A population quota based on internal disparities in GDP per head and unemployment*: the remaining population (ie. 42 percent, less the 'a' areas, the

[36] Paragraph 22.
[37] Paragraph 25.

economic development areas and the low population density areas) is distributed between the Member States. The formula for doing so is set out in the Guidelines[38] and follows the approach in the 1998 Guidelines. The principle of the method is to calculate the population of NUTS 3 regions where either GDP per head is more than 15 percent below the national average or the unemployment rate is more than 15 percent above the national average. However, these thresholds are adjusted to reflect the *national* situation in the EU context, so that, in more prosperous countries, the GDP per head disparity must be greater in order for a region to count towards the quota and in poorer countries the disparity required is less. The same applies to unemployment rates. For 2007-13, this adjustment meant that, for example, the GDP threshold for the Netherlands was lowered from 85 percent to 77.2 percent of the national average, whereas the Greek threshold was raised from 85 percent to 99.5 percent of the national average.[39]

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

Provisions for the phasing out of ‘c’ areas were also included in the Guidelines. These enabled a proportion of previous ‘c’ areas to remain eligible until 1 January 2009. Coverage of the transitional ‘c’ areas together with the ‘c’ areas based on the quota and safety net provisions could not exceed 66 percent of ‘c’ coverage as at 31 December 2006 (excluding areas which qualify as statistical effect, economic development and low population density areas from 1 January 2007).[40]

3.1.3 Overall outcomes 2007-13

The outcome of the application of this methodology is illustrated in Figure 3.1. This shows that while 46.6 percent of the EU27 population falls within assisted areas, this is heavily skewed towards the 12 ‘new’ Member States (hereafter EU12),[41] where 98 percent of the population is covered; by contrast, in the EU15, coverage is under one-third of the population.

[38] Annex IV. It is described in detail in Wishlade, F. (2005) ‘Plus ça change, plus c’est la même chose? Recent Developments in EU competition policy control of regional aid’ *European Policy Research Paper* 58, European Policies Research Centre, University of Strathclyde, Glasgow.
[39] Examples given in Annex IV of the Guidelines. Note also that, in practice, Greece is entirely covered by ‘a’ areas or economic development areas, which have ‘c’ status for the 2007-13 period.
[40] Paragraph 95.
[41] Hereafter EU10 refers to the countries which joined in 2004.

Figure 3.1: Coverage of assisted areas 2007-13 (% of population)

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

Note: All the Statistical Effect regions became either 'a' regions of 'c' regions from 1 January 2011. Transitional 'c' area coverage is not included in the total for 2007-13; the Iceland total applies from 2008-13, follows a reorganisation of the NUTS regions.
Source: Own calculations from: Eurostat data; RAG 2007-13; *Icelandic regional aid maps authorised by the EFTA Surveillance Authority*, ESA Press Release PR(06)54; *The EFTA Surveillance Authority adopts new Regional Aid Guidelines for 2007-13,* ESA Press Release PR(06)18.

3.2 Spatial coverage 2014+?

To date, the Commission has given no indication of its intentions for determining spatial coverage after 2013. At the March 2011 workshop this was partly justified by the absence of up-to-date data and partly by the uncertainty surrounding future arrangements for Cohesion policy. However, although the GDP data on which spatial coverage would in principle be based, are not yet published, it is still possible to make some plausible estimates. Moreover, since the March 2011 RAG workshop, the Commission has published

outline proposals for Cohesion policy 2014-20, indicating transitional arrangements for two groups of regions: those losing Convergence status; and those with GDP(PPS) per head in the range 75-90 percent of the EU average.[42]

Nevertheless, a number of significant 'unknowns' remain: What overall level of coverage might the Commission set? What account might it take of proposals for Cohesion policy reform? To what extent, if at all, will existing provisions for minimum coverage (the 'safety net') remain? The discussion that follows explores the options and outcomes taking account of these issues. Two main sets of scenarios emerge, reflecting the possible treatment of transitional areas identified under the Cohesion policy proposals:

- In a 'rolling forward' scenario, the existing methodology would essentially be reapplied, with some small adjustments. The 'statistical effect' category could be dropped (few regions would fall into this grouping owing to the narrow eligibility band arising from enlargement from EU25 to EU27), but those losing 'a' status would have economic development 'c' area status as previously
- In a 'sliding scale' scenario, the existing methodology would be reapplied. However, regions with GDP(PPS) per head in the range 75-90 percent of the EU27 average would also be entitled to 'c' area status, irrespective of whether they had qualified as Convergence regions previously.

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

- As for 2007-13, the ***initial coverage ceiling is 42 percent*** of the EU population, prior to the application of the safety net – in effect this is a further lowering of coverage since the 2007-13 ceiling referred to EU25; the EU27 equivalent would be 45.5 percent
- ***'a' regions*** are defined as NUTS 2 regions with GDP(PPS) per head of less than 75 percent of the EU27 average
- as before, a ***safety net*** is applied such that, for 2014+, no country loses more than 50 percent of its 2007-13 coverage
- ***regional GDP data*** for 2007-8 have been used, together with estimates for 2009[43] (2000-2 were used under RAG 2007-13)
- ***regional unemployment rate data*** for 2008-9 have been used (2001-3 were used under RAG 2007-13); note that data are not complete for all countries
- ***EU27*** is taken as the basis for all EU averages[44]

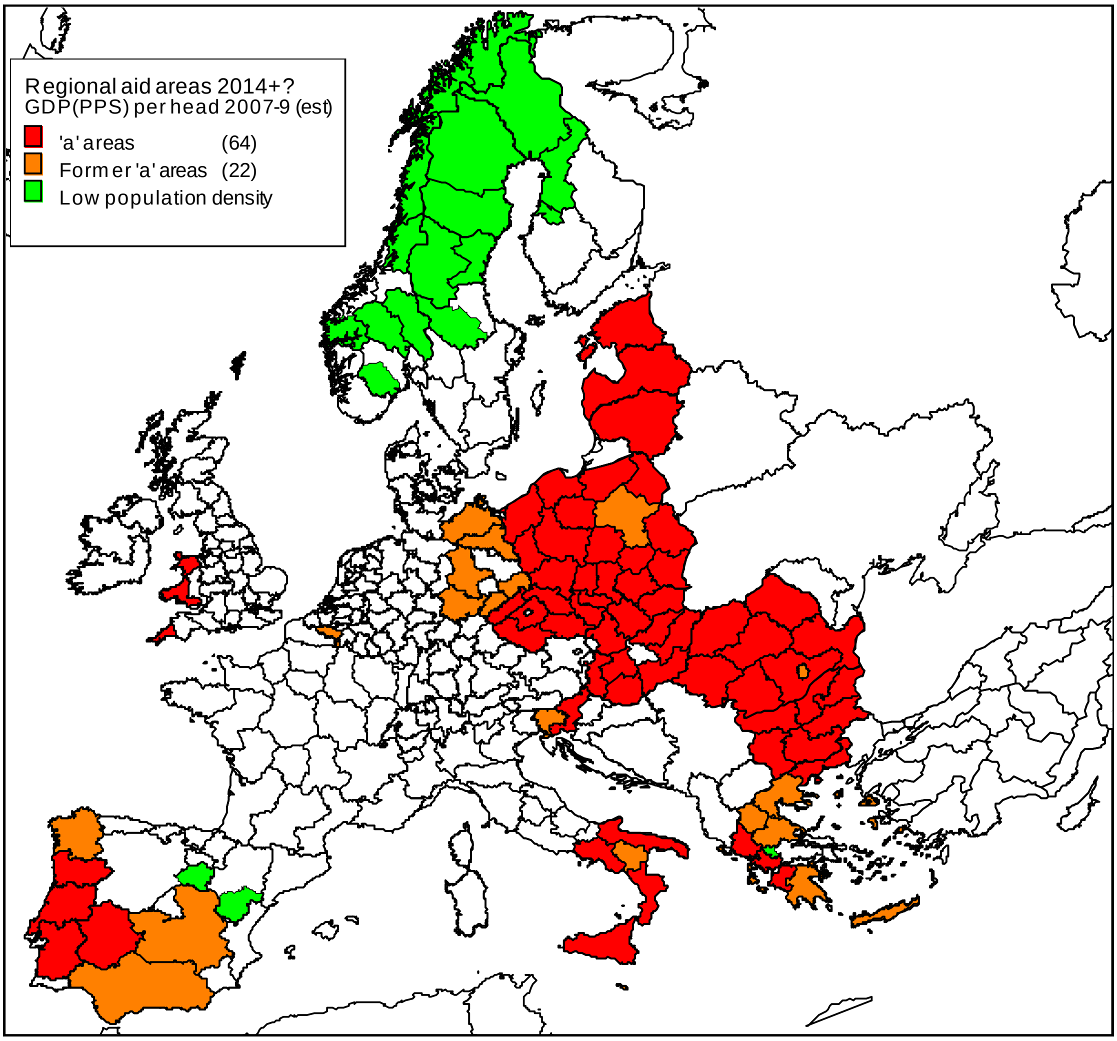
[42] European Commission (2011) *A Budget for Europe,* COM(2011)500 final, 29 June 2011.
[43] These are author's estimates, based on national growth rates.
[44] Croatia will likely accede too late for data to be calculated on an EU28 basis.

- as previously, the ***outermost regions*** have ‘a’ status irrespective of GDP per head
- the criterion for determining ***low population density*** areas remains the same (essentially NUTS 3 areas with fewer than 12.5 inhabitants per km^2)
- the methodology for distributing ‘quotas’ of ***‘c’ area population*** between countries (ie. after the determination of ‘earmarked’ regions) remains as outlined in RAG 2007-13
- no ***transitional arrangement***s are made for areas losing ‘c’ status. This differs from the past approach, but in any event transitional ‘c’ area status was a late addition to the 2007-13 Guidelines and applied only for two years.

3.3 Rolling forward scenario

In the rolling forward scenario, regions losing ‘a’ status are ‘earmarked’ as ‘c’ regions along with low population density regions. This is illustrated in Map 3.2.

Map 3.2: ‘Earmarked’ regions under the *rolling forward* scenario 2014+?



Source: Own calculations from Eurostat data.

At a global level, rolling the methodology forward on the basis outlined above results in a *reduction* in coverage for *all* types of assisted area except for the sparsely-populated areas; outermost regions are, effectively, also ring-fenced within 'a' region coverage.

Figure 3.2: 'Rolling forward' scenario - assisted area coverage 2014+? (% of population)

	'a' areas	'c' - econ dev	'c' - low pop dens	'c' - quota	Total
EU27	**24.7**	**7.8**	**0.5**	**9.2**	**42.2**
EU25	**20.4**	**7.8**	**0.6**	**9.8**	**38.6**
EU15	**8.5**	**7.6**	**0.7**	**11.4**	**28.2**
NMS12	**86.1**	**8.6**	**0.0**	**0.6**	**95.3**
BE		12.2		11.5	23.7
BG	100.0				100.0
CZ	88.2				88.2
DK				7.6	7.6
DE		13.0		14.1	27.2
EE	100.0				100.0
IE				25.0	25.0
GR	15.1	40.9	0.2	2.0	58.2
ES	6.9	28.2	0.5	8.4	44.0
FR	2.9			16.8	19.7
IT	28.5	1.0		2.6	32.1
CY				25.0	25.0
LV	100.0				100.0
LT	100.0				100.0
LU				8.0	8.0
HU	71.5			4.7	76.1
MT		100.0			100.0
NL				3.8	3.8
AT				20.2	20.2
PL	86.4	13.6			100.0
PT	69.8			2.9	72.7
RO	89.1	10.9			100.0
SI	53.8	46.3			100.0
SK	88.9				88.9
FI			19.8	9.1	28.9
SE			12.6		12.6
UK	4		0.4	18.4	22.7
EEA3			**26.7**		**26.7**
IS			37.5		37.5
LI					
NO			26.2		26.2

Note: This assumes initial coverage of 42 percent of EU27 population and a safety net of 50 percent of previous national coverage; for alternative scenarios see Figure 3.3.
Source: Own calculations from Eurostat data.

Detailed outcomes are illustrated in Figure 3.2 and may be summarised as follows:

- Overall coverage falls from 46.6 percent to 42.2 percent (after the application of safety nets). This outcome is essentially the consequence of applying the same initial ceiling – 42 percent of the population as previously - to a different population base: whereas the

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

- For the EU15, coverage would fall from 32.4 percent to 28.2 percent.
- For the EU12, coverage would fall from 98 percent to 95.3 percent of the population.

Overall coverage outcomes for individual Member States vary widely, with some seeing significant reductions (e.g. Ireland, Greece, Spain, Cyprus, Netherlands, Hungary) and others seeing coverage unchanged (most of the EU12), though this may conceal shifts between ‘a’ region and ‘c’ area coverage. The ‘earmarked’ coverage arising from these calculations is shown in Map 3.2, above.

The reduction in ‘a’ region coverage across the EU27 is significant (from around 32 percent to about 25 percent of the EU population), but the distribution of change is uneven:

- In **Bulgaria**, the **Czech Republic**, **Estonia, Latvia, Lithuania**, **France**, **Hungary**, **Portugal**, **Slovakia** and the **United Kingdom** the position would remain *unchanged*; in **Italy**, the position would be the same as in 2007-10, with Basilicata falling outside full ‘a’ status.
- In **Germany**, **Greece, Spain, Malta, Poland, Romania** and **Slovenia**, there would be substantial *reductions* in ‘a’ coverage. In Germany, there would be no ‘a’ regions and Malta would cease to be covered. In Greece, coverage would fall from around 37 percent in 2007-10 to 15 percent after 2013 (as in Italy, two Greek regions had their status revised from statistical effect to full ‘a’ status for 2011-3, but these regions would cease to qualify as ‘a’ regions after 2013). In Spain, only Extremadura would be an ‘a’ region. In Poland and Romania the capital regions would cease to qualify. In Slovenia, the splitting of the country in two NUTS 2 regions means that ‘a’ status would cover around 54 percent of the population.

The calculations presented above in some respects represent a *status quo* option, though the 42 percent initial ceiling is, in effect, a lower ceiling than at present owing to enlargement from EU25 to EU27. Clearly, the ceiling could be subject to negotiation, though the Commission has stressed that in any event coverage would remain below 50 percent. In addition, and as noted earlier, on the basis of this scenario, many countries would see significant cutbacks in coverage, suggesting that, as in the past, the negotiation of some form of safety net is also likely to be an issue. The impact of variants on the basic scenario by adjusting the ceiling or the safety net is set out in Figure 3.2. This shows that:

- Coverage in some countries is *unaffected by changes in either the safety net or overall coverage*. These are countries where coverage is entirely comprised of ‘earmarked’ areas, these being and there is no ‘quota’ of ‘c’ areas, namely: Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Malta, Poland, Romania, Slovenia, Slovakia and Sweden

- A further group of countries is *unaffected by the safety net* even if raised to 75 percent, but coverage rises or falls depending on the initial ceiling, namely: Belgium, Denmark, Germany, France, Italy, Hungary, Austria, Portugal, Finland, United Kingdom

- A third group would, or might *depend on the safety net to secure coverage*. Coverage in Ireland and the Netherlands would be substantially reduced in the absence of a safety net – it could be as low as 14.9 percent or 1.9 percent of the population respectively if the initial coverage were reduced to 42 percent of the EU27 population. There would be no coverage in Luxembourg or Cyprus if there were no safety net. Greece would have an interest in a safety net, depending on the level at which it were set: at 50 percent it would not alter outcomes, at 75 percent it would.

Figure 3.3: Impact of population ceilings and safety net variants within 'rolling forward' scenario

	Current 2007-13	Variants on the 'rolling forward' scenario (NO earmarking of 'sliding scale' transitional regions)					
		Lower ceiling, same safety net	Current initial ceiling (EU27 basis), same safety net	Lower ceiling, higher safety net	Current initial ceiling, higher safety net	Lower initial ceiling, no safety net	Current initial ceiling, no safety net
Initial_ceiling (EU27)	**42 (EU25) 45.5 (EU27)**	**42**	**45.5**	**42**	**45.5**	**42**	**45.5**
Safety_net	**50**	**50**	**50**	**75**	**75**	**0**	**0**
EU_27	**46.6**	**42.2**	**45.6**	**42.8**	**46.2**	**42.0**	**45.5**
Belgium	**25.9**	23.7	28.1	23.7	28.1	23.7	28.1
Bulgaria	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Czech	**88.6**	88.2	88.2	88.2	88.2	88.2	88.2
Denmark	**8.6**	7.6	10.6	7.6	10.6	7.6	10.6
Germany	**29.6**	27.2	32.7	27.2	32.7	27.2	32.7
Estonia	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Ireland	**50.0**	25.0	25.0	37.5	37.5	14.9	20.7
Greece	**100.0**	58.2	59.0	75.0	75.0	58.2	59.0
Spain	**59.6**	44.0	47.3	44.7	47.3	44.0	47.3
France	**18.4**	19.7	26.3	19.7	26.3	19.7	26.3
Italy	**34.1**	32.1	33.1	32.1	33.1	32.1	33.1
Cyprus	**50.0**	25.0	25.0	37.5	37.5	0.0	0.0
Latvia	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Lithuania	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Luxembourg	**16.0**	8.0	8.0	12.0	12.0	0.0	0.0
Hungary	**100.0**	76.1	77.9	76.1	77.9	76.1	77.9
Malta	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Netherlands	**7.5**	3.8	3.8	5.6	5.6	1.9	2.7
Austria	**22.5**	20.2	28.0	20.2	28.0	20.2	28.0
Poland	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Portugal	**76.7**	72.7	73.8	72.7	73.8	72.7	73.8
Romania	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Slovenia	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Slovakia	**88.9**	88.9	88.9	88.9	88.9	88.9	88.9
Finland	**33.0**	28.9	32.4	28.9	32.4	28.9	32.4
Sweden	**15.3**	12.6	12.6	12.6	12.6	12.6	12.6
United_Kingdom	**23.9**	22.7	29.9	22.7	29.9	22.7	29.9

Source: Own calculations from Eurostat data.

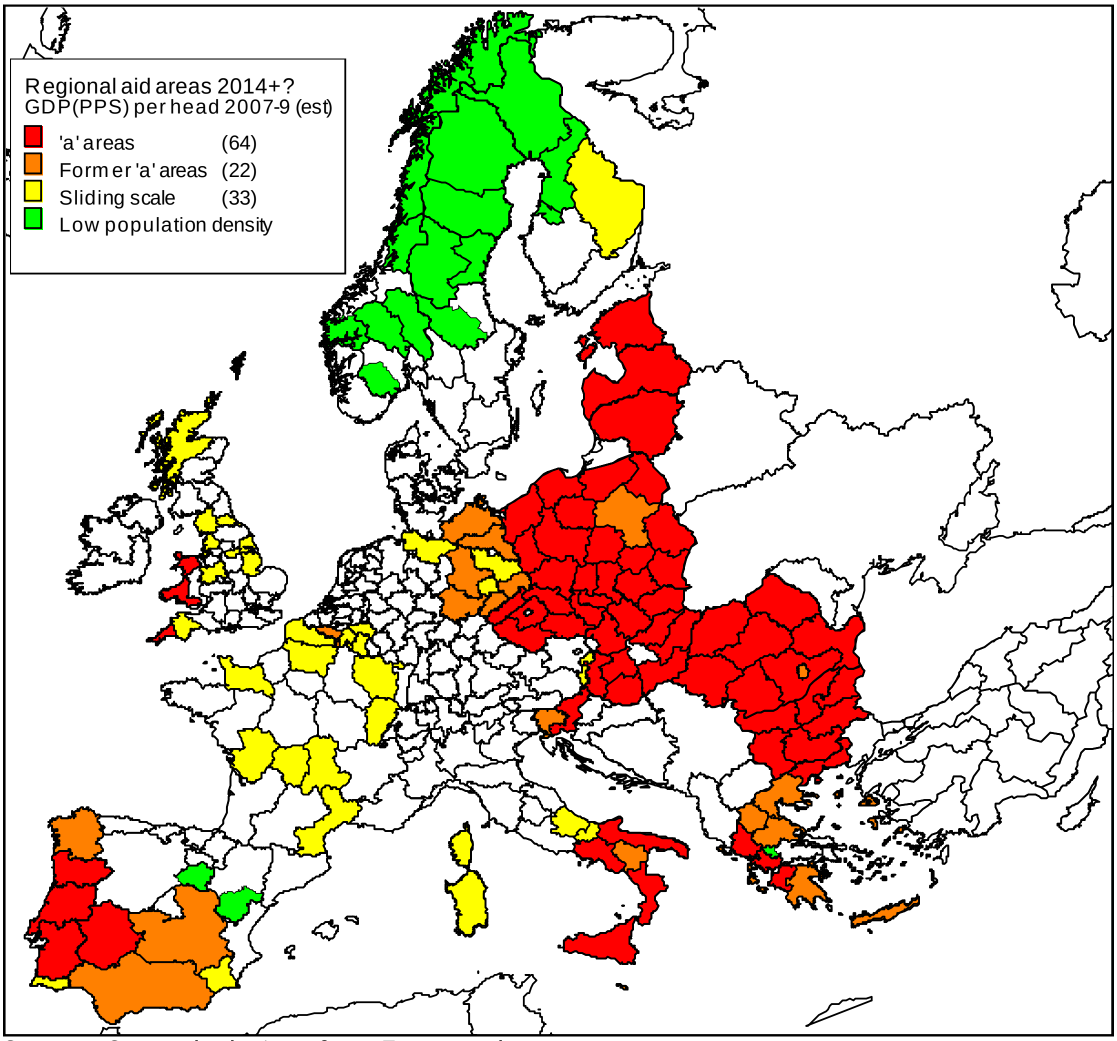
3.4 Sliding scale scenario

In the 'sliding scale' scenario account is taken of Commission proposals for transitional regions under Cohesion policy. As noted, this envisages two groups of transitional area:

- those with Convergence status in 2007-13, but which do not qualify as such post-2013;
- those with GDP(PPS) per head in the range 75-90 percent of EU27 GDP.

It remains to be seen to what extent (if at all) the proposals for Cohesion policy transitional regions will feed into the reform of the RAG. However, historically, there has been a tendency for the rules governing regional aid to reflect the Structural Funds provisions and it is therefore interesting to consider the implications for regional aid policy of 'sliding scale' regions also being earmarked as 'c' regions. In this scenario, the treatment of the other 'earmarked' regions remains the same – in particular, former 'a' regions in the range 75-90 percent of EU27 GDP(PPS) per head are not included in the 'sliding scale' category.

Map 3.3: 'Earmarked' regions under the *sliding scale* scenario 2014+?



Source: Own calculations from Eurostat data.

The key differences between the ‘rolling forward’ and the ‘sliding scale’ scenarios lie in the coverage of the ‘c’ areas. Under ‘sliding scale’ scenario coverage of the ‘a’ areas and the former ‘a’ areas remains the same. However, the introduction of a new category of ‘earmarked’ ‘c’ area has the effect of reducing the ‘c’ quota total (from 9 percent of the population to just 1 percent – prior to the application of the safety net). Moreover, the outcomes vary significantly between countries, largely reflecting the distribution of ‘sliding scale’ areas. These outcomes are illustrated in Figure 3.4.

For around half the Member States there is no difference in coverage between the ‘rolling forward’ and the ‘sliding scale’ scenarios - assuming the same basis for overall population coverage and the safety net – compare Figure 3.2 and Figure 3.4. This is true for ***Bulgaria***, ***Czech Republic***, ***Estonia***, ***Cyprus***, ***Latvia***, ***Lithuania***, ***Luxembourg***, ***Malta***, ***Netherlands***, ***Poland***, ***Romania***, ***Slovenia***, ***Slovakia*** and ***Sweden***: in these countries coverage remains unchanged between the two scenarios.

Seven Member States would *lose* coverage on the basis of the sliding scale scenario (compared with the rolling forward scenario), specifically: ***Denmark***, ***Germany***, ***Greece***, ***Spain***, ***Hungary***, ***Austria***, ***Finland***. In some cases the reductions are substantial, for example: in Germany coverage would fall to 20.1 percent (compared to 29.6 percent at present and 27.2 percent under rolling forward); in Spain coverage would fall to 39.9 percent (compared to 59.8 percent at present and 44 percent under rolling forward); and in Austria coverage would fall to 11.3 percent (compared to 22.5 percent at present and 20.2 percent under rolling forward).

Two countries would see a modest increase in coverage in relation to the rolling forward scenario: in ***Italy*** the sliding scale scenario results in coverage of 35.2 percent (compared with 34.1 percent at present and 32.1 percent under rolling forward); in the ***United Kingdom***, coverage would be 23.2 percent (compared with 23.9 percent at present, but 22.7 percent under rolling forward).

Two countries would see significant increases both in relation to current coverage and the rolling forward scenario: in ***Belgium*** coverage would be 30.3 percent under the sliding scale scenario (compared to 25.9 percent at present and 23.7 percent under rolling forward); and in ***France*** coverage would be 31.8 percent (compared with 18.4 percent at present and 19.7 percent under rolling forward).

Figure 3.4: 'Sliding scale' scenario - assisted area coverage 2014+? (% of population)

	'a' areas	'c' - econ dev	'c' 'sliding scale	'c' - low pop dens	'c' - quota	Total
EU27	**24.7**	**7.8**	**8.1**	**0.4**	**1.5**	**42.5**
EU25	**20.4**	**7.8**	**8.6**	**0.4**	**0.0**	**37.2**
EU15	**8.5**	**7.6**	**10.2**	**0.5**	**0.0**	**26.8**
EU12	**86.1**	**8.6**	**0.0**	**0.0**	**0.0**	**94.7**
BE		12.2	16.7		1.3	30.3
BG	100.0					100.0
CZ	88.2					88.2
DK					4.3	4.3
DE		13	5.1		2.0	20.1
EE	100.0					100.0
IE					25	25.0
GR	15.1	40.9		0.2	0.3	56.5
ES	6.9	28.2	3.1	0.5	1.1	39.9
FR	2.9		27.5		1.4	31.8
IT	28.5	1.0	5.6		0.1	35.2
CY					25	25.0
LV	100.0					100.0
LT	100.0					100.0
LU					8.0	8.0
HU	71.5				0.7	72.2
MT		100.0				100.0
NL					3.8	3.8
AT			3.4		7.9	11.3
PL	86.4	13.6				100.0
PT	69.8		4.0		0.5	74.3
RO	89.1	10.9				100.0
SI	53.8	46.3				100.0
SK	88.9					88.9
FI			12.5	12.1	1.2	25.7
SE				12.6		12.6
UK	4.0		17.1		2.1	23.2
EEA3				**26.7**		**26.7**
IS				37.5		37.5
LI						
NO				26.2		26.2

Note: This assumes initial coverage of 42 percent of EU27 population and a safety net of 50 percent of previous national coverage; for variants see Figure 3.5.
Source: Own calculations from Eurostat data.

As with the rolling forward scenario, there is also scope for variants, notably by adjusting the initial population coverage ceiling or the level at which the safety net applies to reductions in coverage. These are illustrated in Figure 3.5.

Figure 3.5: Impact of population ceilings and safety net variants within 'sliding scale' scenario

	Current 2007-13	Variants on the 'sliding scale' scenario (WITH earmarking of 'sliding scale' transitional regions)					
		Lower ceiling, same safety net	Current initial ceiling (EU27 basis), same safety net	Lower ceiling, higher safety net	Current initial ceiling, higher safety net	Lower initial ceiling, no safety net	Current initial ceiling, no safety net
Initial_ceiling	**42 (EU25) 45.5 (EU27)**	**42**	**45.5**	**42**	**45.5**	**42**	**45.5**
Safety_net	**50**	**50**	**50**	**75**	**75**	**0**	**0**
EU_27	**46.6**	**42.5**	**45.8**	**44.0**	**46.5**	**42.0**	**45.5**
Belgium	**25.9**	30.3	34.6	30.3	34.6	30.3	34.6
Bulgaria	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Czech	**88.6**	88.2	88.2	88.2	88.2	88.2	88.2
Denmark	**8.6**	4.3	5.2	6.5	6.5	1.2	5.2
Germany	**29.6**	20.1	26.7	22.2	26.7	20.1	26.7
Estonia	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Ireland	**50.0**	25.0	25.0	37.5	37.5	2.4	10.2
Greece	**100.0**	56.5	57.6	75.0	75.0	56.5	57.6
Spain	**59.6**	39.9	43.7	44.7	44.7	39.9	43.7
France	**18.4**	31.8	36.5	31.8	36.5	31.8	36.5
Italy	**34.1**	35.2	35.5	35.2	35.5	35.2	35.5
Cyprus	**50.0**	25.0	25.0	37.5	37.5	0.0	0.0
Latvia	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Lithuania	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Luxembourg	**16.0**	8.0	8.0	12.0	12.0	0.0	0.0
Hungary	**100.0**	72.2	74.7	75.0	75.0	72.2	74.7
Malta	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Netherlands	**7.5**	3.8	3.8	5.6	5.6	0.3	1.3
Austria	**22.5**	11.3	16.3	16.9	16.9	6.4	16.3
Poland	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Portugal	**76.7**	74.3	75.8	74.3	75.8	74.3	75.8
Romania	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Slovenia	**100.0**	100.0	100.0	100.0	100.0	100.0	100.0
Slovakia	**88.9**	88.9	88.9	88.9	88.9	88.9	88.9
Finland	**33.0**	25.7	29.5	25.7	29.5	25.7	29.5
Sweden	**15.3**	12.6	12.6	12.6	12.6	12.6	12.6
United_Kingdom	**23.9**	23.2	30.3	23.2	30.3	23.2	30.3

Source: Own calculations from Eurostat data.

The impact of these variants differs widely between countries:

- Some countries area unaffected by changes in either the overall coverage or the safety net. These are countries where coverage is wholly determined by earmarked regions, namely: **Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Malta, Poland, Romania, Slovenia, Slovakia** and **Sweden.**

- Others are affected only by the changes in initial ceiling – if this increases, so does national assisted area coverage. This is true of: **Belgium, France, Italy, Portugal, Finland,** and the **United Kingdom.**

- The remainder would rely to a greater or lesser extent on a safety net to secure coverage. **Cyprus** and **Luxembourg** would rely entirely on safety net provisions for coverage and in **Denmark, Ireland** and the **Netherlands** coverage would be minimal without such provision. Elsewhere, notably **Germany, Greece, Spain, Hungary** and **Austria** the level of safety net could become important if the overall ceiling were to stay at 42 percent of the EU27 population.

3.5 National perspectives on spatial coverage

As mentioned earlier, spatial coverage was not on the agenda at the March 2011 workshop. Nevertheless, it was a constant theme in the discussion and appears in many of the national responses to the questions raised by the Commission.

Regarding **overall coverage**, several countries argue that coverage should not be reduced and that current coverage should be maintained – either in terms of the final outcome (46.6 percent of the EU27 population) or on the basis of an initial ceiling of 45.5 percent – this being the EU27 equivalent of 42 percent of the EU25 population, plus Romania and Bulgaria. In this case the ultimate ceiling might be higher, depending on the safety net provisions. It was also observed that the rationale for the ceiling was unclear and that any proposals to reduce it should be the subject of consultation and a clear justification for the change.

The definition of the **'a' regions** also attracted some comment. As described earlier (see 3.1.1), these are referred to in Article 107.3(a) as regions where the standard of living is abnormally low or where there is serious underemployment. In practice, this has been interpreted as NUTS 2 regions where GDP(PPS) per head is less than 75 percent of the EU average. Some argued that it could be complemented by criteria relating to unemployment or other factors indicative of economic development. There was also a suggestion that 'a' region status could be determined at NUTS 3, a proposal that would produce a quite different pattern of assisted areas, and distribution of population between eligible regions. The impact of this approach is illustrated in Figure 3.6. Compared with a NUTS 2 based approach, this results in higher overall 'a' region coverage (27.7 percent of the EU27 population, compared with 24.7 percent using NUTS 2). Significantly, however, the 'a' region population of the EU15 would rise considerably – from 8.5 percent to 13.5 percent of the population, while that of the EU12 would fall from 86.1 percent to 81.3 percent of the population. Other outcomes would depend on initial coverage and the safety net; however,

it is evident that the EU12 in general would scarcely benefit from the mechanism for distributing the ‘c’ are population with the result that overall coverage would likely rise in the EU15 and fall in the EU12.

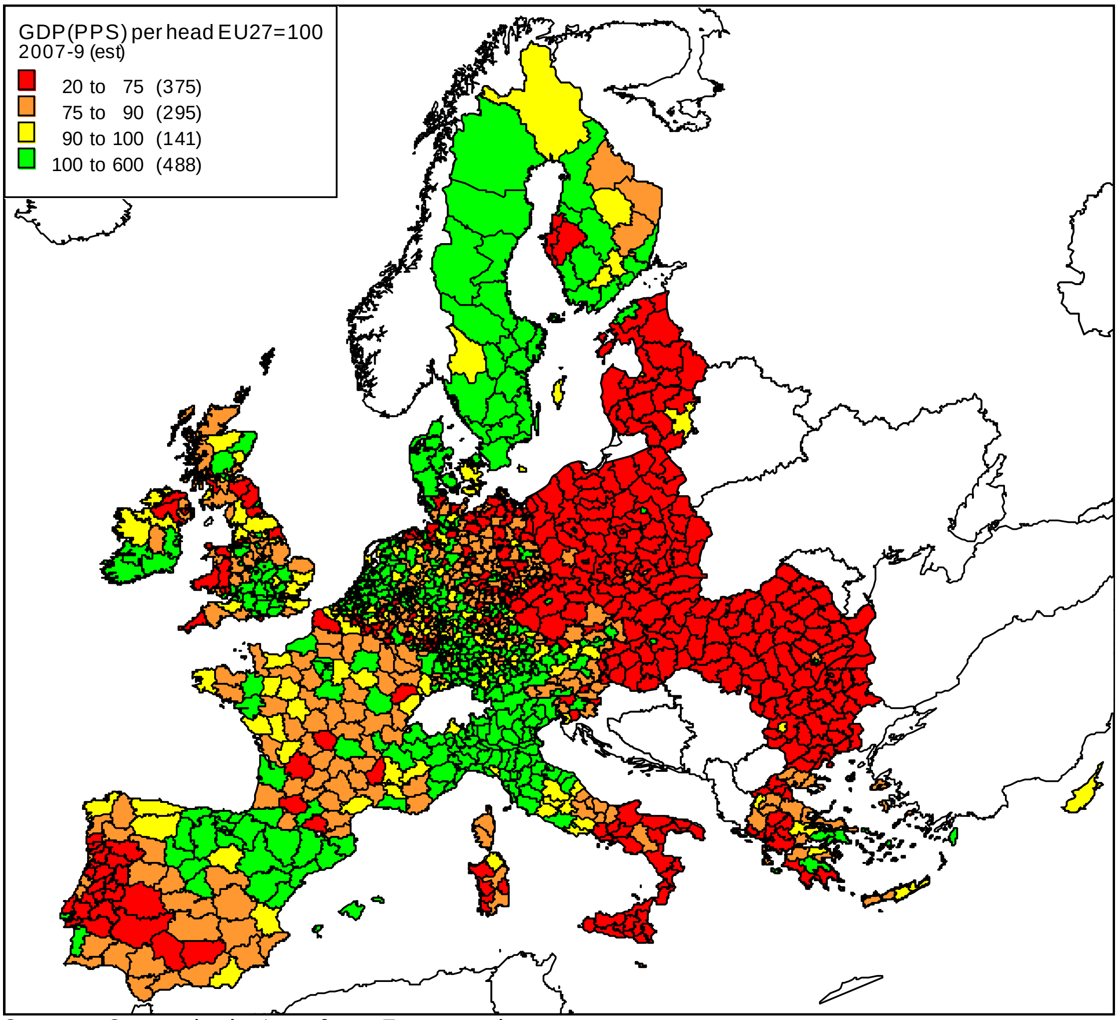
Figure 3.6: ‘a’ regions defined at NUTS 3 – assisted area coverage 2014+? (% of population)

	‘a' areas	‘c’ low pop density	'c' - quota	Total
EU27	27.7	0.5	14.2	42.4
EU25	23.9	0.6	15.1	39.5
EU15	13.5	0.7	17.5	31.7
EU12	81.3	0.0	1.9	83.2
BE	11.2	0.0	17.9	29.2
BG	84.3	0.0	0.0	84.3
CZ	77.2	0.0	0.0	77.2
DK	0.0	0.0	11.1	11.1
DE	9.9	0.0	22.4	32.3
EE	61.2	0.0	0.0	61.2
IE	0.0	0.0	25.0	25.0
GR	21.1	0.0	28.9	50.0
ES	10.1	0.5	24.0	34.6
FR	7.4	0.0	21.9	29.3
IT	30.2	0.0	3.4	33.6
CY	0.0	0.0	25.0	25.0
LV	68.1	0.0	18.1	86.2
LT	74.6	0.0	14.4	89.0
LU	0.0	0.0	8.0	8.0
HU	83.3	0.0	0.0	83.3
MT	7.6	0.0	42.4	50.0
NL	0.0	0.0	3.8	3.8
AT	5.6	0.0	26.2	31.7
PL	84.2	0.0	0.7	84.9
PT	57.2	0.0	2.5	59.7
RO	89.9	0.0	0.0	89.9
SI	27.9	0.0	22.1	50.0
SK	78.6	0.0	0.0	78.6
FI	14.0	19.8	5.2	39.0
SE	0.0	12.6	0.0	12.6
UK	11.7	0.4	21.7	33.8
EEA3		**26.7**		**26.7**
IS	0.0	37.5	0.0	37.5
LI	0.0	0.0	0.0	0.0
NO	0.0	26.2	0.0	26.2

Note: This assumes initial coverage of 42 percent of the EU27 population and a safety net of 50 percent of previous national coverage. No provisions are made for transitional regions.
Source: Own calculations from Eurostat data.

The coverage of ‘a’ regions on a NUTS 3 basis is illustrated in Map 3.4. This shows that most countries would contain ‘a’ regions on this basis (only Denmark, Luxembourg, the Netherlands, Ireland, Cyprus and Sweden would not), but that no country would be covered its entirety – the capital regions of *all* the EU12 would fall outside ‘a’ status.

Map 3.4: GDP(PPS) per head at NUTS 3 (2007-9) EU27=100

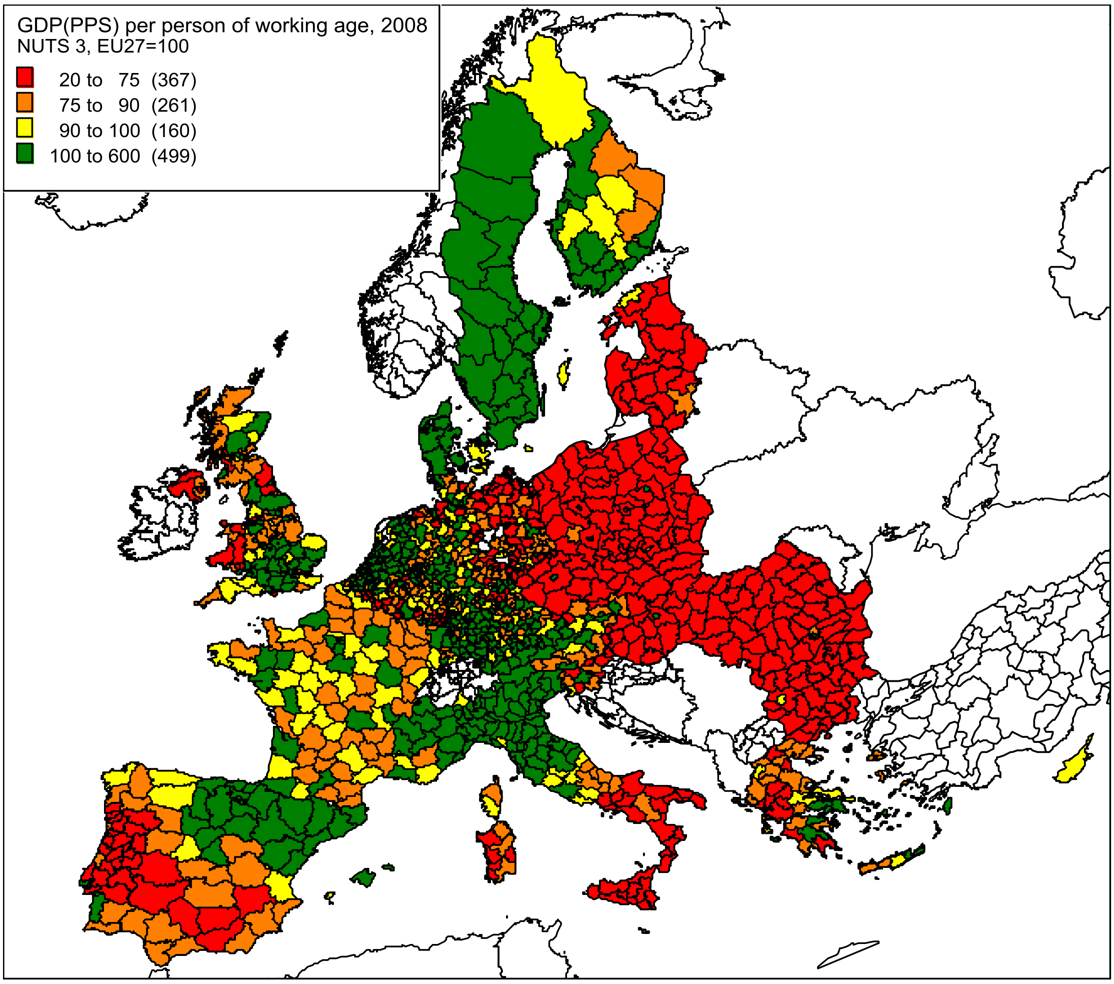


Source: Own calculations from Eurostat data.

On a NUTS 3 basis, 'a' areas would be considerably more fragmented than at present, as Map 3.4 shows. Moreover, the effect of using smaller geographical units exacerbates disparities such that most countries contain regions in most of the bands illustrated on the map.

A further suggestion is that GDP should be related to the population of working age rather than the whole population and also considered at NUTS 3, rather than NUTS 2. The reasoning behind the use of working age population as the denominator is to eliminate the 'retirement belt' effect, whereby the population of some relatively prosperous areas is swelled by retired people, which then lowers the GDP per head figure for the region. Variations in GDP on this basis are illustrated in Map 3.5.

Map 3.5: GDP(PPS) per person of working age

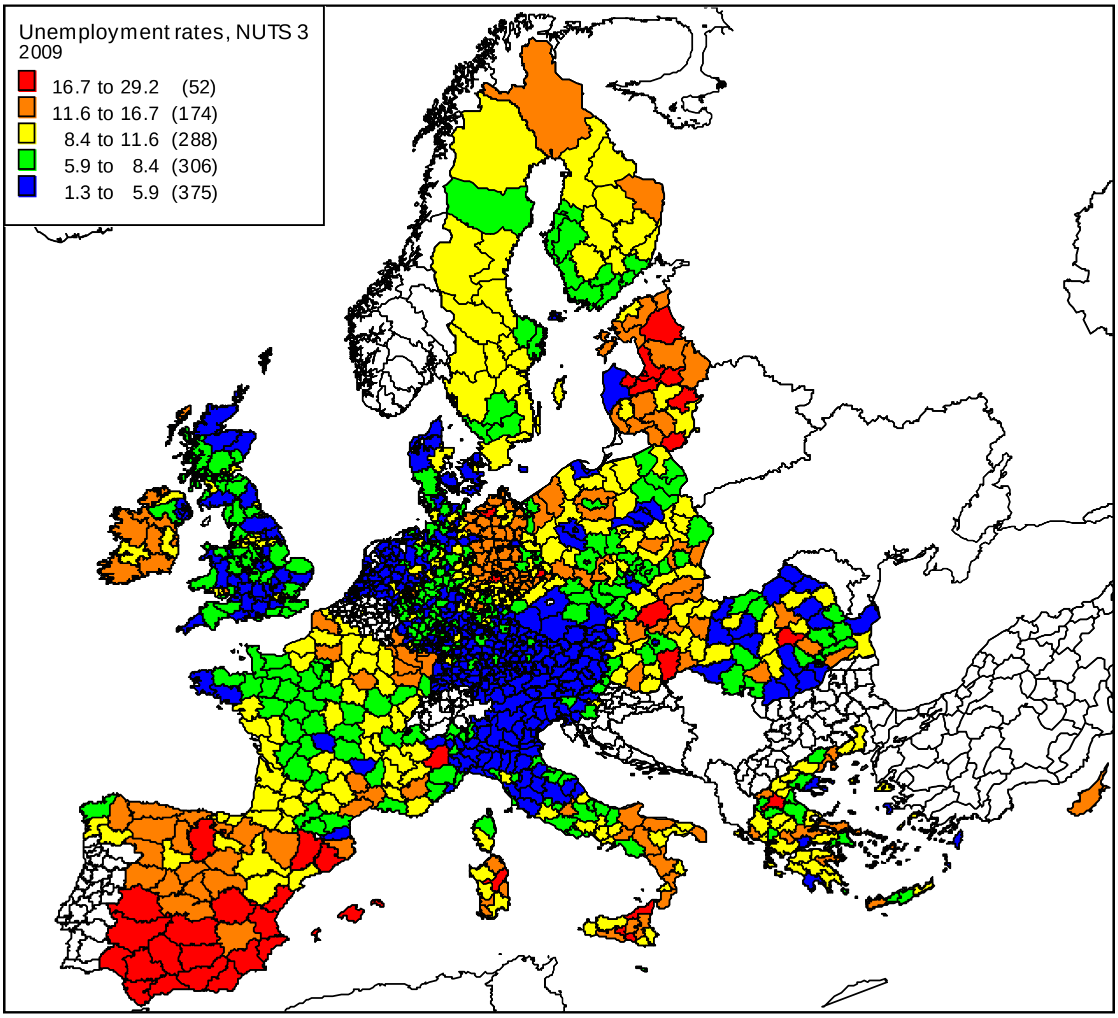


Source: Own calculations from Eurostat data.

The introduction of a criterion related to unemployment for designating ‘a’ regions is not straightforward either, and this for several reasons. Among these are the fact that unemployment rates are heavily influenced by national factors such as female participation rates and the structure of the welfare benefits system (this can be seen from Map 3.6). As such, it is doubtful whether valid comparisons can be made between regions of different countries for the purpose of selecting eligible areas (recalling that ‘a’ regions are designated in relation to the EU situation). Moreover, NUTS areas are not suitable units for the comparison of labour market data which is better analysed on the basis of functional regions. As such, it is doubtful whether a NUTS 2 or 3 map reflects accurately reflects unemployment realities in the Member States.[45] It is also worth noting that Article 107.3(a) refers to “underemployment”, not unemployment.

[45] It is also worth noting that NUTS 3 unemployment rate data is not available for all Member States.

Map 3.6: Unemployment rates



Source: Eurostat

These various proposals would also imply that the 'a' regions and the Convergence regions designated for EU Cohesion policy would cease to coincide; some consider that this is unimportant, but others take the view that the two policy maps should continue to mirror one another as far as possible.[46] Also, while the use of NUTS 3 produces different GDP outcomes from NUTS 2, with whatever denominator, it does not eliminate the difficulties associated with the measurement of GDP at the sub-national level. Indeed, it could be argued that it exacerbates those difficulties since the 'commuter effect' is worsened at greater levels of disaggregation. More generally, however, it is fair to conclude from the responses that there seems unlikely to be widespread support for changes to the mechanism for designating 'a' areas; most considered that while the current criteria were flawed, it was unlikely that a better replacement could be found (and agreed on).

[46] In practice, there are several discrepancies. For example, the OMRs have automatic 'a' region status, but do not have automatic Convergence status, which depends on their level of GDP. Also, the statistical effect regions were reviewed in 2010 and some retained 'a' status, while others were 'downgraded' to 'c' areas, depending on their level of GDP; no such review and revision took place for the Phasing-out regions under Cohesion policy.

On the issue of **transitional areas** some emphasise the need for equitable arrangements for regions losing 'a' status, which, as has been shown, could cover around eight percent of the population. Others, by contrast, caution *against* extensive transitional periods, noting that, in effect, 2000-2 data would determine eligibility until 2020, if the attachment to transitional arrangements persisted. The Commission's Budget 2020 proposals for the 'sliding scale' regions were published after many national submissions were drafted, but was anticipated by at least one Member State which argued that these provisions *should* be taken into account for regional aid map purposes.

Continued special provision for **low population density areas** was strongly supported by the Nordic countries, but neither supported nor opposed by other countries.

The mechanics of deciding the **'c' population** were not subject to much comment, save that one Member State argued that EU rather than national averages of GDP per head and unemployment should be used so that population quotas better reflected the national position in the EU context. However, views on the **safety net** were divided: some considered that no provision at all was required, and that any such mechanism was quite arbitrary; others took the view that *all* Member States should be entitled to pursue a domestic regional aid policy so that a minimum coverage should be guaranteed. It was also observed that some countries had experienced a 50 percent cutback in coverage in 2007-13, so some means should be found to avoid those Member States being affected a second time. Related, several countries observed that a 'coherent' map cannot be drawn up if population coverage falls to too low a level.

4. ELIGIBLE AREAS

4.1 Key principles for selecting eligible areas under RAG 2007-13

As mentioned earlier, under RAG 2007-13 'a' areas are designated 'top-down' in the rules themselves, while the 'c' areas are designated by the national authorities, subject to parameters set out in the Guidelines.

For the 'c' areas, RAG 2007-13 distinguishes two types of assisted area that may be designated within the population quotas: those where firms of any size may be assisted, comprising comparatively large geographical areas principally meeting EU-level criteria;[47] and those where assistance is more tightly focused on localised disparities and is restricted to SMEs.[48] In principle, the list of regions notified applies throughout the period 2007-13, but there is provision for a mid-term review in 2010.[49] However, changes should not involve more than 50 percent of 'c' area coverage.

[47] Paragraph 30 (a) to (h).
[48] Paragraph 31.
[49] Paragraph 104.

Areas which can be designated for regional investment aid to firms of any size are specified in the Guidelines under Paragraph 30(a)-(h) as follows:

a. Economic development areas (areas which outgrew 'a' status at end 2006)

b. Low population density (LPD) areas (NUTS 3 regions with fewer than 12.5 inhabitants per km^2)

c. Regions "which form contiguous zones" with a minimum population of 100,000. These must be within NUTS 2 or 3 regions where either GDP per head is less than the EU25 average or unemployment is more than 115 percent of the *national* average. These criteria GDP and unemployment are sometimes referred to as the pre-eligibility criteria.

d. NUTS 3 areas with a population of less than 100,000, subject to the same pre-eligibility criteria – i.e. either GDP per head is less than the EU25 average or unemployment is more than 115 percent of the *national* average.

e. Islands and "other regions categorised by similar geographical isolation" where either GDP per head is less than the EU25 average or unemployment is more than 115 percent of the *national* average.

f. Islands with fewer than 5,000 inhabitants and other communities with fewer than 5,000 inhabitants characterised by similar geographical isolation.

g. Border areas. These concern all or parts of NUTS 3 regions that are adjacent to 'a' areas and those which share a land border or a sea border of less than 30km with a country that is not a member of the EEA or EFTA.

h. Areas undergoing restructuring. These must be "contiguous zones" with a minimum population of 50,000 which are undergoing major structural change or are in serious relative decline "compared with other comparable regions".

In paragraph 31 of the Guidelines, there is scope to target very localised regional disparities. However, aid is restricted to small and medium-sized enterprises (SMEs) and the areas targeted must involve a minimum population of 20,000. Obviously these areas also count towards the 'c' area population quotas.

4.2 National approaches to area designation under RAG 2007-13[50]

Member States adopted diverse **area designation strategies** to reconcile Commission constraints with domestic considerations. These considerations often comprised a mix of policy options such as indigenous or inward investment, areas of need or opportunity – and political issues, such as the perceived equitable distribution of assisted areas between

[50] Detailed descriptions are available in Wishlade, F. (2007) *All's Well that Ends Well: Recent Developments in EU Competition Policy and Regional Aid Control*, EoRPA paper 07/7 to the EoRPA Regional Policy Research Consortium, Ross Priory, Loch Lomondside, 7-9 October 2007.

regions and the sensitivity of de-designating some areas, while according assisted area status to others for the first time. More prosaically, an important factor was often the ease with which the map could be approved, sometimes leading to rather pragmatic, as opposed to strictly policy-oriented, approaches to area designation.

The choice of **building blocks** for area designation was an important consideration for most countries, since most NUTS 3 regions have a population in excess of 100,000, so that smaller units were sought in order to build up 'contiguous units' of at least 100,000. In informal discussions early on in the process the Commission accepted the use of LAU1 and LAU2[51] as building blocks, but emphasised that any breakdown below NUTS III must be 'traditional' and not simply involve units generated on an *ad hoc* basis for the purposes of the area designation exercise.

Figure 4.1: Building blocks proposed by the Member States

Belgium	*Gemeenten / Communes* (LAU2) (Flanders and Wallonia); parts of communes (Brussels)
Denmark	Municipalities
Germany	Labour market regions (*Arbeitsmarktregionen*); Transport areas (*Verkehrszelle*) in Berlin
Spain	Municipios (LAU2); Census districts
France	*Commune* (LAU2); *Cantons urbains* in cities
Ireland	Counties (LAU1); District Electoral Divisions (LAU2)
Italy	Commune (LAU2) and Census areas
Cyprus	Communes
Luxembourg	*Commune* (LAU2)
Netherlands	Gemeenten (LAU2) and part Gemeenten
Austria	*Gemeinden* (LAU2)
Portugal	*Freguesias* (LAU2)
Finland	*Maakunnat /Landskap* (NUTS III); *Seutukunnat* (LAU1)
Sweden	Municipalities (LAU2)
UK	Wards (LAU2)

Source: Assembled from COM decisions on regional aid maps.

As outlined above, RAG 2007-13 set out a series of parameters within which Member States could propose assisted areas. Economic development areas (ie. areas that have outgrown 'a' status) and sparsely-populated regions would be accepted automatically by the Commission as 'c' areas; however, Member States were also able to use the population quotas generated by these areas to designate other areas – provided that these meet the other criteria in Paragraphs 30 or 31. However, the transfer of quotas was not allowed where a Member State opted not to designate an 'a' area in its entirety.

The broadest category for 'c' eligibility concerns areas with GDP(PPS) per head of less than the EU average or unemployment more than 15 percent above the *national* average – the pre-eligibility criteria.[52] These must be either: 'contiguous zones' with a population of at least 100,000; NUTS 3 areas with a population of less than 100,000; or islands or other geographically isolated areas. In most countries the areas meeting the pre-eligibility

[51] In Eurostat's geographical classification system NUTS IV and V have been redesignated as Local Administrative Units and renamed LAU1 and LAU2 respectively.
[52] Paragraphs 30(c) to (e).

criteria were more extensive than the national population ceilings, requiring further selection criteria at the national level. In addition, there are specific criteria under which areas could be proposed[53] (small islands and border areas) or criteria under which the onus was on the Member State to demonstrate that regional aid is justified[54] (areas undergoing structural change and small aid areas for SMEs).

For the Member States there were several considerations, including: how the Commission parameters intersect with national priorities and indicators; whether to designate solely within the pre-eligibility criteria; whether to use the quotas from economic development and sparsely-populated areas to designate other 'c' areas; and whether to designate areas justified on the basis of national arguments. Member States addressed these questions in a variety of ways reflecting national traditions in area designation, the flexibility allowed by the pre-eligibility criteria and the need for expedient and pragmatic solutions to complex and politically sensitive tasks.

Figure 4.2 summarises the criteria under which the Commission approved the map proposals of the Member States for 2007-13. Where available, national assisted area maps are provided in an Annex to this report. Regarding the 'c' areas, two main points emerge. First, the EU criteria aside (low population density and economic development areas), the single most important basis for coverage is paragraph 30c – areas with a minimum population of 100,000 with either GDP(PPS) below the EU average or unemployment 15 percent above the *national* average. In Austria, Denmark, France and the UK, these areas account for more than 50 percent of the assisted areas. Second, and related, Member States largely shunned the scope to designate assisted areas outside the Commission's pre-eligibility criteria and select on the basis of nationally-justified criteria. There are two main options for designating areas which do not meet the pre-eligibility criteria: paragraph 30h enables areas with a minimum population of 50,000 "undergoing major structural change" to be designated as 'c' areas; paragraph 31 enables smaller areas (minimum population 20,000) to be targeted for SME support only.

Seven countries used the structural change option (paragraph 30h) – Belgium, Germany, France, Spain, Italy, Finland, Sweden – but coverage is arguably significant only in France and Sweden where it accounts for around one-fifth or more of total coverage. Seven countries also opted for the micro-targeting of SME aid under paragraph 31: Belgium, Denmark, Germany, France, Ireland, Italy and Finland. In Denmark and Ireland these areas account for about a quarter of the assisted area total, but elsewhere coverage is not significant.

One interesting point to note is that France opted to retain a population reserve for use as the need arose – for example in response to industrial restructuring. The criteria for the use of the reserve are tightly drawn at national level, in order to reduce political pressures for designation; the reserve has not been fully drawn down, with the agreement of the Commission to the amended maps.

[53] Paragraphs 30(f) and (g).
[54] Paragraphs 30(h) and 31.

Figure 4.2: Assisted areas by type under the 2007-13 Guidelines (% of national population)

	'a' regions	Stat effect	Econ dev	LPD	CY/LU	Pop 100K	NUTS 3	Islands / isolated	Islands <5k	Border	Struct chg.	SMEs	'c' areas	TOTAL	Res.	Trans
Para	15	18	30a	30b	Note 32	30c	30d	30e	30f	30g	30h	31	30-31	ex Res /Trans		95
BE		12.3				9.8				0.97	1.2	1.5	13.5	25.7		
BU	100.0													100.0		
CZ	88.5													88.5		7.6
DK						4.5	0.8	0.80	0.189			2.2	8.5	8.4		2.6
DE	12.5	4.9				8.4	0.2		0.002	1.71	0.5	0.1	10.9	28.4		
EE	100.0													100.0		
GR	36.6	55.5	7.8										7.8	100.0		
ES	36.2	5.8	14.3	0.3		1.8				0.70	0.6		17.7	59.6		12.4
FR	2.8					10.5		0.51		0.02	3.5	0.6	15.1	18.0	0.4	6.9
IE			26.5			10.8			0.014			12.7	50.0	50.0		23.5
IT	28.9	1.0	1.6			0.5		0.01		0.86	0.74	0.28	4.0	33.8		5.6
CY						44.9		5.14					50.0	50.0		
LV	100.0													100.0		
LT	100.0													100.0		
LU					15.8								15.8	15.8	0.2	4.6
HU	72.2		27.8										27.8	100.0		
MT	100.0													100.0		
NL						7.5							7.5	7.5		2.4
AT		3.4				15.1	0.3			3.74			19.1	22.5		
PL	100.0													100.0		
PT	70.2	3.8								2.72			2.7	76.7		17.6
RO	100.0													100.0		
SI	100.0													100.0		
FI			12.6	12.0		2.9			0.736	2.20	1.0	1.4	32.8	32.9		
SK	88.9													88.9		7.2
SE				7.8		3.4					4.0		15.2	15.3		
UK	4.0	0.6	6.4			12.6				0.30			19.3	23.9		
IS				32.0									32.0	32.0		
LI														0.0		
NO				27.5									27.5	27.5		
EU27	32.1	3.2	3.3	0.3	0.01	5.5	0.05	0.08	0.010	0.66	0.78	0.31	11.0	46.3	0.04	3.5
EU15	15.0	4.0	3.4	0.4	0.02	6.9	0.06	0.09	0.013	0.83	0.98	0.39	13.1	32.1	0.05	4.1
NMS12	94.8		2.7			0.3		0.04					3.0	97.8		1.1
EEA3				27.8									27.8	27.8		

Source: Own calculations from information in Commission decisions and Eurostat data.

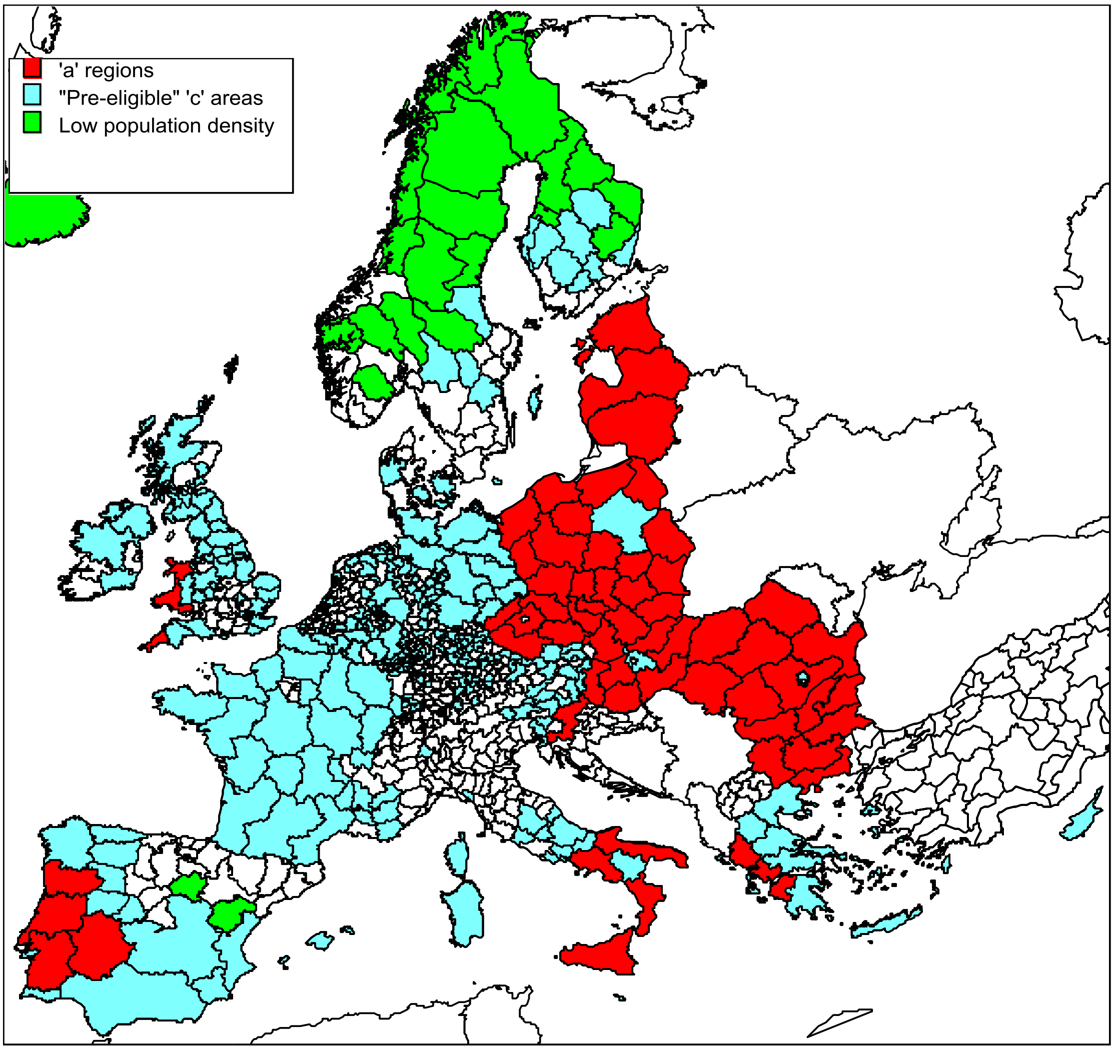
4.3 National perspectives on the selection of eligible areas

A recurrent theme in national perspectives on post-2013 reforms is the demand for more **flexibility** in the selection of assisted areas. In practice, area designation criteria are closely linked to spatial coverage: the higher the spatial coverage available, the less flexibility is needed; conversely, the lower the spatial coverage, the more flexibility in area designation becomes an imperative. This relates both to the 'building blocks' for area designation and the choice of indicators.

Regarding **building blocks**, many regard the minimum population of 100,000 as too high – this is especially so in smaller Member States and those with relatively large NUTS 3 areas (which are therefore bound by the 100,000 principle). For some countries, the situation could become particularly acute if further cutbacks in coverage were imposed – for instance, the 'rolling forward' scenario described earlier could leave Denmark with an assisted area population of just over 400,000, the Netherland with around 600,000, Cyprus with fewer than 200,000 and Luxembourg with under 40,000. If these level were reached, it would be unrealistic (impossible in the case of Luxembourg) to devise a coherent map while adhering to the 100,000 population principle. An alternative proposal supported by a number of countries was that the minimum population blocks should be a *proportion* of the national population rather than an absolute sum. A further option proposed was that assisted areas should be built up from LAU2 – the smaller administrative level under the Eurostat definition – but it was not clear how a 'scattergun' or 'leopard-skin' approach to designation would be prevented under this approach. A related issue concerns the definition of 'contiguity'. Some expressed the view that the concept lacked clarity and had not been applied consistently by the Commission.

The choice of **indicators** was less of a source of contention than the question of building blocks. Some favour the 'pre-eligibility' approach of broadly limiting assisted areas to those where unemployment is over 115 percent of the national average or GDP(PPS) per head is lower than the EU average (paragraphs 30e, f and g – see above), and could support a tightening of these criteria if combined with more flexibility in building blocks. Others favoured more flexibility in the use of indicators and less emphasis on quantitative criteria. Looking forward, the 'pre-eligibility' criteria provide considerable scope for most Member States to select assisted areas, as Map 4.1 shows; on the other hand, for some countries, such as Denmark, the Netherlands, Germany (at least in the west) and Italy, there may be insufficient flexibility. This map illustrates the 'a' regions and the less densely-populated regions, together with the 'pre-eligible' 'c' areas; however, it *excludes* potential transitional areas - former 'a' areas and the sliding scale areas mentioned earlier. With two exceptions – the Romanian and Slovene NUTS 3 capital regions – all the potential transitional areas would qualify as 'pre-eligible' 'c' areas.

Map 4.1: 'a' regions, low population density and "pre-eligible" 'c' areas 2014+?



Source: Own calculations from Eurostat data.

A specific point raised in relation to sparsely-populated regions is that the area to which population density relates should include inland waterways and lakes, not land only, the argument being that large areas of inland water tend to increase travel times and the need for transport aid.

The provisions for designating **areas for SME support** only (paragraph 31) did not attract much comment. However, one interesting proposal is that these should fall outside the population quota which should apply to areas designated for aid to large firms. Several policymakers argued that the areas where there was potential for SME development did not necessarily coincide with those suitable for large firm investment; moreover, support for SMEs raises fewer competition concerns, justifying a more relaxed approach to assisted area coverage for this group.

Several Member States argued that **territorial cohesion** should be explicitly recognised through continued special provision for low population density areas, external border areas and islands.

The need for scope to **review** assisted area maps is a prominent theme in Member States responses. In part this is because of the impact of the economic crisis and the fact that the data likely to be used (GDP for 2007-9) concerns a particularly volatile period. More generally, however, there is unease at the extent to which historical data sets the pattern of area designation for years to come. In addition, the fixing of a map for seven years, with limited scope for review impedes the use of regional aid as a means of rapid response to structural change in a region, arising, for instance, from major plant closures with severe localised impacts. Among the options proposed by the Member States are: the retention of a population reserve at the EU level which could be used as and when the need arose, but on the basis of specific criteria; the scope to designate areas for short periods in response to specific situations; the revision of assisted areas in 2016 when GDP data for 2009-11 is available; and two revisions of the 'c' areas, without limitation on the proportion of change (as noted above, at present, no more than 50 percent of the assisted areas may be changed).

5. AID VALUES, ELIGIBILITY AND FORMS OF AID

5.1 Aid values under RAG 2007-13

The key principle underlying rates of award under RAG 2007-13 is that 'aid intensity must be adapted to take account of the nature and intensity of regional aid problems that are being addressed.'[55] In practice, the principal driver of award maxima is the level of GDP per head in relation to the EU average. Maximum award rates set out in RAG 2007-13 are summarised in Figure 5.1.

Figure 5.1: Rates of award by firm size 2007-13 (percent gross grant equivalents)

	Large	Medium	Small
'a' areas < 45% EU25 GDP; OMR < 75% EU25 GDP	50	60	70
'a' areas < 60% EU25 GDP	40	50	60
'a' areas < 75% EU25 GDP; OMR > 75% EU25 GDP	30	40	50
Statistical effect	30[a] → 20	40[a] → 30	50[a] → 40
Low population density 'c' areas	15[b]	25[b]	35[b]
Economic development 'c' areas	15[b]/10[c]	25[b]/20	35[b]/30
Other 'c' areas	15[b]/10[c]	25[b]/20	35[b]/30
Non-assisted	0	10	20

Notes: a) Until 1 January 2011 when the rate fell as indicated for those areas that moved from 'a' to 'c' status. **b)** This may be raised in the case of areas adjacent to 'a' regions to ensure that the rate differential does not exceed 20 percentage points. **c)** The lower rate applies to eligible areas where GDP(PPS) per head is higher than the EU average and unemployment below the EU average measured at NUTS 3. Some further transitional arrangements apply to 'a' regions and economic development areas where the fall in award rates would otherwise be especially sharp.
Source: Assembled from RAG 2007-13, paragraphs 44-48.

These rates represent a significant lowering of award values in relation to the previous Guidelines (2000-6), which themselves had lowered maximum rates compared to those in the late 1990s.

[55] RAG 2007-13, paragraph 42.

5.2 Forms of aid

RAG 2007-13 refers to two **types of aid** – investment aid and operating aid. Most aid is so-called investment aid, i.e. aid related to a particular project, rather than ongoing costs. However, operating aid is exceptionally authorised in the low population density areas and the outermost regions; there is also provision for operating aid in 'a' regions other than outermost regions.

In terms of **instruments** the Guidelines are not restrictive and note that aid may take the form of 'grants, low-interest loans or interest rebates, state guarantees, the purchase of a shareholding or an alternative provision of capital in favourable terms, exemptions or reductions in taxes, social security or other compulsory charges, or the supply of land, goods or services at favourable prices.'[56] This reflects the Treaty provisions, which emphasise that aid may be in any form whatsoever. Nevertheless, the form of aid has implications for whether prior approval from the Commission is required, or whether the measure can simply be reported under the GBER. In order to fall within the scope of the GBER, aid schemes must, among other things, be 'transparent'.[57] In this context, *transparency* means regional investment aid schemes under which it is possible to calculate *ex ante* the gross grant equivalent (GGE) as a percentage of eligible expenditure. Such schemes include grants, interest rate subsidies and capped fiscal measures. Schemes which comprise a guarantee element may be considered transparent if the Commission has accepted the methodology used to calculate the intensity of the guarantee. Several countries[58] have notified methodologies for calculating the grant-equivalent of measures. Clearly these measures do not involve expenditure *per se,* but instead seek the endorsement of a methodology that effectively renders aid transparent.[59] This enables the Member State concerned to report schemes under the GBER that use the methodology to calculate aid values and increases the scope to include measures – notably guarantee schemes - that would otherwise lack the transparency for exemption. Repayable advances are transparent if the total advance does not exceed the aid ceiling expressed as a percentage of eligible expenditure. The following are explicitly not considered transparent:[60] aid comprised in capital injections (without prejudice to the specific provisions on risk capital); and aid comprised in risk capital measures (except for risk capital aid schemes for SMEs that comply with the GBER).

5.3 Eligible expenditure

Eligible expenditure for **investment aid** includes land, buildings and plant/machinery. Except in the case of SMEs and takeovers, assets must be purchased new.[61]

For large firms, the limit on intangible assets expenditure (technology transfers, patent acquisition, licences, know-how and unpatented technical knowledge) is set at 50 percent

[56] RAG 2007-13, paragraph 37.
[57] GBER, Article 5(1).
[58] For example, France, Germany and Hungary.
[59] GBER, Article 5(1).
[60] GBER, Article 5(2).
[61] Paragraph 54.

of eligible expenditure.[62] The Guidelines also set out a definition of initial investment.[63] This covers:

- setting-up a new establishment
- extending an existing establishment
- diversifying the output of an establishment into new, additional products·
- a fundamental change to the overall production process of an existing establishment.

The Guidelines require aided assets to be retained for at least five years;[64] however, it is made clear that this does not preclude the replacement of plant or equipment that has become outdated, provided that the economic activity is retained within the region concerned for the minimum period.

Importantly, at least for countries where leasing is prevalent, leased assets can only be included in eligible expenditure if there is an obligation to purchase the assets at the end of the lease period. For land and buildings the lease must continue for at least five years after the anticipated completion of the project (three years in the case of SMEs).[65]

Investment aid can be taken in the form a wage cost subsidy;[66] the same rate of award applies as to initial investment. Eligible expenditure concerns the wage costs for a period of two years arising from job creation as a result of an initial investment project and refers to a net increase in jobs compared with the average over the preceding year. Jobs must be created within three years of the completion of the works concerned and the posts must be maintained in the region for at least five years.[67]

The Commission regards **operating aid** as a form of assistance that can only be authorised in exceptional circumstances and only in 'a' regions, low population density regions and the outermost regions (OMR). Operating aid can generally only be offered in 'a' regions subject to the condition that: (i) it is justified in terms of its contribution to regional development; and (ii) its level is proportional to the handicaps it seeks to alleviate.[68] It is for the Member States to demonstrate the existence of these handicaps and to measure their scale. It appears, however, that all the operating aid measures notified and approved to date have involved the special cases of the OMRs or the low/least populated regions.

In principle, operating aid must be temporary and phased out over time. Operating aid which is *not* both progressively reduced and limited in time may only be authorised in the OMRs and the least-populated regions. In the ***Outermost Regions*** aid of up to 10 percent of

[62] There is no limit for SMEs.
[63] Paragraphs 34-40.
[64] Member States may lower this to three years for SMEs.
[65] Paragraph 53.
[66] Paragraphs 57-59.
[67] Member States may reduce this to three years for SMEs.
[68] RAG 2006, paragraph 76.

the turnover of the beneficiary may be offered without the need for specific justification.[69] Aid above this level must be justified in terms of its contribution to regional development and set at a level to offset additional costs linked to their situation as OMRs.[70]

Least-populated areas are defined as NUTS 2 regions (and adjacent and contiguous smaller areas) with a population density of eight inhabitants per km^2 or less. It is for the Member State to demonstrate that aid is necessary to reduce or prevent depopulation. On this basis, the EFTA Surveillance Authority authorised a scheme of regionally-differentiated social security contributions in the least-populated regions.[71] These areas cover around 17.7 percent of the Norwegian population and have an average population density of 3.5 persons per km^2.

Aid partly to offset the ***additional costs of transport*** may be authorised in the OMRs and in the low population density regions. The criteria for transport aid are that:[72]

- Aid may serve only to compensate for the additional cost of transport, taking account of other transport aid schemes. Aid may be calculated on a 'representative basis' but systematic overcompensation must be avoided.
- Aid is restricted to the extra transport costs within national boundaries; it must not be allowed to become export aid. Aid is not available to sectors with no alternative locations (eg hydroelectric power, extractive industries).
- Aid must be objectively-quantifiable in advance on the basis of an aid-per-passenger or aid-per-ton/kilometre ratio, and the subject of an annual report which sets out the operation of this ratio.
- Estimates of additional cost must be based on the most economical form of transport and the shortest route between production or processing and commercial outlets using that form of transport; "external costs to the environment should also be taken into account".
- For the OMRs only, aid may cover the cost of transporting primary commodities, raw materials or intermediate products from the place of their production to the place of final processing in the region.

[69] On this basis the Commission authorised reduced excise duty on locally-produced beer in Madeira - Case N 293/07.
[70] RAG 2007-13, footnote 74. The factors identified in the Treaty which may be offset by aid include remoteness, insularity, small size, difficult topography and climate and economic dependence on a few products. Thus in the Spanish notification of aid regimes for the Canary Islands, the authorities cited research which quantified the additional costs to businesses located in the Canaries compared to those in mainland Spain – see Cases N 377/2006 and N 376/2006.
[71] EFTA Surveillance Authority Decision of 19 July 2006 on the notified scheme concerning regionally differentiated social security contributions (Norway), 228/06/COL.
[72] RAG 2006, paragraph 81.

5.4 National perspectives on aid values, eligibility and forms of aid

Historically, maximum **rates of award** have not been a major source of controversy in the operation of the Guidelines. For many countries, maximum rates were often set at levels higher than those at which national policymakers would opt to aid firms – prior to 2000, maximum rates in 'a' regions of 75 percent net grant-equivalent[73] were widespread (though not necessarily widely used). RAG 2000-6 significantly reduced maximum rates; these were further reduced in RAG 2007-13, which, in addition, expressed rates in gross, rather than net terms, effectively lowering the maxima further. Reactions from the majority of the Member States suggest that, for the 'c' areas at least, rates of award may have reached their lowest acceptable levels. Several countries comment that lowering rates of award below 15 percent (some say 10 percent) would reduce the incentive effect of regional aid, potentially leading to higher windfall gains. However, there are differences of view on the appropriate aid differential – some argue that the *maximum* differential between 'a' regions and 'c' areas should be 15 percentage points, while others suggest it should be *at least* 20 percentage points. Moreover, while some appear content with the current rate banding and differentials, others argue that the whole matrix could be simplified. Nevertheless, there is general support for the retention of higher rates for SMEs although, as mentioned earlier, there is a suggestion that perhaps these should not be tied to the same assisted areas map as the availability of aid to large firms.

Regarding **eligibility**¸ Member State comments concern a number of issues ranging from matters of principle to clarification across several aspects of eligibility. With respect to ***project type eligibility***, some observed that the notion of an *initial investment project* was too restrictive a concept, while others suggested it required clarification. Several noted that the provisions on *takeovers* differ between RAG 2007-13 and the GBER and that the two should aligned and clarified. Also, it was argued that is should be possible for aid in the case of takeovers to be calculated on the basis of wage costs, not just investment, since job maintenance is typically the key public policy objective where the future of a firm may be at risk. Clarification was sought on what was meant by a *fundamental change in the overall production process of an existing establishment* and what expenditure associated with such a change could be treated as eligible for aid. Some questioned whether relocation from an assisted area in one country to an assisted area in another should be eligible for aid – or suggested that relocation from an 'a' region to another 'c' should be ineligible, or that only additional investment should be aided. Partly related (although it concerns greenfield investments as well as relocations) there was a proposal for some mechanism to prevent competitive outbidding between regions in the EU. On the other hand, it was also proposed that there should be provision for a 'matching clause', where an investment is being offered a higher rate in a non-EU location than is allowed under RAG 2007-13, in order that a given project is not lost to the EU altogether.

There were also some detailed points regarding ***eligible activities and expenditure***. In particular: the provisions on *sectors in overcapacity* should be refined in order not to exclude specific products where there is no capacity problem; the relationship between the

[73] In practice, these rates were even higher compared to current rates than they might appear since, at that time, rate were calculated in net (i.e. after tax) terms rather than gross, as at present.

rules on *transport aid* and *aid to food processing*, on the one hand, and regional aid, on the other, should be clarified to eliminate some of the anomalies that emerge at present; the rules on the *purchase of new assets* should be relaxed – it was argued that there may be sound reasons for assets being purchased second hand (for example, the specialised nature of some equipment). Moreover, in the case of buildings, in industrial closure areas it was usually far more beneficial for the area to encourage the purchase of existing premises rather support a new build. It was also argued that there should be better alignment of the rules on *eligible expenditure* and that, more generally, a clearer hierarchy of regulation should be developed with a view to achieving consistency between the various rules – RAG, GBER, Structural Funds regulations, EAGGF, and so on.

With respect to **aid instruments**, a number of countries noted the apparent conflict of principle between Cohesion policy, which has heavily promoted the use of *financial engineering instruments*, and State aid control, which seems to conspire against their use. A number of Member States sought greater clarity on the requirements and an alignment of the Structural Fund and State aid rules in this regard *before* the start of the next programming period. Regarding *leasing,* some considered that the requirement to purchase at the end of the lease period was excessively onerous, while others argued that more clarity was needed to understand how leased assets could be aided. Some also considered that the provisions on the aid element in loans could be further clarified.

On the specific issue of **operating aid**, it was argued by some that the same provisions on transport aid should apply to the low population density regions as to the Outermost regions – specifically that inbound as well as outbound transport should eligible for transport aid. In addition, it was suggested that the long experience with implementing aid for the low population density regions should mean that these provisions could now be incorporated into the GBER. Regarding the OMRs, there is strong support (among the affected countries) for the retention of existing provisions, but with scope for some technical adjustments (as yet undefined).

6. DISCUSSION ISSUES

The aim of the paper has been to set the scene for the upcoming reform of the regional aid guidelines, following the expiry of the current rules at the end of 2013. The next set of guidelines will be the third generation of time-limited rules on regional aid – the first such guidelines having been introduced in 1998 (to cover 2000-6) following a history of more *ad hoc* approaches. The current guidelines (2007-13) built on the approach of previous guidelines, albeit with some important changes. Preparation of the next set of guidelines takes places in a very different economic and policy context: while the negotiation of RAG 2000-6 was driven by the impact of enlargement to EU25, and the leitmotif of ‘less and better’ aid ran through the development of RAG 2007-13, current debates are dominated by the impact of the recession, both on regional economic development, and on the scope for public sector intervention in times of austerity, as well as on the impact of volatile GDP data on future assisted area coverage.

Notwithstanding the difficult economic context, early discussions about the reform of the regional aid guidelines have been **constructive rather than combative**. This is in stark contrast to the previous period when DG COMP's starting point for reform was the proposal that regional aid should be restricted to the 'a' areas, the OMRs and low population density regions. This sparked an outcry from a number of Member States with the result that DG COMP rowed back from this stance to a position in RAG 2007-13 which was not so very different from RAG 2000-6. It was never entirely clear whether the initial announcement was more of a negotiating strategy than a real policy choice, but it certainly set the tone for the review.

At the time of writing, however, the Commission has not made any formal proposals for the Guidelines post 2013; in principle, therefore, there is still scope for quite radical reform along the lines of that proposed in the previous period. In practice, though, **evolution rather than revolution** seems the more likely outcome. This partly owes to the maturity of the existing system: many of the principles underpinning the current approach are rooted in policies adopted in the 1970s which have been progressively refined; in addition, the introduction of the block exemption regulations have brought a degree of order and proportionality to the scrutiny of regional aid measures. In consequence, many of the issues highlighted by national policymakers are concerned with clarification of technical points and/or harmonisation of approaches under the GBER and the RAG. Notwithstanding this, there are several areas of tension where either inaction or tightening of conditions is likely to be resisted by the Member States.

One such issue concerns so-called **financial engineering** or new financial instruments. In reality, such instruments – essentially 'non-grant' financial incentives - have a long history in many Member States, but the new terminology reflects increased impetus given to such measures at the European level, notably through initiatives such as JEREMIE and JESSICA. Such measures take a variety of forms, notably loans, guarantees and various forms of equity, or a combination of instruments, which have the common characteristic of being repayable. Accordingly their attraction lies partly in their perceived financial sustainability in times of austerity – since the sums advanced are repaid and can be 'recycled' to support other firms - and partly in their capacity to leverage-in private sector capital thus expanding the pool of resources available for entrepreneurial finance. In practice, however, the approval of financial engineering measures for State aid purposes has typically proven to be a lengthy and uncertain process, entailing significant delays in implementation. In consequence, many regard the clarification of the State aid treatment of such measures *in advance* of the next Structural Funds planning period to be an imperative in the reform of the regional guidelines post 2013.

A further issue concerns **incentive effect**. The notion of incentive effect has been given increasing prominence since the State aid action plan. In RAG 2007-13 incentive effect is achieved simply by dint of applying for aid prior to project start; in the GBER, more stringent conditions are applied in respect of large firms; and, for very large projects where aid proposals are subject to close scrutiny, the Commission assessment includes a "detailed verification that the aid is necessary to provide an incentive effect". At the level of the Member States there is, of course, considerable interest in ensuring that regional aid does have an incentive effect and does not simply result in windfall gains. However, there is

widespread (though not universal) scepticism that incentive effect can be assessed effectively. As such, there is likely to be considerable resistance to any proposals to reinforce the existing requirements to demonstrate incentive effect in the GBER.

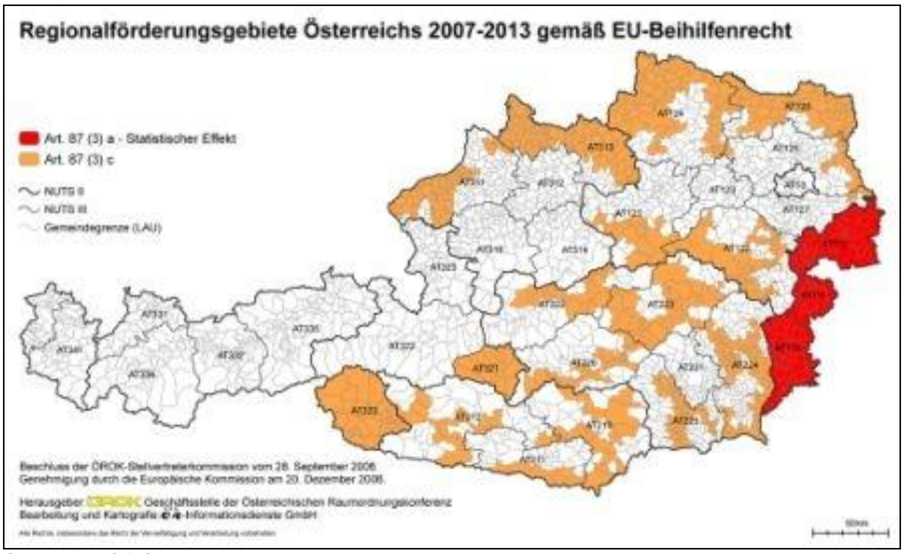
The question of **rates of award** is partly related to incentive effect. As noted in this paper, historically, maximum rates of aid have not been controversial and have often exceeded levels at which national policymakers wanted to aid firms. RAG 2007-13 and its predecessor significantly reduced award maxima compared to the past, but there is now a widespread sense that rates, in the 'c' areas at least, should go no lower. There is some debate about what the appropriate 'minimum ceiling' should be – 10 percent or 15 percent – but many policymakers consider that below these levels incentive effect is eroded and windfall gains are increased. It is important to recall here that the rules on aid to large projects dramatically reduce award maxima, so that impact for more substantial investment may be exacerbated.

The major unknown at the present time concerns **spatial coverage**. It is anticipated, but not confirmed, that the Commission will proceed on the basis of an overall population ceiling, with certain regions earmarked for coverage within that ceiling and the remaining population distributed on some basis yet to be decided. Apart from the lack information about DG COMP's thinking, future perspectives are complicated by two further factors: the volatility of the GDP data over what is likely to be the reference period for determining coverage (2007-9); and the modalities, if any, for taking account of Cohesion policy proposals for 2014+, especially with respect to the treatment of transitional areas. A number of scenarios and variants based on the current approach can be envisaged, but these have very different impacts between countries. Member States are generally opposed to further cutbacks in overall coverage, which are anyway not required to stay below a ceiling of 50 percent of EU27 population. However, there are divergent views on issues such as the definition of 'a' regions, the treatment of transitional regions and the need for a 'safety net' to ensure a minimum level of coverage for each Member State; this last point is likely to be key for some Member States which, on a simple rolling forward approach, might be set to have coverage halved a second time.

ANNEX: NATIONAL ASSISTED AREA MAPS 2007-13

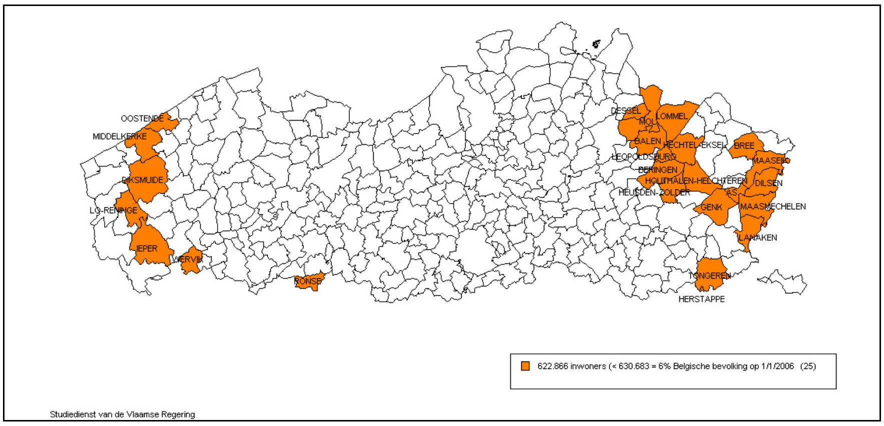
Note: national assisted area maps are not available for the following countries: Estonia, Hungary, Ireland Latvia, Lithuania, Malta, Romania, Slovenia and Slovakia. For all of these countries apart from Ireland and Slovakia, the assisted areas cover the entire territory of the country.

AUSTRIA



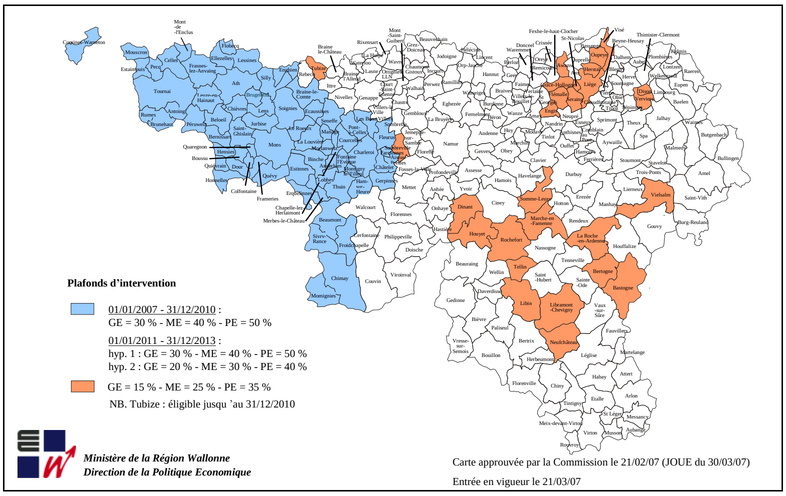
Source: OROK

BELGIUM: FLANDERS



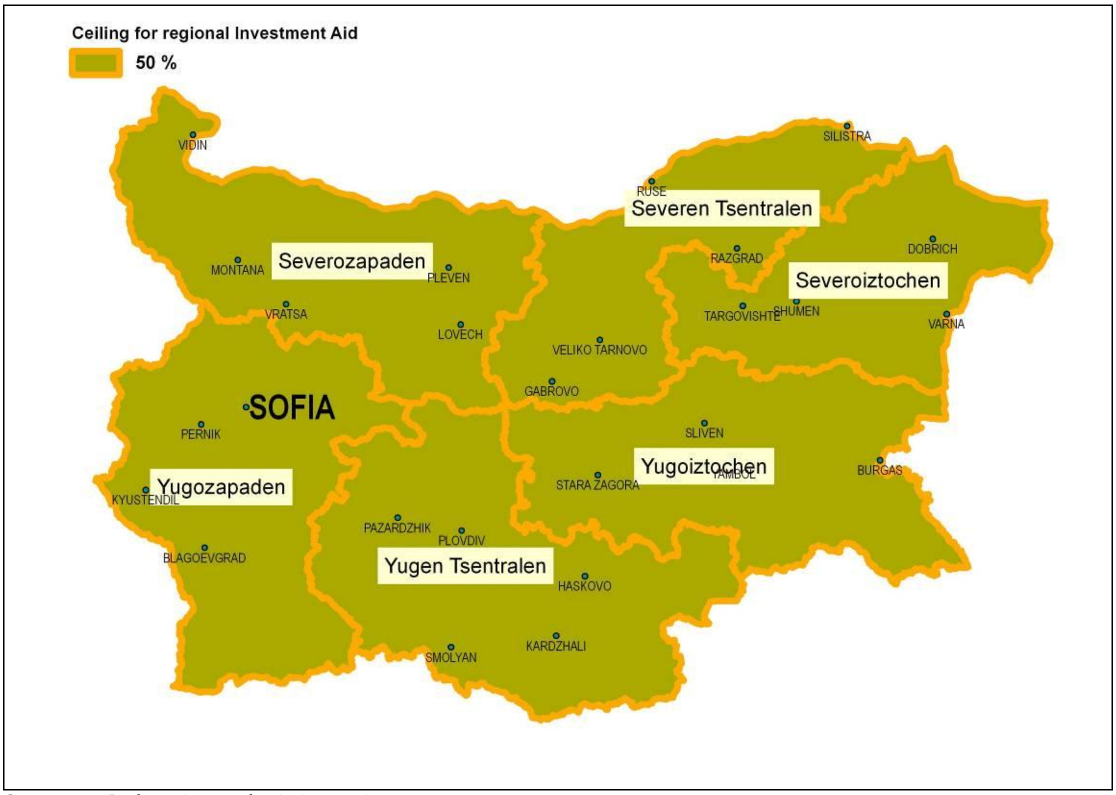
Source: Administration of the Flanders region.

BELGIUM: WALLONIA



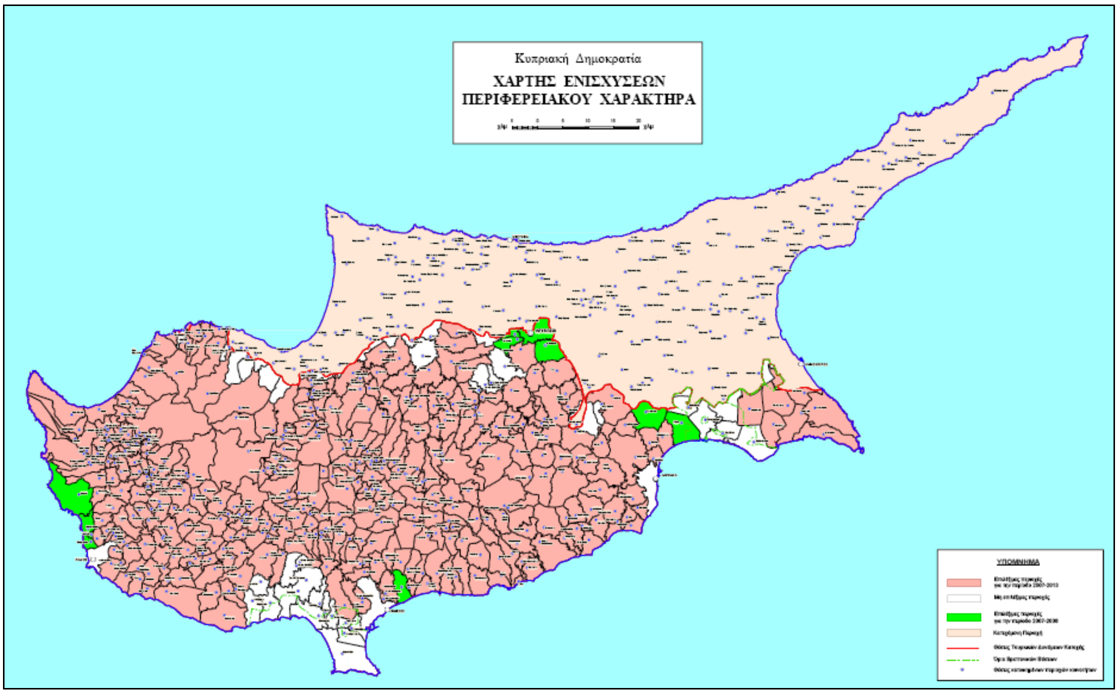
Source: Région Wallonne, Direction de la Politique Economique (DPE)

BULGARIA



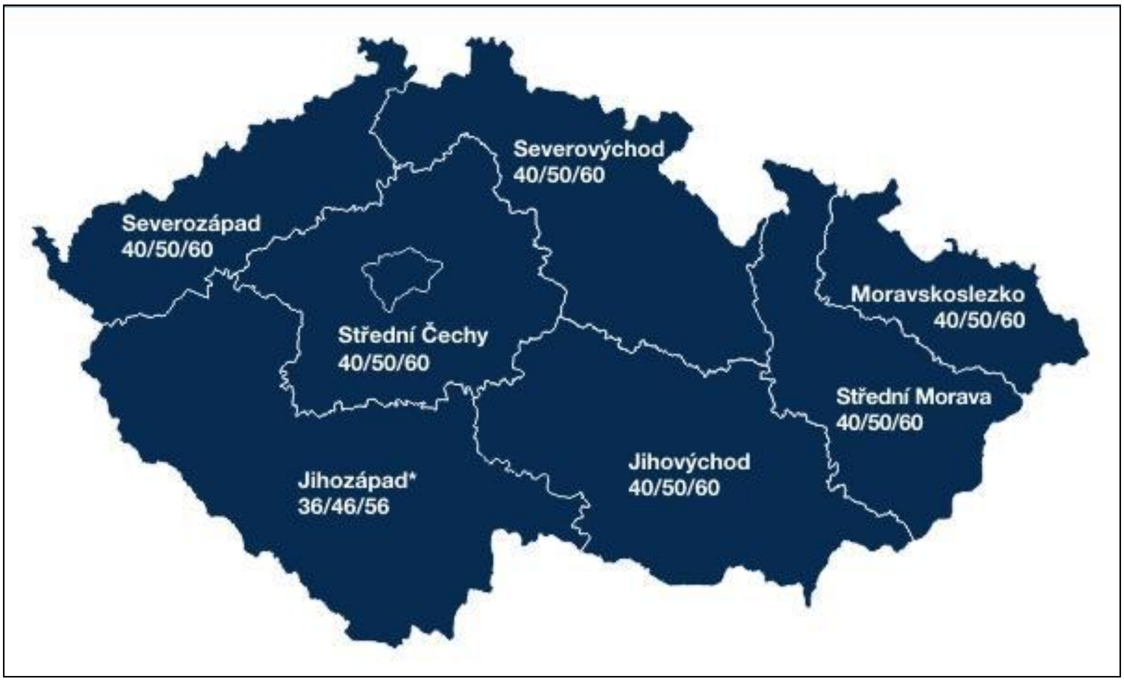
Source: Bulgarian administration.

CYPRUS



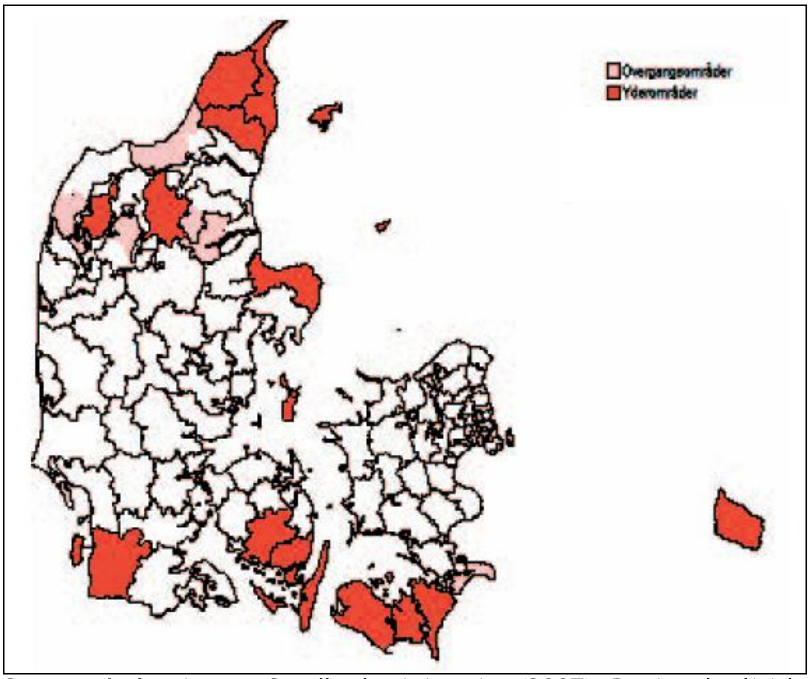
Legend: pink = eligible area 2007-13; white = non-eligible area; green = eligible areas for 2007/08; light pink = occupied area; red line = location of Turkish occupation forces; green dashes = British military base; blue dots = location of communities with inhabitants
Source: Department of Land and Survey, Cartography branch, Section of Digital Cartography and GIS, 27.11.2006.

CZECH REPUBLIC



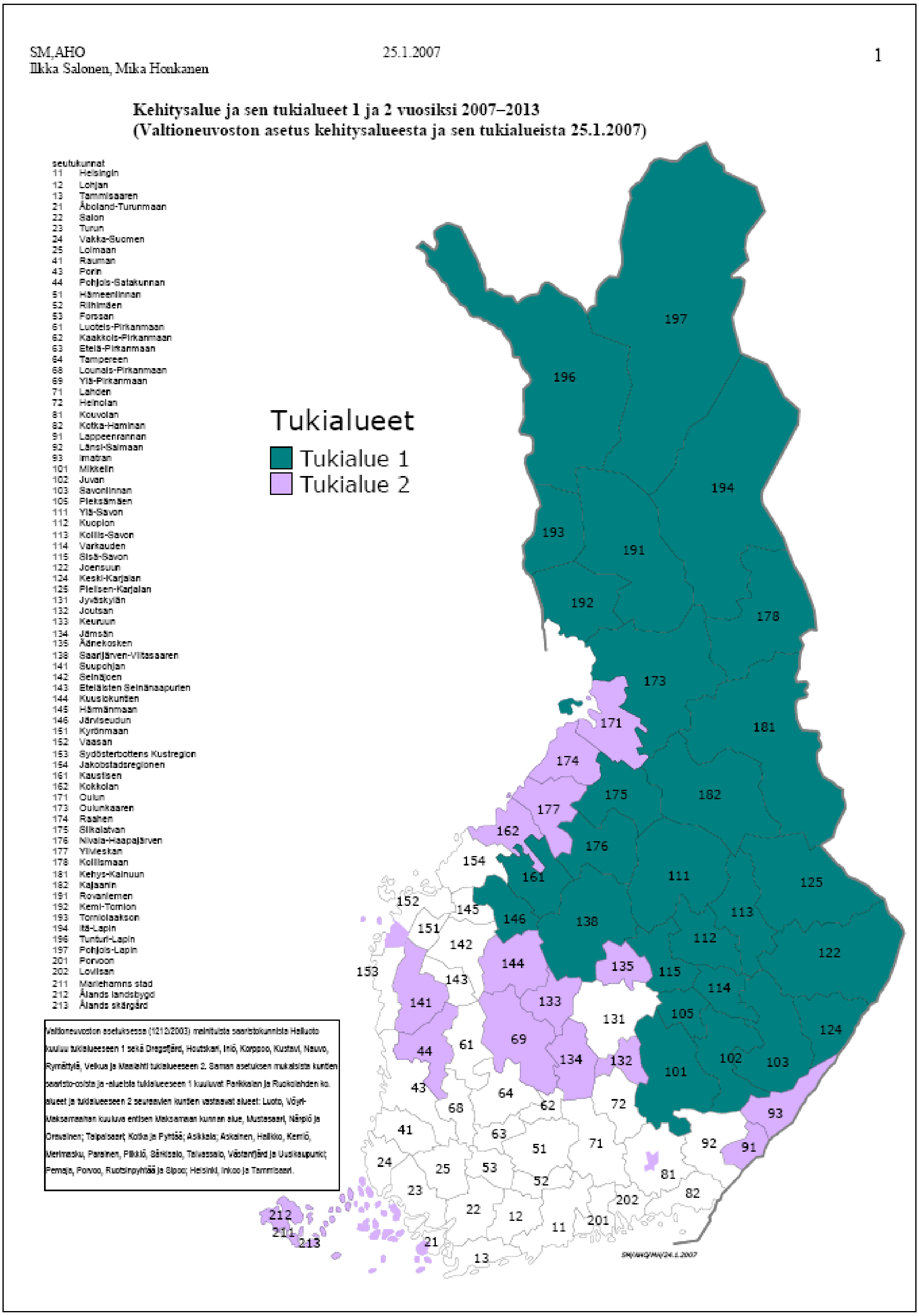
Source: Ministry of Finance.

DENMARK



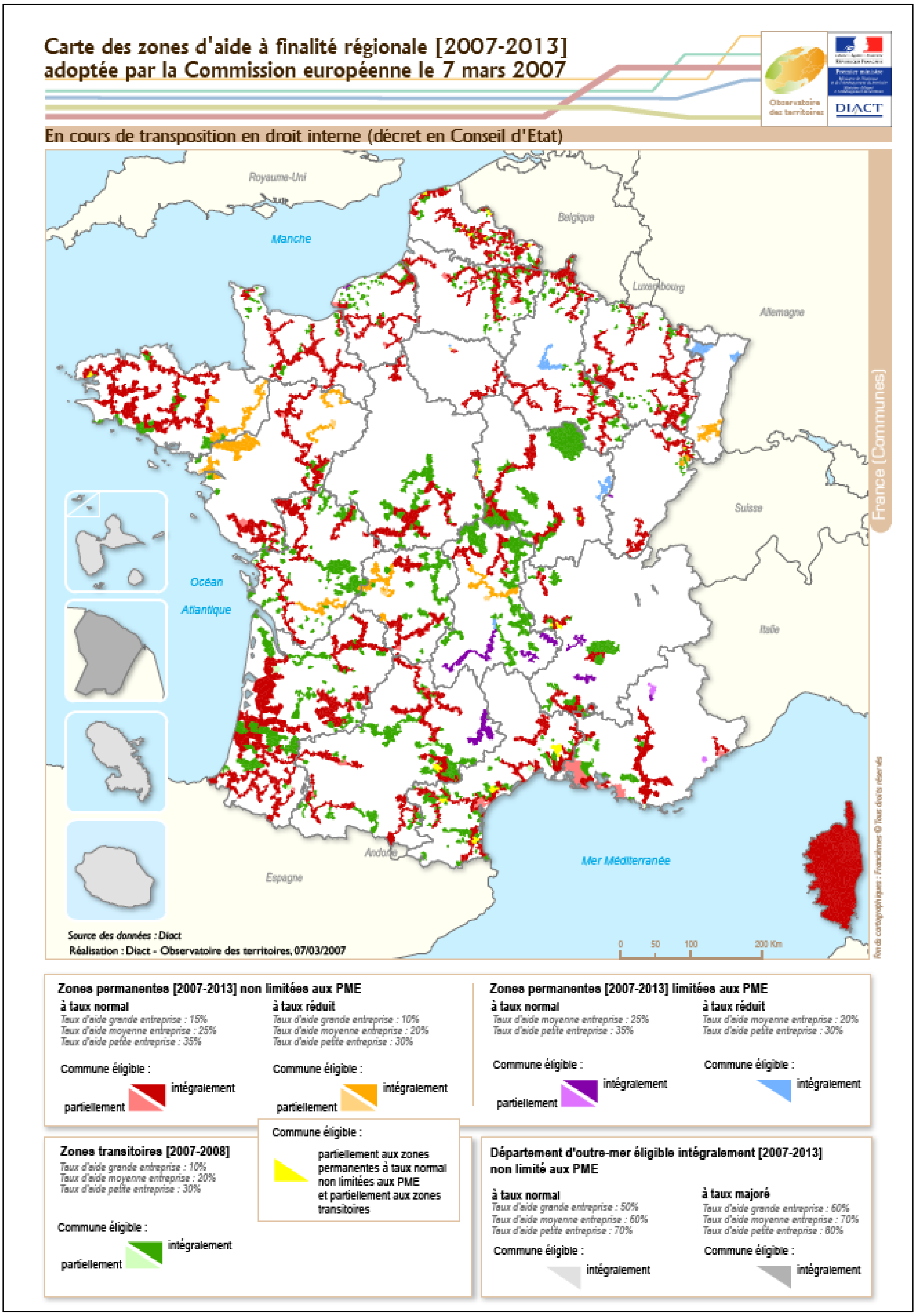
Source: Indenrigs- og Sundhedsministeriet (2007), Regionalpolitisk redegørelse 2007 - Analyser og baggrund. København, Indenrigs- og Sundhedsministeriet.

FINLAND



Source: Ministry of Employment and the Economy, available at: http://www.intermin.fi/intermin/images.nsf/files/d8938d7e67d62ddac225728200397db4/$file/tukialuekartta_25012007.pdf

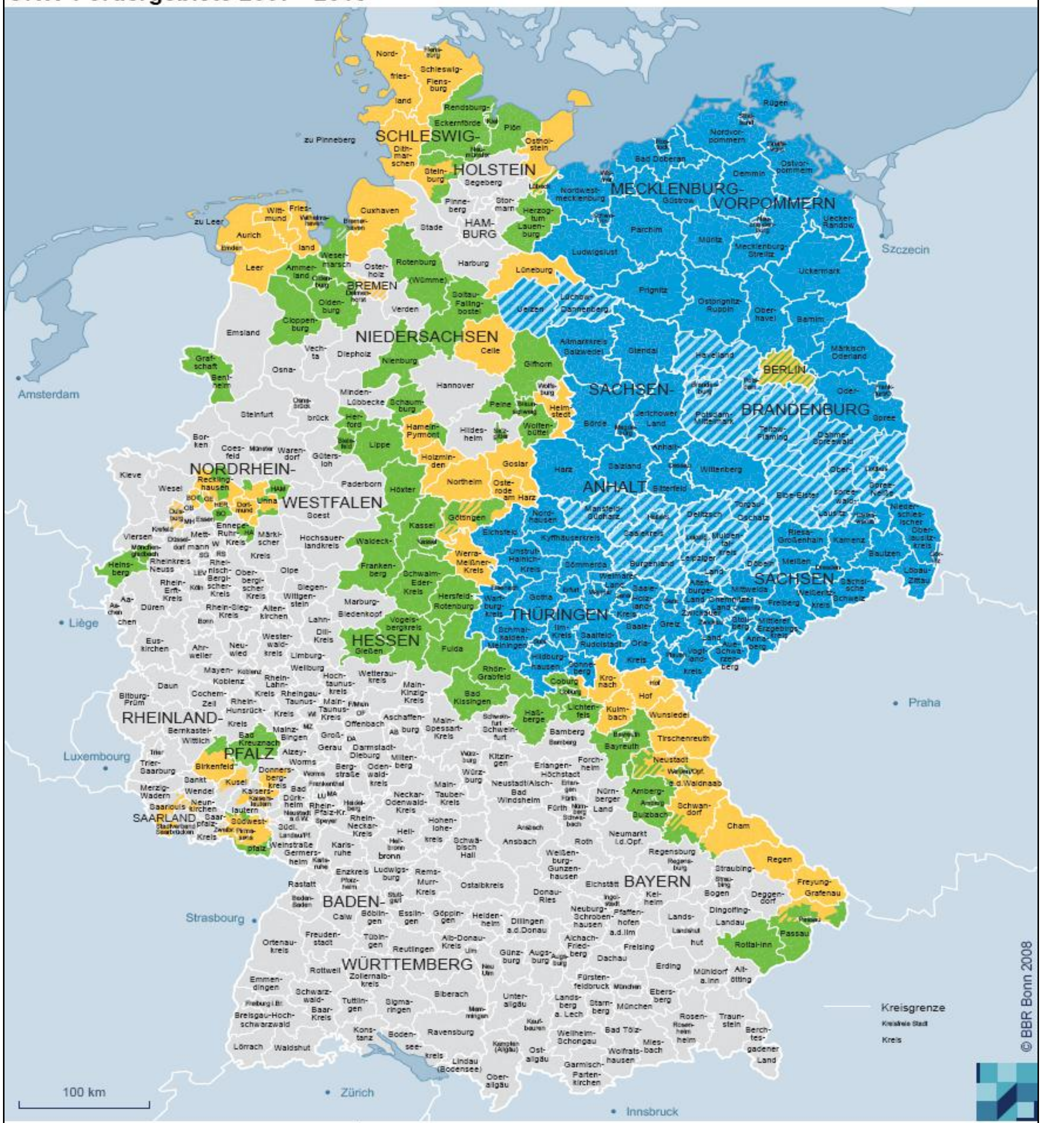
FRANCE



Source: DATAR.

GERMANY

GRW-Fördergebiete 2007 - 2013



Fördergebiete der Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur" 2007 - 2013
in gemeindescharfer Abgrenzung

Gemeinden, Stand 31.12.2007

- A - Fördergebiet
- A - Fördergebiet ("statistische Effekt-Region")
- C - Fördergebiet
- C - Fördergebiet (davon Städte/Gemeinden teilweise)
- D - Fördergebiet
- D - Fördergebiet (davon Städte/Gemeinden teilweise)
- Teilweise C -, teilweise D - Fördergebiet
- Nicht-Fördergebiet

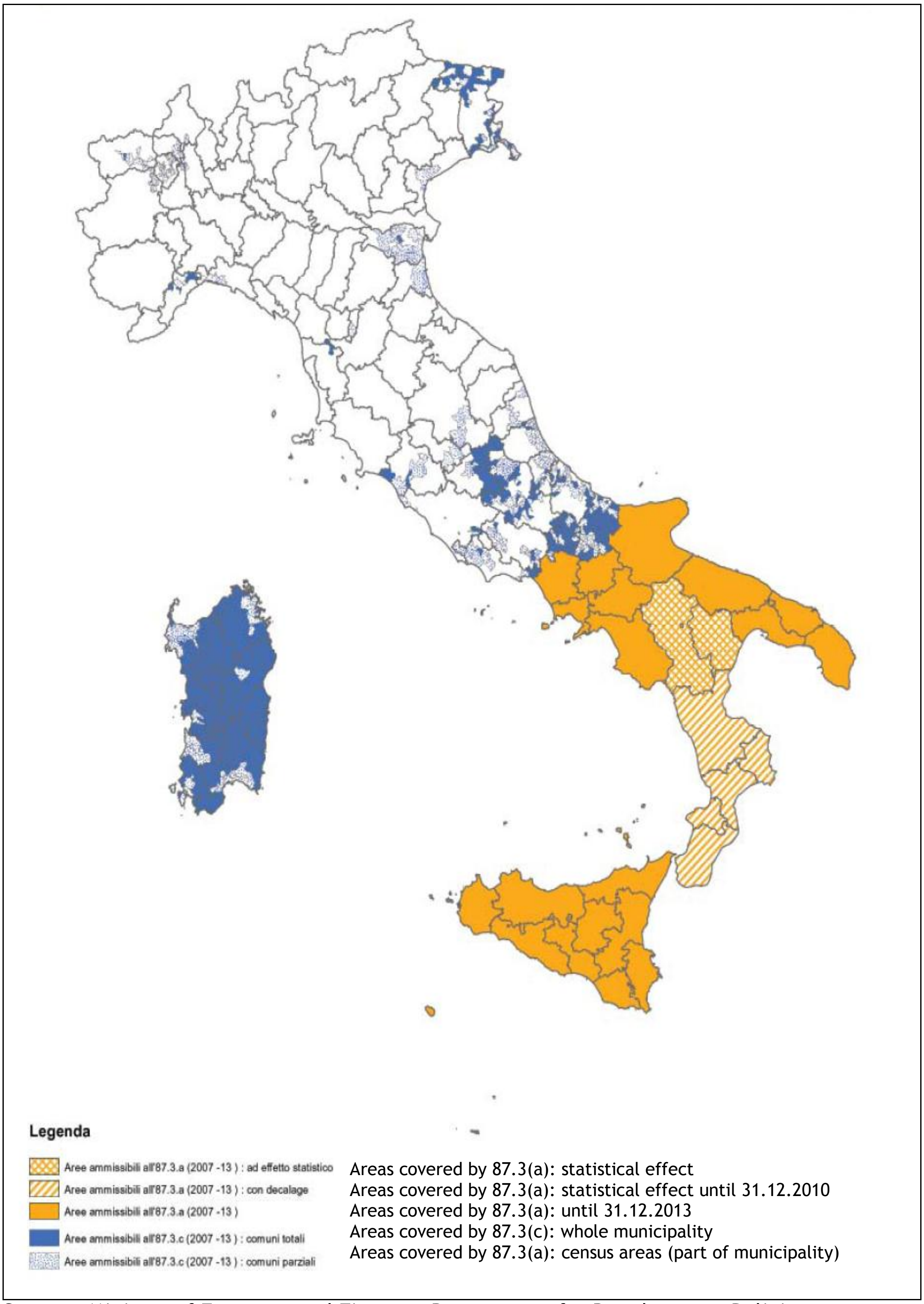
Source: Federal Ministry of Economy and Science, available at: http://www.bmwi.de/BMWi/Redaktion/PDF/foerdergebietskarte-ab-2007,property=pdf,bereich=bmwi,sprache=de,rwb=true.pdf

GREECE

Category 1			Category 2	
Zones	Grants, leasing aid, labour subsidies	Tax exemption	Grants, leasing aid, labour subsidies	Tax exemption
A	20%	60%	15%	50%
B	30%	100%	25%	100%
C	40%	100%	35%	100%

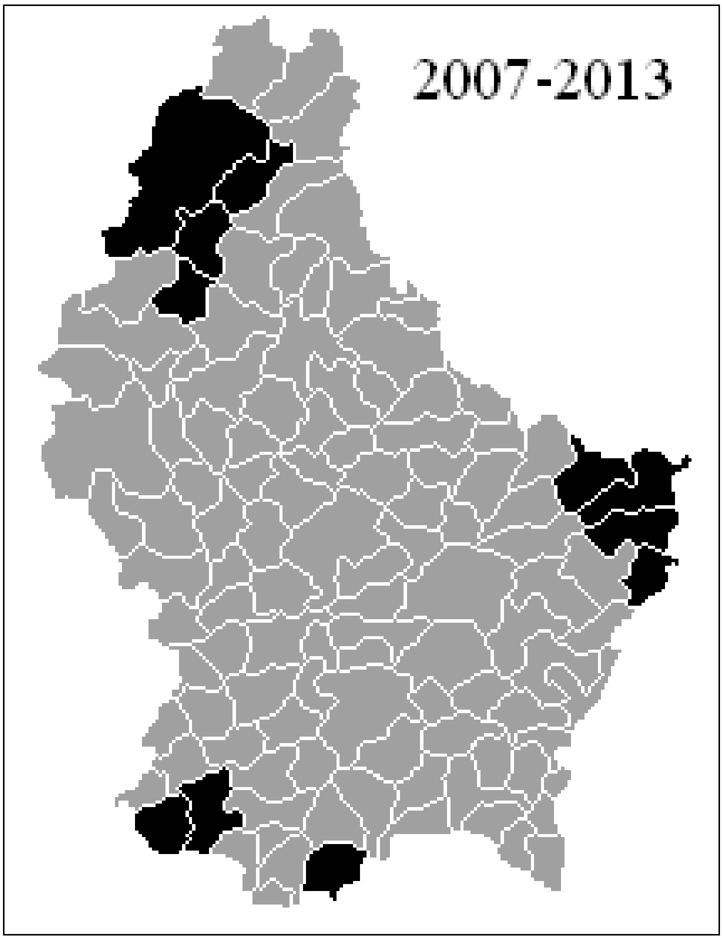
Note: Category 1 refers to investment plans that involve tourism, environment, high technology, production of electricity from renewable natural resources, broadband infrastructures and innovative digital services, amongst others; Category 2 includes investment in agricultural, fishery, mining and certain tourism activities.
Source: Greek government

ITALY



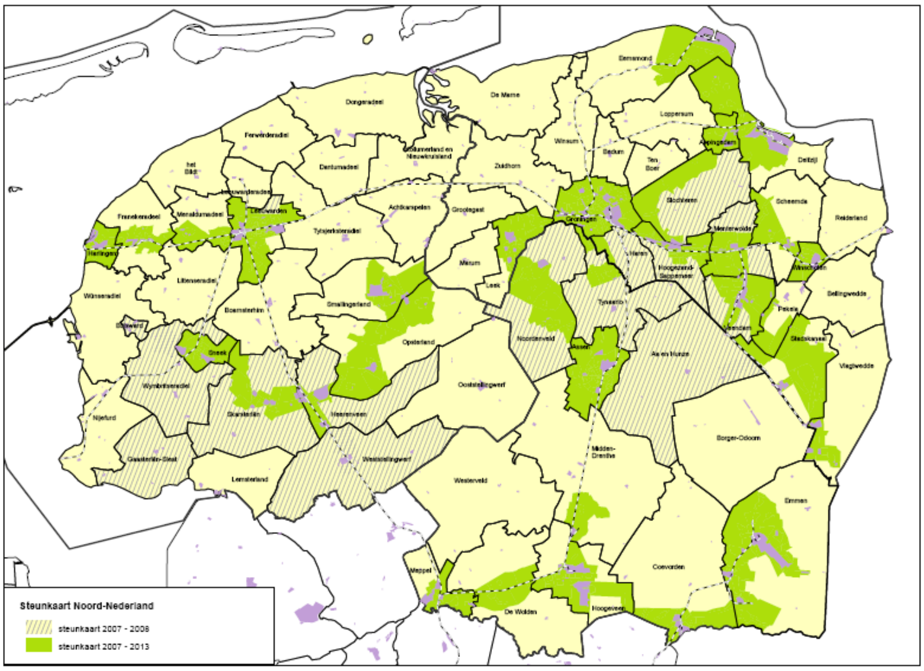
Source: Ministry of Economy and Finance, Department for Development Policies.

LUXEMBOURG

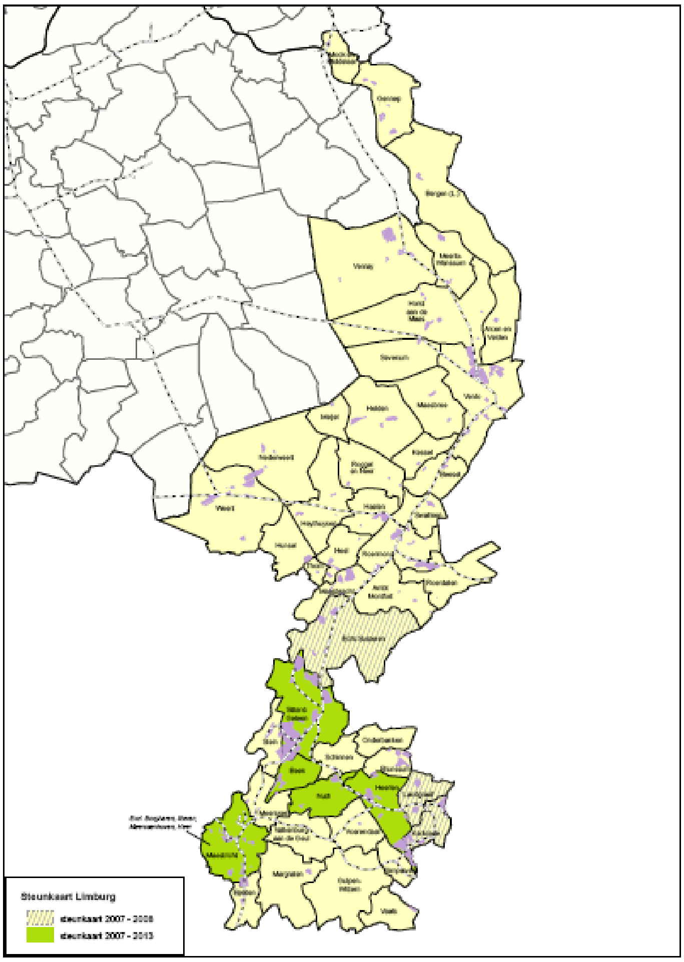


Source: State aid No. N 523/2006 - Luxembourg, Regional aid map 1.1.2007-31.12.2013, OJ C/280/2006.

THE NETHERLANDS: NORTH

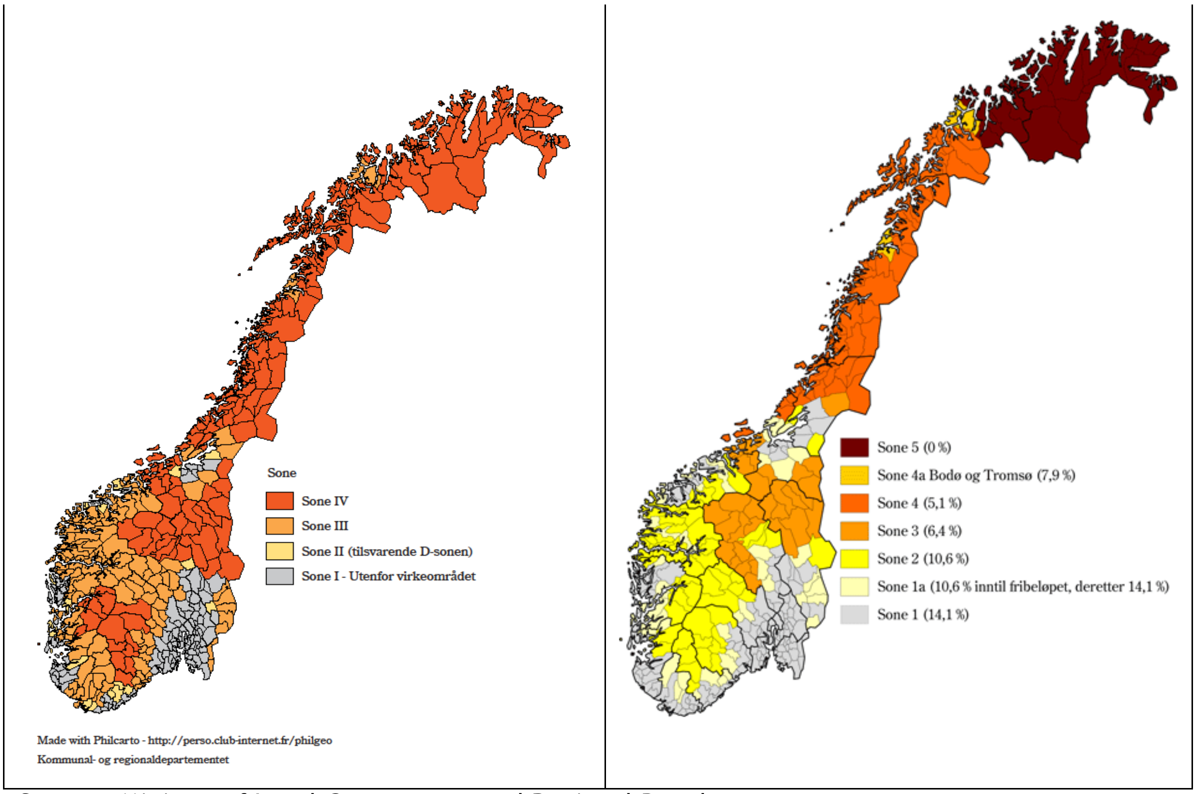


THE NETHERLANDS: LIMBURG



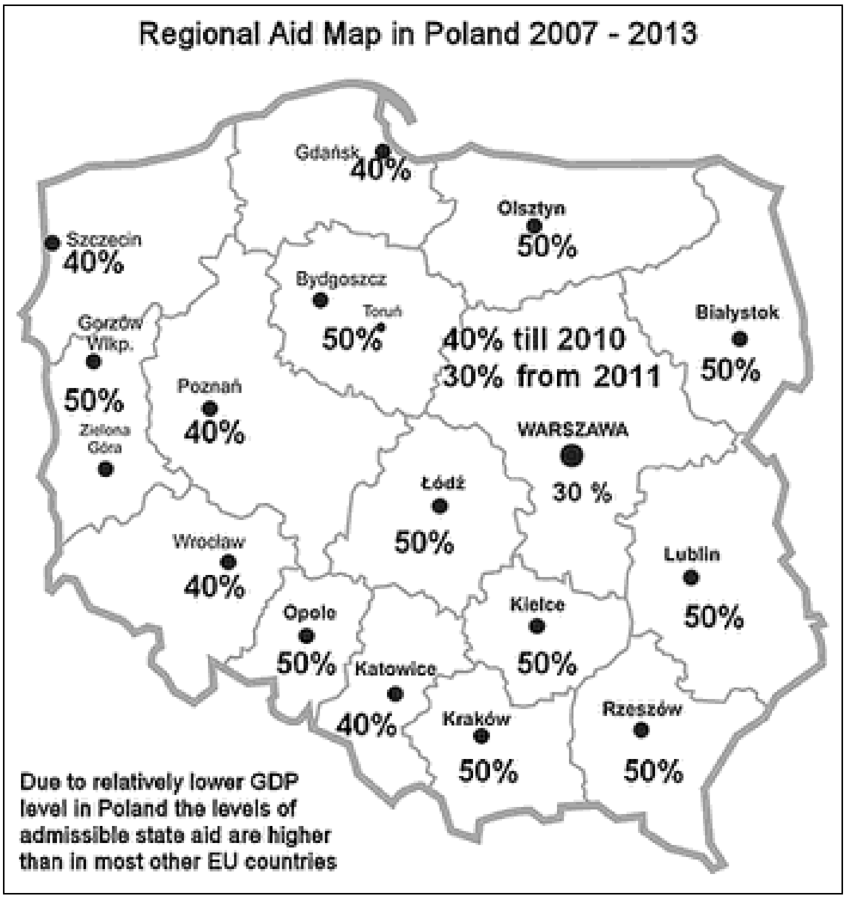
Source: Dutch Ministry of Economic Affairs

NORWAY: REGIONAL AID AND SOCIAL SECURITY CONCESSION



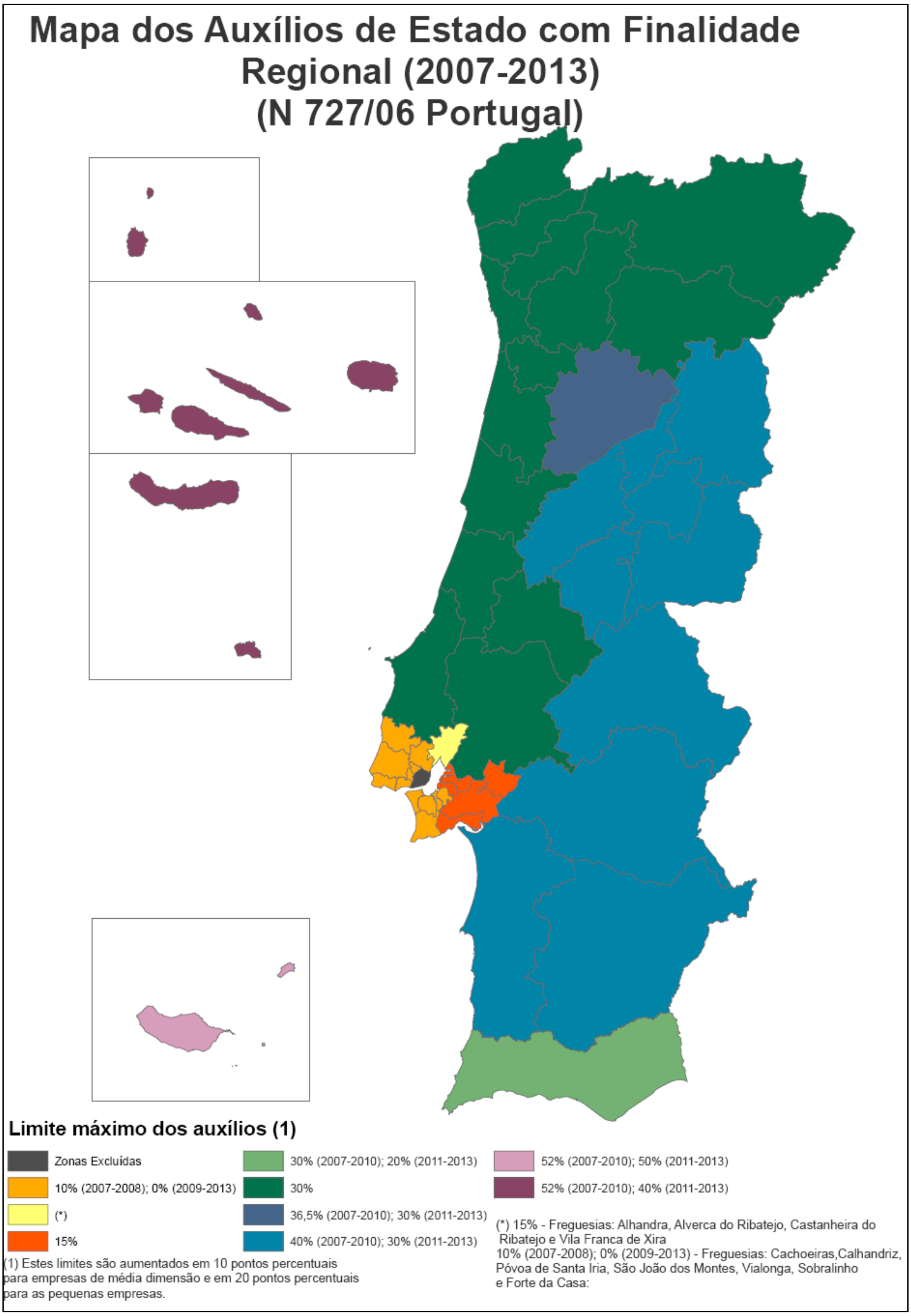
Source: Ministry of Local Government and Regional Development

POLAND



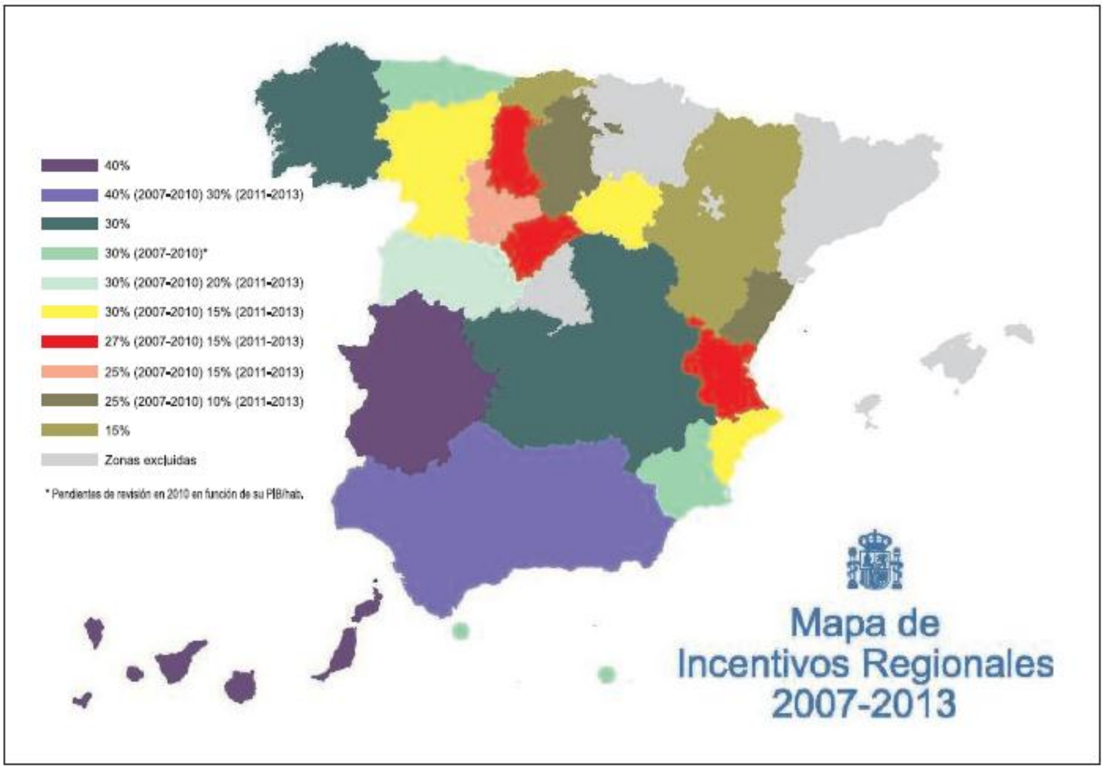
Source: http://www.paiz.gov.pl/nowosci/?id_news=1256

PORTUGAL



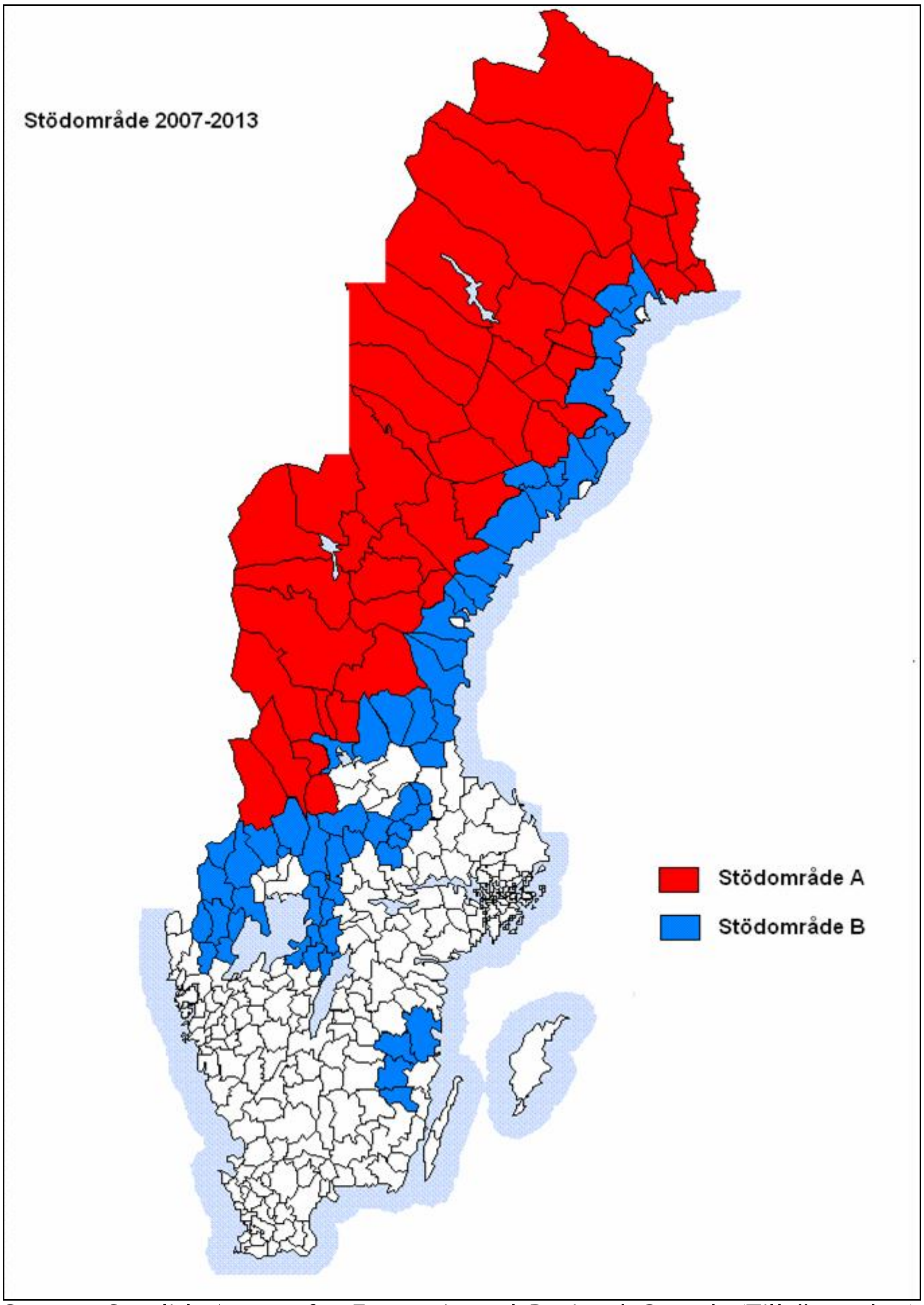
Source: Portuguese government.

SPAIN



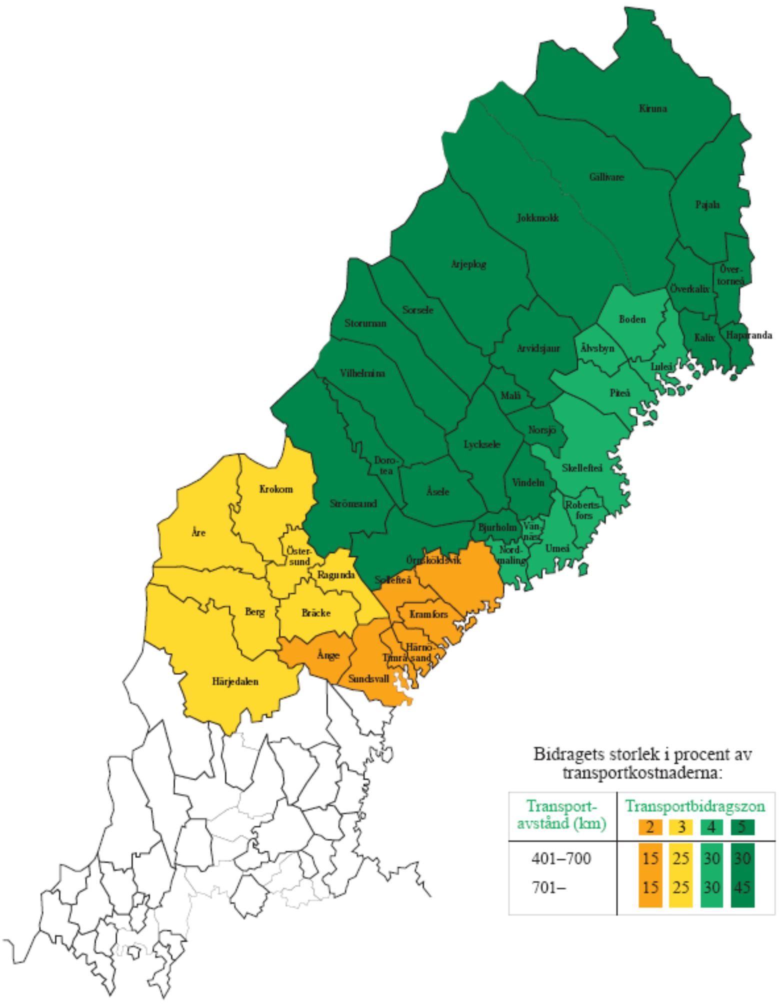
Source: Ministry of Economy and Finance (www.meh.es).

SWEDEN

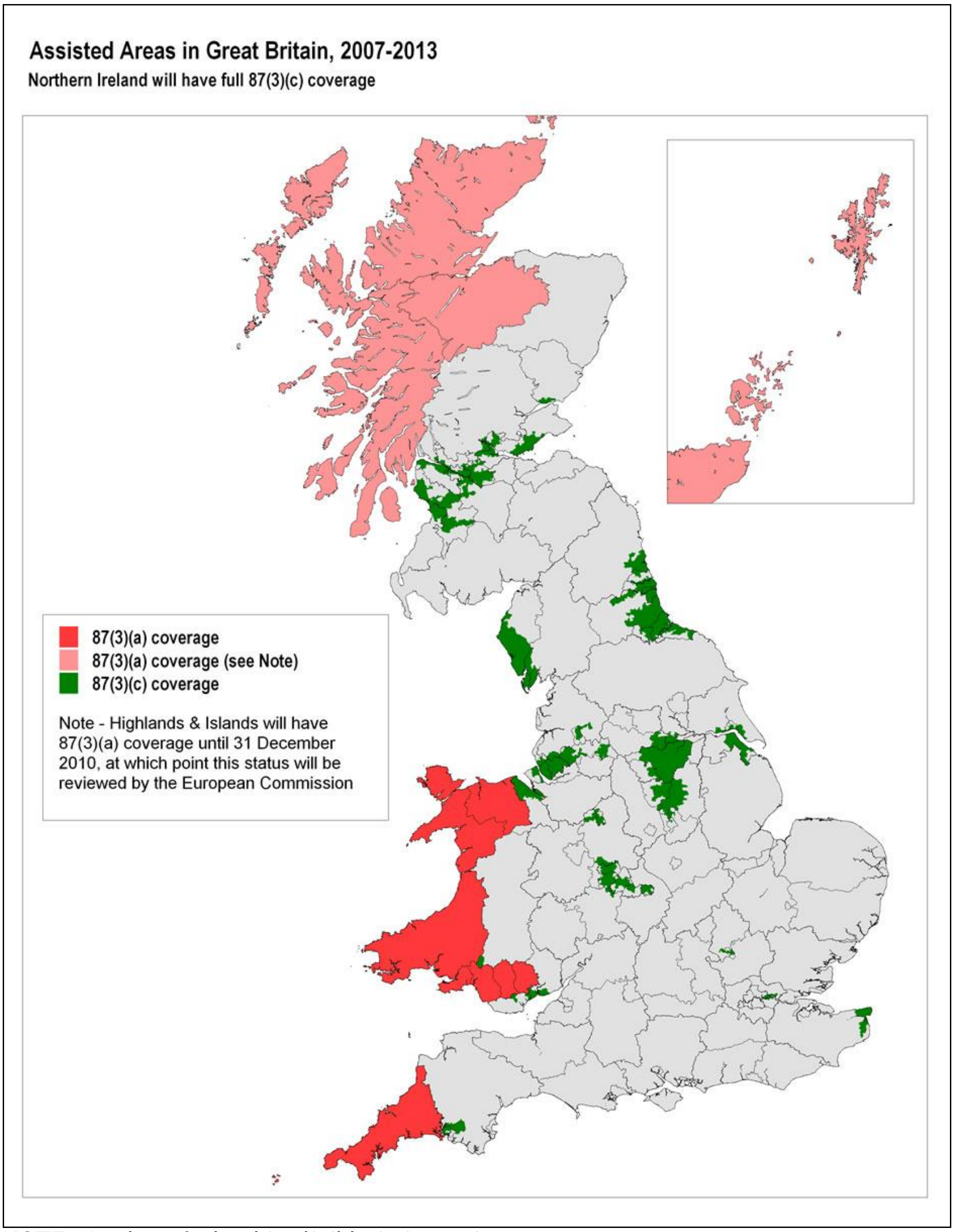


Source: Swedish Agency for Economic and Regional Growth (Tillväxtverket), available at http://www.tillvaxtverket.se/download/18.2951bcb412700b68b8680002824/Karta+St%C3%B6domr%C3%A5de+A+och+B.pdf

SWEDEN: TRANSPORT AID



UNITED KINGDOM: GREAT BRITAIN



NOTE: Northern Ireland is eligible in its entirety.