European Commission

Regional aid guidelines 2014-2020

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DG COMP unit 03

These slides accompany the explanation of the acquis to Albania and North Macedonia and can only be used for that purpose. Their content is subject to further development of the acquis and interpretation by the Court of Justice of the European Union.

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Structure

1. Regional aid: Why?
2. Regional aid: Where?
3. Regional aid: sectoral and material scope of the rules
4. Regional aid: What for?
   3.1 Initial Investment
   3.2 Operating aid
5. Compatibility assessment of investment aid

Regional State aid: Why?

- Exemption from the general State aid ban:
  - ***"Aid to promote the development of areas where the standard of living is abnormally low or where there is serious underemployment..."*** **(Art. 107(3)(a) TFEU)**
  - ***"Aid to facilitate the development of ... certain economic areas..."*** **(Art. 107(3)(c) TFEU)**

- Criteria for the application of the regional aid exemptions:
  - **Successive Communications since early 1970's**
  - **Successive Regional Aid Guidelines (1998, 2006, 2013)**
  - **Block Exemption Regulations (2006, 2008)**

RAG 2014-2020

Purpose of regional aid:

- **To promote the development of disadvantaged areas by addressing their economic handicaps**
- **To promote economic cohesion of the EU**

How?

- **Support for investment and job creation by undertakings**
- **Support for operating expenses of undertakings (exceptionally)**

Criteria set out in RAG:

- **Where can regional aid be granted? In which sectors?**
- **What can aid be granted for?**
- **How much aid can be granted? Under which conditions?**

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Regional aid maps

For regional aid to be effective, it needs to be focused on the regions that suffer the most serious difficulties

- Regions with abnormally low standard of living → Art. 107(3)(a) TFEU
  - **Reference point is EU average**
  - **Criterion → GDP/cap lower than 75% EU average**
    → Outer Most Regions (Art. 349 TFEU)
- Other disadvantaged areas → Art. 107(3)(c) TFEU
  - **Ex-Article 107(3)(a) regions (2011-2013)**
  - **Sparsely populated areas**
  - **Other problem regions with population of at least 50,000**

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Regional aid map also places limits on the amount of investment aid that can be granted in each region:

Assisted area (% EU GDP/head)	**Large firms**	**Medium-sized firms**	**Small firms**
'a' areas (<45%)	50%	60%	70%
'a' areas (45%-60%)	35%	45%	55%
'a' areas (60%-75%)	25%	35%	45%
Former 'a' areas (until end ‘17)	15%	25%	35%
Sparsely populated areas, external border areas	15%	25%	35%
Other 'c' areas	10%	20%	30%

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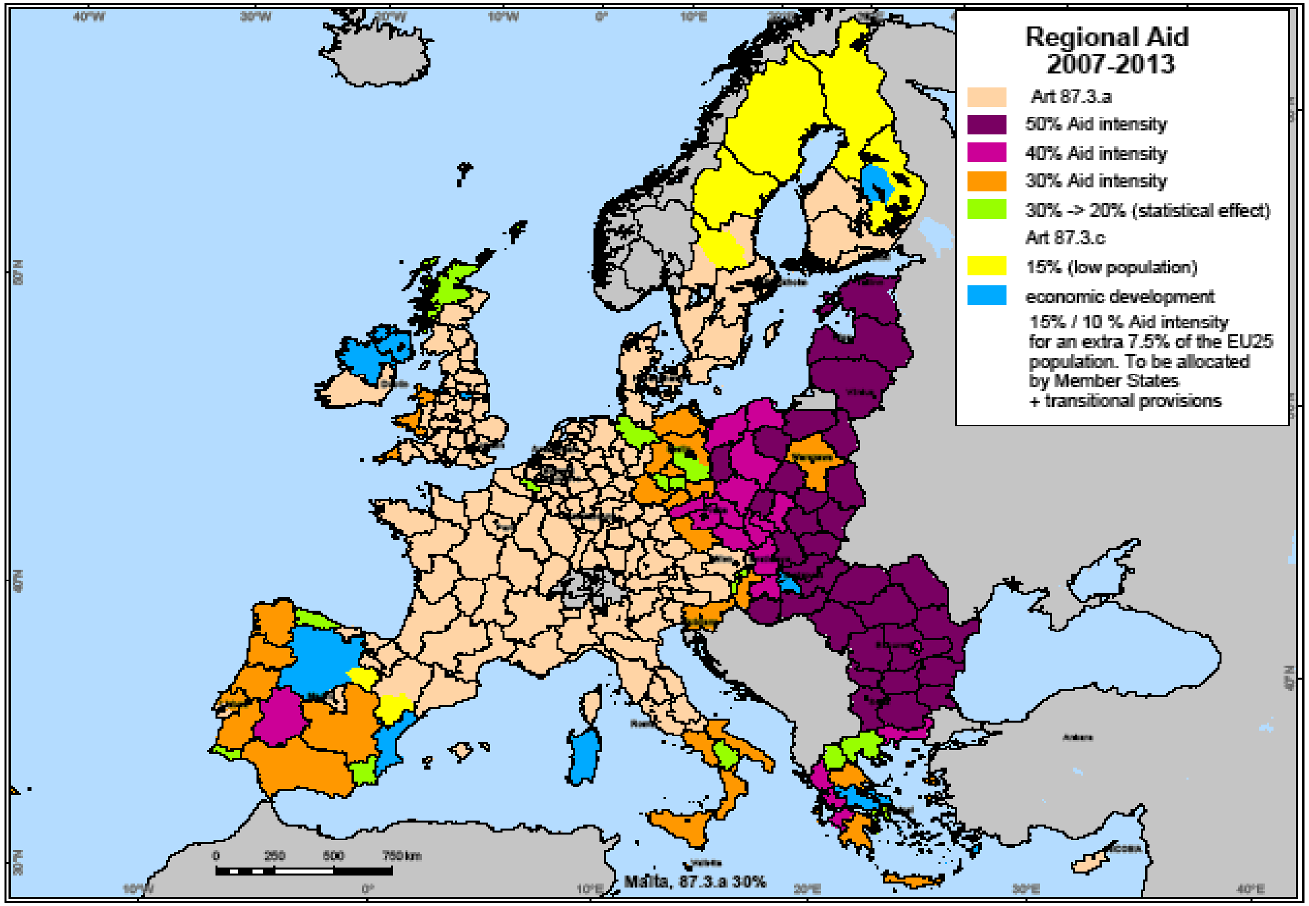
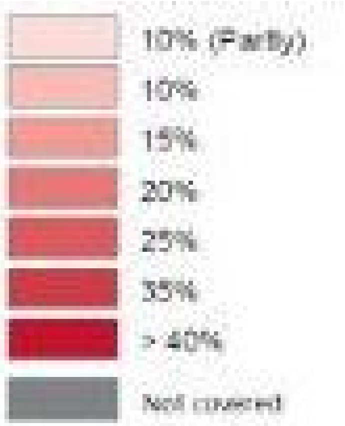
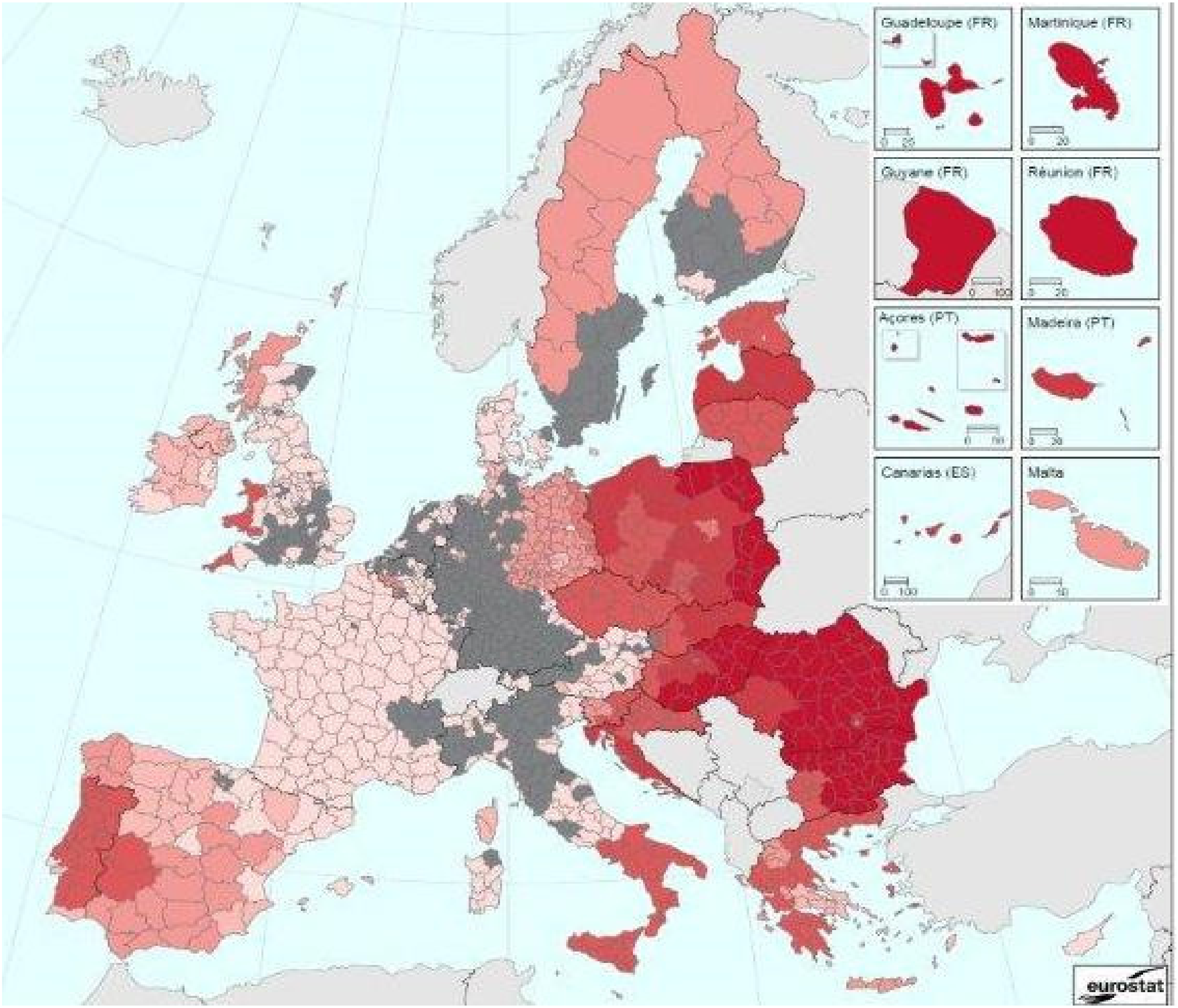


Regional aid map 2014-2017

- Mid-term review of maps in 2016
- Revised maps entering into force on 1 January 2017





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Sectoral scope

Excluded from RAG but covered by other guidelines:

- Agriculture, forestry
- Fisheries, aquaculture
- Transport, incl. airports
- Energy sector

Regional aid prohibited:

- Steel
- Synthetic fibres

Covered by RAG but with specific additional conditions (transparency, fair access):

- *R&D infrastructure*
- *Broadband networks*

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Aid measures to be notified under RAG

- Sectoral schemes
- Shipbuilding and coal schemes
- Operating aid schemes (other than for OMR, SPR)
- Large schemes (average annual budget > €150 m)
- Individual aid > notification thresholds
- Investment aid to large enterprises in ‘c’ areas for diversification into new products and for new process innovations
- Aid linked to relocation of activity 2 years before or after application for aid
- Non-transparent forms of aid

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Structure of presentation

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Investment aid: "*Initial investment*"

- Investment in tangible and intangible assets relating to

In 'a' regions & SME in 'c' areas:	**LEs in 'c' areas:**
- **Setting up of a new establishment;** - **Diversification of output of establishment into products not previously produced in the establishment;** - **Extension of the capacity of an existing establishment;** - **Fundamental change in the production process.**	- **Setting up of a new establishment;** - **Diversification of activity of establishment, if new activity is not same as or similar to activity previously per-formed in the establishment;** - **Diversification of existing establishments into new products or new process innovations.**

- Acquisition of assets linked to establishment that has closed or would have closed
- No replacement investment!

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Investment aid: “*Eligible costs*”

Two ways to calculate “eligible costs”:

1. Costs calculated on the basis of investment costs:
   - **Material assets (land, building, equipment)**
   - **Immaterial assets:**
     - Transfer of technology
     - Patents, operating or patented and non-patented know-how licenses
     - For large enterprises, limited to 50% of eligible costs
2. Costs calculated on the basis of wage costs:

   Wage costs arising from job creation as a result of the initial investment (two-year wage cost)

Investment aid: "*Conditions*"

Conditions for regional investment aid:

1. **Maintenance of investment (or jobs) in the region:**
   - 5 years for large enterprises
   - 3 years for SMEs

2. **25% of investment should be from own contribution or external finance, but totally free of public support**

3. **Formal application for aid before works on the project started (formal incentive effect)**

Investment aid: *“How much aid?”*

- Maximum allowable aid is defined as a percentage of eligible costs of the initial investment (GGE)

- Maximum aid intensity is set in the regional aid maps and depends on:
  - **The level of development of the region**
  - **The size of the enterprise**
  - **The size of the investment project**

- Regional aid ceilings set in regional aid maps apply to investments with a total eligible cost of less than 50 Mio €
- For larger investment projects (LIPs): scaling down of maximum aid intensity ceiling

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Investment aid: "*LIPs*"

- LIP: Large Investment Project with eligible cost > 50 mio €:
  - **LIPs less affected by regional handicaps of assisted areas**
  - **Higher risk of distortive effects (competitors, competing regions)**
- Reduced aid:
  - **Adjusted max. aid amount = RAC x [(50 + (0.5 x B) + (0.34 x C)]**
    - **(B = Cost between 50 Mio and 100 Mio; C = Cost above 100 Mio)**
  - **Notification threshold:**

	Notification required if:
10% Region	Aid > € 7.5 Mio
15% Region	Aid > € 11.25 Mio
25% Region	Aid > € 18.75 Mio
35% Region	Aid > € 26.25 Mio
50% Region	Aid > € 37.5 Mio

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Example: investment of small enterprise

Regional aid ceiling: 40% for LE + 20% Small enterprise

- **Project:**
  - Investment in building & machines: € 400,000
  - Purchase of licences: € 100,000
  - Creation of 10 jobs (annual labour cost: € 20,000)
- **Eligible cost:**
  - Investment cost: € 400,000 + € 100,000 = € 500,000
  - Labour cost: (10 jobs * € 20,000) * 2 years = € 400,000

- **Maximum aid: € 500,000 * (40% + 20%) = € 300,000**

Example: large investment project

- Regional aid ceiling for LE: 40%
- Eligible cost = €120 Mio
- Adjusted maximum aid amount: 40%* [(€50Mio + (0.50x €50Mio) + (0.34x €20Mio)] = €32.72Mio

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Operating aid

- Operating aid:
  - **aimed at reducing a firm's current expenses**
  - **not linked to initial investment**

- Normally prohibited

- Permitted exceptionally in cases where investment aid alone is not enough to trigger a process of regional development:
  - **The least developed 'a' regions (SME only)**
  - **The sparsely populated 'c' regions (SME + LE)**
  - **Outer Most Regions (SME + LE)**

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Operating aid: "*Conditions*"

- MS has to demonstrate that the aid is :
  - **An appropriate instrument for addressing the specific problem**
  - **Proportionate to the specific handicap**
- Aid should be limited in time and progressively reduced, except in the following cases:
  - **Permanent handicaps of the outermost areas**
  - **Permanent aid to offset depopulation in the least densely populated areas**
  - **Permanent transport aid in the outermost and low population density areas**

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Compatibility Assessment

Common principles:

1. **Contribution to an objective of common interest**
2. **Necessity of the aid**
3. **Appropriateness of the aid**
4. **Aid limited to the minimum necessary**
5. **Avoidance of undue negative effects (black-list)**
6. **Transparency of aid**

- NO aid if one principle is NOT respected

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Compatibility Assessment

1. **Contribution to objective of common interest :**
   - MS to demonstrate contribution to development strategy for the region

2. **Necessity:**
   - Fulfilled if aid targets ‘a’ and ‘c’ regions in map

3. **Appropriateness:**
   - MS to demonstrate that the regional aid measure is appropriate instrument to promote development

Compatibility Assessment

4. Incentive effect:

- Start of the project only after formal application has been submitted
- Information to be provided on "counterfactual":
  - investment would not be sufficiently profitable without the aid (scenario 1: investment decision)
  - Investment would go to other region without the aid (scenario 2: location decision)
- Large Enterprises to provide documentary evidence of "counterfactual" and authorities to establish that the aid had an incentive effect
- COM assesses on the basis of genuine, contemporary and realistic evidence (i.e. company internal documents) that the aid effectively has an impact on the location/investment choice

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Compatibility Assessment

5. Proportionality: Aid limited to the minimum needed

- SME's: Respect of regional aid intensity ceiling
- Large Enterprises → Double cap:
  - Aid should not exceed "net extra cost" <u>and</u> aid should not exceed regional aid intensity ceiling
  - For scenario 1 cases (investment decision): Aid should be limited to the amount needed to render the project sufficiently profitable, e.g. it should not increase the beneficiary's IRR beyond the normal rates of return.
  - For scenario 2 cases (location decision): Aid should be limited to the amount needed to ensure that the project locates in the target region rather than in the alternative location, for example on the basis of NPV difference of the alternative locations.

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Compatibility assessment

6. Avoidance Undue negative effects:

- Two types of effects:
  - Product market distortions (Over-capacity or Market power)
  - Location effects
- **Avoid manifest negative effects:**
  - NO aid if it attracts an investment from a poorer region (*)(**)
  - NO aid if relocation of an investment due to the aid (**)
  - NO investment aid if investment takes place on a market with structural overcapacity (**)

(*) MS to verify when awarding aid under schemes
(**) EC to verify when assessing notified individual aid

Compatibility Assessment

7. Transparency: MS must publish on a central public website:

- Aid scheme + implementing provisions
- Name of the granting authority
- Name of individual beneficiaries, aid amounts, aid intensities

Evaluation:

- Commission may limit the duration of largest, most distortive schemes to 4 years and impose an evaluation before prolonging the scheme
- Evaluations must be undertaken by an independent expert
- Precise scope + methodology of evaluation to be defined in Commission decision limiting the duration of the scheme

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Compatibility conditions for schemes

- **Objective of common interest**:
  - Assumed for co-financed schemes
  - To be demonstrated for other schemes
- **Appropriateness:** schemes are appropriate instrument
- **Incentive effect** (formal requirements): start of the project after application for aid
  - For SMEs: application form
  - For large enterprises: application form +documentary evidence of the counterfactual
  - Credibility check by granting authority for SMEs+LEs
- **Proportionality:** net extra cost + cap (aid intensity on total eligible costs)
  - For SMEs: total costs + aid intensity
  - For large enterprises: net extra cost with a cap (aid intensity on total costs)
- **Limitation of negative effects:** to ensure that aid is not attracting an investment from a poor(er) region (*i.e.* higher or same aid intensity as the target region)
- **Transparency + (evaluation)**

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Compatibility conditions for individual aid

- **Objective of common interest**: demonstration that aid contributes to regional development strategy
- **Appropriateness**: aid instrument is appropriate
- **Incentive effect**: formal requirements (start of the project after submission of application form); demonstration of the counterfactual scenario
- **Proportionality:** net extra cost + cap (aid intensity on total costs)
- **Black list (negative effects outweigh any positive effects):**
  - NO investment aid if it attracts an investment from a poorer region
  - NO investment aid if relocation of an investment due to the aid
  - NO investment aid if investment takes place on a market with structural overcapacity
- **Transparency of aid**

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Thank you for your attention!