EoRPA
European regional policy research consortium

RAGS REFORM: RETRENCH AND RETREAT?

Fiona Wishlade

EoRPA Report 20/2 to the 41st meeting of the EoRPA Regional Policy Research Consortium

This paper should be cited as: Wishlade, F (2020) *RAGS Reform: retrench and retreat – a review of Commission proposals for the reform of the Regional aid guidelines 2022-27*, Paper to the 41st meeting of the EoRPA Regional Policy Research Consortium, October 2020

Cover photo by USGS on Unsplash

European Policies Research Centre
School of Government and Public Policy
University of Strathclyde
40 George Street
Glasgow G1 1QE
T +44(0) 141 548 4898
T +44(0) 141 548 3061
E eprc@strath.ac.uk
W http://www.eprc-strath.eu/

Stichting EPRC Delft
Faculty of Architecture and the Built Environment,
Technische Universiteit Delft
Julianalaan 134
2628 Delft
T +31 (0) 15 27 86093
E info@eprcdelft.eu
W http://www.eprc-strath.eu/

The place of useful learning
The University of Strathclyde is a charitable body, registered in Scotland, No SC015263

Stichting EPRC Delft is a foundation registered in the Netherlands (No. 69203288)

TABLE OF CONTENTS

1 INTRODUCTION 1

2 TAKING STOCK 3

2.1 Prolongation of existing rules 3

2.2 Fitness checks and targeted consultation 4

2.3 Evaluation of the regional aid framework 6

3 PROPOSED CHANGES TO THE RAGS 7

3.1 Architecture of regional aid control 7

3.2 Sectoral scope 8

3.3 Spatial coverage 8

3.3.1 The methodology 8

3.3.2 'a' region coverage 9

3.3.3 Overall results 10

3.4 Area designation 13

3.5 Aid intensities 14

3.6 Investment by large enterprises in 'c' areas 15

4 DISCUSSION ISSUES 17

EXECUTIVE SUMMARY

Since 2019, the European Commission has been engaged in reviewing the key elements of the State aid modernisation package, including the Regional Aid Guidelines (RAGS). It has recently consulted on new draft RAGS with a view to their adoption in early 2021 and the application of new maps from the start of 2022. The consultation ends on 30 September 2020.

The review process has seemed somewhat disorderly. Delays in getting it underway have necessitated the prolongation of the General Block Exemption Regulation (GBER) and of RAGS 2014-20; neither are now synchronised with the Cohesion Policy calendar.

The Commission concluded from the various reviews that the regional aid rules work well and proposed only modest changes in its consultation documents. Specifically:

- the regulatory architecture remains the same, but only the RAGS and not the GBER are part of this consultation;
- there are small changes in sectoral scope partly to align the RAGS with Green Deal and Digital agendas, and to dovetail their scope with other guidelines;
- EU spatial coverage is similar to current levels, but there are significant differences for individual countries;
- the criteria for selecting eligible areas are the same, but specific accommodation is made for Just Transition Areas ;
- aid intensities are increased for most eligible areas; and
- aid for process innovation by large firms in 'c' areas is excluded from eligibility.

This short paper sets out the Commission proposals for the RAGS and asks whether the Commission is right to conclude that the rules work well. In particular:

- Should the impact of Brexit have been factored into spatial coverage? Are there concerns at how differentiated the outcomes are?
- What are the implications of determining assisted area coverage with pre-COVID-19 era data? How relevant is regional aid in addressing the impacts of COVID-19?
- Do the increases in aid intensities address a genuine concern among granting authorities?
- Should the Commission have considered relaxing the rules on aid to large firms in 'c' areas?
- Does the loss of alignment in the RAG, GBER and Cohesion Policy calendars matter in principle or in practice?
- The RAGS proposals 'nod' to the Green Deal and the Digital Strategy. Could and should they do more?

1 INTRODUCTION

Since early 2019 the European Commission has been engaged in reviewing and evaluating a range of State aid control policies. This includes the Regional Aid Guidelines (RAGS), which were due to expire at the end of 2020. This process has, however, lacked the overarching narratives of the 2009 State aid action plan – 'less, but better aid' – and the 2012 State aid modernisation initiative. In part, this may be because there is simply little left to do – almost every relevant policy area is now covered by Commission guidelines and / or falls within the ambit of the General Block Exemption Regulation (GBER).[1] As a result, such reviews may now be regarded as routine and likely not to yield much more than modest adjustments to rules that were once controversial.

Nevertheless, it is hard to escape the sense that the review has been disorderly and fragmented, even before being partially derailed by COVID-19. First, the process was started too late to avoid prolongation of the existing rules or to enable changes to the GBER or the RAGS to be synchronised with the Cohesion Policy calendar. Second, it has been characterised by an array of partially overlapping appraisals: the 'Fitness check' of the GBER, involving public consultations, questionnaires and working groups; targeted consultations and Member State surveys on RAGS reform; and consultations over the prolongation of the GBER, the RAGS and other guidelines necessitated by the delay in beginning the review.

Against this rather convoluted background, this short paper focuses on the Commission's proposals for the Regional Aid Guidelines on which is currently consulting.[2] It begins by taking stock of the current position on relevant reviews and prolongations (section 2), before setting out the key changes proposed to the RAGS (Section 3) and concludes by highlighting some issues and questions as a starting point for discussion (Section 4).

2 TAKING STOCK

The State aid review process initiated by the Commission involved several elements of relevance to regional aid:

- A short consultation in April 2019[3] comprising the following **proposals**:
  - a draft Regulation to **prolong GBER 2014-20 until 31 December 2022**[4] and
  - a draft Communication to **prolong RAGS 2014-20 to 31 December 2022** including a review of the 'a' areas and their aid intensities by June 2020;[5]
- A **'fitness check'** of the State aid modernisation (SAM) package[6] and a targeted **consultation** on the RAGS;[7] and
- An **evaluation of the regional aid rules** under the RAG and the GBER.[8]

The outcomes of these are briefly reviewed in turn.

2.1 Prolongation of existing rules

The Commission's plans for the prolongation of the GBER and the RAGS **were not confirmed**.

The **GBER was extended to the end of 2023**,[9] instead of 2022, likely reflecting feedback on the lack of the alignment with the Cohesion Policy programming period, taking into account N+3.

By contrast, the **RAGS were extended only until the end of 2021,**[10] instead of 2020, and the Commission did not review the 'a' regions. Member States had to notify the prolongation of their assisted area maps by 1 September 2020.[11] The only change was to extend eligibility to firms that came into difficulty between 1 January 2020 and 30 June 2021, reflecting the impact of COVID-19.[12]

Overall, this leads to some discrepancies in the timeframes for different, but related, policy dimensions (see Figure 1). It remains to be seen whether this is problematic in practice.

Figure 1: GBER, RAG and Cohesion Policy schedules

	2014-20	2021	2022	2023	2024-7
GBER	*2014-23*				*2024-7*
RAG	*2014-21*		2022-27		
Cohesion Policy	2014-20	*2021-27*			

2.2 Fitness checks and targeted consultation

Several consultations on the GBER and the RAGS were initiated in 2019 (see Figure 2). As already mentioned, aspects of this process appear to have been quite fragmented and the responses to it rather limited and difficult to collate. Some national authorities appear not to have responded to any of the consultations concerning the RAG; others replied to more than one and some combined responses on the RAG with responses on the SAM package. For their part, the German authorities eschewed the targeted questionnaires *per se* and submitted a wide-ranging review covering the GBER and a range of guidelines and communications.[13] For some national authorities, the reluctance to engage with the process reflected the expectation that Member States would have further opportunities to express their views once the Commission produced concrete proposals.

An overview of the key points to emerge from EoRPA partner responses to the various consultations suggests that the concerns around which there was some consensus related to ***future spatial coverage and the complexity of aspects of the rules*** – notably those relating to large firms and sectoral restrictions.[14]

It is **difficult to extract clear or quantitative conclusions from the Commission targeted questionnaire[15]** on the regional aid rules. Analysis of the composition of respondents shows that, of 62 in total, 21 were from Latvia or Portugal. Around two-thirds of responses were from public authorities – a mix of national, regional and local, but 24 out of 62 respondents sought to remain anonymous (see Annex). Moreover, on a number of crucial questions – such as the eligibility of large firms in 'c' areas - a substantial proportion of respondents answered 'don't know'.

Figure 2: Timelines for RAG and GBER reviews, consultations and reforms

	2019		2020				2021	
	Q1-2	Q3-4	Q1	Q2	Q3	Q4	Q1-2	Q3-4
Prolongation of GBER	Consultation				Adoption (OJ L 215 7 July)			
Prolongation of State aid modernisation package (including RAGS)	Consultation				Adoption (OJ C224, 8 July)			
GBER targeted extension (InvestEU, Interreg, Horizon)		1st Public consultation		2nd Public consultation		Expected adoption		
State aid modernisation package fitness check	Fitness check Q1 Public & targeted consultation Q2-3	Summary publication			Expected publication of fitness check results			
Regional aid guidelines	Fitness check Q1 Public & targeted consultation Q2-3	Evaluation publication			Public consultation		Expected adoption	
GBER amendment (Green deal)	Fitness check Q1 Public & targeted consultation Q2-3						Public consultation	Expected adoption

Source: *Based on European Commission timeline: https://ec.europa.eu/competition/state_aid/legislation/timeline_table_SA_final.pdf, updated where outcomes available.*

2.3 Evaluation of the regional aid framework

A major evaluation of the regional aid framework (RAF) – ie. the RAGS and the GBER - sought to address the five dimensions specified in the 'Better regulation' guidelines.[16]

Effectiveness: *assessed by the extent to which regional investment aid provided a real incentive for firms to locate in disadvantaged areas.* The study found that regional investment aid *does* attract investment to disadvantaged regions, but its relative importance depends on a range of factors (eg. type of aid, investment, sector). For instance, direct subsidies are important for capital intensive industries and for SMEs and start-ups, but tax breaks are more relevant for labour intensive sectors and location of headquarters. Arguably the most interesting finding is that for large enterprises in 'c' areas, there is a ***correlation between a fall in maximum aid intensities and levels of investment*** – the larger the reduction in aid intensities in 'c' areas between RAGS 2014-20 and RAGS 2007-13, the larger the drop in investment. This did not hold for 'a' regions 'downgraded' to 'c' areas, nor for 'a' regions where maximum rates were reduced. The study also found that 20 percent of awarding bodies in 'a' regions and 35 percent of those in 'c' areas ***could not afford to fund the maximum rates in their region*** Further, the study suggested that the effectiveness of the regional aid rules had been limited by the l***ack of definitional clarity*** on issues such as relocation and 'new economic activity'.

Efficiency: *assessed by the extent to which the RAF enabled the Commission to focus on the most distortive cases.* The study reviewed the 11 aid (pre-)notifications of regional aid awards made to the Commission concerning large firms in 'c' areas and diversification into new products or process innovation. It concluded that the potential impact on competition meant that ***the Commission assessment might not have been 'worth the effort'*** in all but two of these cases. Moreover, 10 out the 11 cases examined in the study were withdrawn before a Commission decision, suggesting that if the criteria had been clearer they would not have been notified at all.

Relevance: *assessed by the extent to which regional aid has been relevant for the attraction of FDI in a global context*. The study ***found no clear patterns***.

Coherence: *assessed by the extent to which the RAF is consistent with EU Structural Funds legislation*. Here the study found that the objectives were consistent, that nearly 40 percent of regional aid was co-financed and that stakeholders largely considered the two policy areas to be complementary. It acknowledged that there are some ***detailed operational differences but concluded that these constitute 'some extra burden'*** for beneficiaries and awarding bodies, rather than fundamental contradictions.

Value-added: *assessed by the extent to which the RAF has reduced the risk of subsidy races in the EU.* In theory, the study concluded, the RAF can bring value-added by preventing wasteful subsidy races. In practice, it is ***not possible to conclude whether there has been a change in the frequency of subsidy races*** since 2014 that could be attributed to the RAF.

3 PROPOSED CHANGES TO THE RAGS

The Commission conclusion from the review process was that:

' the current Regional Aid Guidelines have worked well in principle….'

...but that they require some improvements to reflect economic developments. In addition, the new policy priorities such as the "European Green Deal" and "A Europe fit for the digital age" need to be taken into account.[17]

Reflecting the view that the RAGS are broadly 'fit for purpose', the overall changes proposed are relatively modest, though the impact on specific countries differs. In summary:

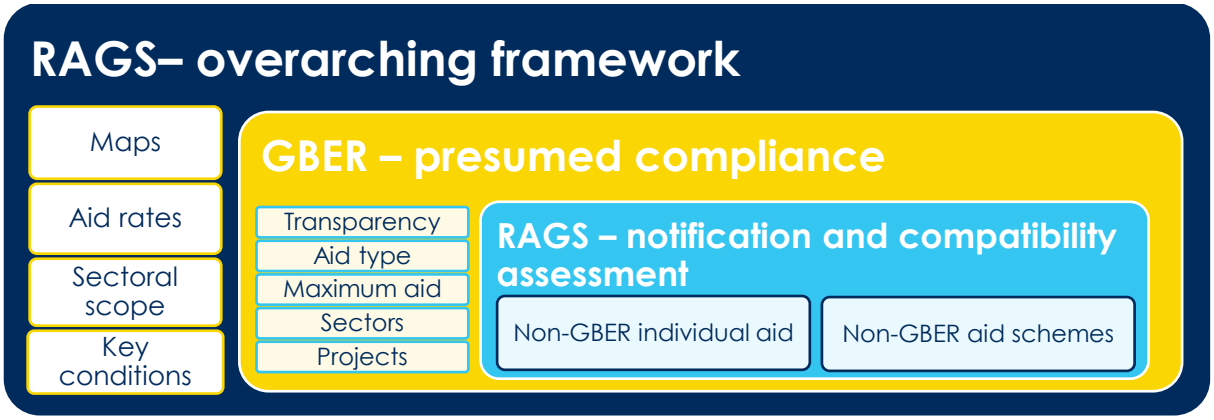
- the regulatory ***architecture remains the same***, but only the RAGS and not the GBER are part of this consultation;
- there are ***small changes in sectoral scope*** partly to align the RAGS with Green Deal agenda, but also to dovetail their scope with other guidelines;
- ***overall spatial coverage is similar***, but there are ***significant differences at country level;***
- the criteria for ***selecting eligible areas*** are the same, but specific accommodation is made for Just Transition Areas;
- ***aid intensities are increased*** to previous levels in some instances; and
- the ***eligibility criteria for large firms in 'c' areas are narrowed*** to exclude 'new process innovation'.

3.1 Architecture of regional aid control

The overall ***architecture remains the same*** (see Figure 3). The purpose of the RAGS is two-fold: first, it sets out the parameters for the regional aid maps and associated aid intensities; second, it sets out the criteria for assessing regional aid measures that are not exempted under the GBER and therefore subject to notification.

The GBER provides the basis for exempting aid from prior notification and approval, but ***the GBER is not part of this consultation***. This is important since the scope of the GBER can be altered to render a wider range of aid proposals subject to notification and assessment under the RAGS. Moreover, the regional aid related elements of the GBER fitness checks are due to be published only after the consultation on the RAGS has closed. The full shape and impact of the regional aid framework depends on both documents and, while the current GBER remains in force until end 2023, the scope for change thereafter is unknown.

Figure 3: Scope of the RAGS and GBER



3.2 Sectoral scope

Some specific changes to the sectoral scope of regional aid are proposed:

- the **synthetic fibres sector becomes eligible** as the fitness check suggested that the sector was no longer in structural overcapacity (steel remains excluded);
- regional aid for **coal and lignite production is explicitly excluded**, reflecting the objectives of the European Green Deal; and
- support for **broadband and for research infrastructures** are to be assessed under the specific rules for those activities (also under review) rather than under the RAGS.

3.3 Spatial coverage

3.3.1 The methodology

The ***overall approach to spatial coverage remains unchanged*** but, as will be seen, the outcomes differ at country level. To recap, as previously, determining spatial coverage involves several steps.

1. An **initial population ceiling is set – 47 percent of the EU27 populatio**n (ie. excluding the United Kingdom), compared to 47 percent EU27 population (ie. excluding Croatia) in RAGS 2014-20.
2. The **'a' regions** are identified. These comprise:
    - NUTS 2 regions with GDP(PPS) per capita less than or equal to 75 percent of the EU27 (ie. excluding the UK) average based on 2016-18 data; and
    - the outermost regions.
3. The **'pre-defined' 'c' areas** are identified. These comprise:

- former 'a' regions – those designated as such in 2017-20, but which are now over the threshold; and
- sparsely-populated areas – defined as NUTS 2 regions with fewer than 8 inhabitants per km^2 or NUTS 3 regions with fewer than 12.5 inhabitants per km^2 in 2018.

4. The population of **non-predefined 'c' areas** is calculated by subtracting the 'a' regions and the predefined 'c' areas from the initial ceiling. This population is distributed between countries on the basis of national and EU disparities in GDP per head and unemployment rates.

5. Notwithstanding the initial ceiling of 47 percent**, adjustments** are made such that:

   - total 'a' region and 'c' area coverage is *not reduced by more than 50 percent* in any Member State; and
   - each country has coverage of *at least 7.5 percent* of the national population.

3.3.2 'a' region coverage

The GDP(PPS) per head ***threshold for 'a' region eligibility*** remains at 75 percent or below the EU. There is a small ***'Brexit' effect*** from the modest change in threshold resulting from the use of EU27 data.[18] This appears to result in the exclusion of Hainaut (Belgium) and Wielkopolskie (Poland) from 'a' region status.

The outcomes from applying the methodology with new data (and some new NUTS regions) are shown in Table 1.

The most significant ***reductions*** in 'a' region coverage would be in the Bulgaria, Czech Republic, Croatia, Lithuania and Poland. A notable pattern among central and eastern European countries is that capital regions have increasingly outgrown 'a' region status, but that the impact of this has been partially mitigated by changes in the NUTS 2 boundaries.

Italy, Hungary and Greece would see ***increases*** in 'a' region coverage under the Commission proposals compared to 2017-21. The Greek case is particularly noteworthy – in 2014-17 'a' region coverage was just 45.9 percent, rising to 60.89 percent at the 2016 review and to 65.07 percent in the Commission proposals.

Table 1: 'a' region coverage 2017-21 and 2022-27

MS	% of population		Regional eligibility changes		NUTS capital region boundary change
	'a' regions 2017-21	'a' regions 2022-27	Added from 2022	Removed from 2022	
BE	0	2.50	Luxembourg	~	
BG	100.00	70.03	~	Yugozapaden	
CZ	88.10	47.48	~	Střední Čechy, Jihozápad, Jihovýchod	
EE	100.00	0.00		Estonia	
ES	32.55	29.66	Ceuta	Murcia	
FR	2.93	3.28	Mayotte	~	
GR	60.89	65.07	Notio Aigaio	~	
HR	100.00	80.54	~	Grad Zagreb	Y
HU	70.38	82.09	Pest	~	Y
IT	31.80	32.00	Molise	~	
LT	100.00	71.16	~	Sostinės regionas	Y
LV	100.00	100.00	No change	No change	
PL	86.30	75.43	Mazowiecki regionalny	Wielkopolskie, Dolnośląskie	Y
PT	69.25	68.12	No change	No change	
RO	89.44	88.15	No change	No change	
SI	52.92	52.71	No change	No change	
SK	88.48	87.97	No change	No change	
EU28	27.68				
EU27	30.90	28.40			

Source: *Communication from the Commission amending Annex I to the Guidelines on regional aid for 2014-20, OJEU C231/ 1 of 25 June 2016 and Commission proposals for RAGS (see endnote 2)*

3.3.3 *Overall results*

The **outcomes of applying the spatial coverage methodology** vary widely between Member States (see Table 2). Note that there is also a ***Brexit effect from maintaining the initial population ceiling*** at 47 percent. This arises because the United Kingdom is relatively populous (about 66 million), but had relatively limited designated regional aid areas (about 28 percent). As a result, in order to achieve the final coverage of 47.11 percent (after adjustments), ***coverage in the EU27 is reduced by 5.59 percent or nearly 12.5 million inhabitants.***

Turning to **country-specific impacts:**

- ***16 Member States see a reduction in coverage*** (including Germany, Austria, Portugal, Poland);
- ***Six Member States see an increase*** (notably, France, Hungary, Italy and Sweden); and
- In the remaining ***five Member States there is no change*** but only Latvia retains 'a' region status in its entirety.

For Norway, the Commission has not published population ceilings (which would be the responsibility of the EFTA Surveillance Authority). However, calculations from national data based on NUTS 2021 boundaries following the county reform suggest a small decrease in percent coverage, but with different counties meeting the population density thresholds.[19]

Table 2: Impact of the Commission RAGS proposals on spatial coverage 2022-27

	2017-21				2022-27				Change		
	'a' regions	Pre-defined 'c' areas	Other 'c' areas	Total	'a' regions	Pre-defined 'c' areas	Other 'c' areas	Total	Percentage point	Percentage	Population (millions)
BE		12.06	17.89	29.95	2.50		21.80	24.3	-5.65	-18.86	-0.644
BG	100.00			100.00	70.03	29.97		100.00	0.00	0.00	0.000
CZ	88.10			88.10	47.48	40.27		87.75	-0.35	-0.40	-0.037
DK			7.97	7.97			7.50	7.50	-0.47	-5.90	-0.027
DE		11.90	13.95	25.85			16.73	16.73	-9.12	-35.28	-7.551
EE	100.00			100.00		100.00		100.00	0.00	0.00	0.000
IE			51.98	51.98			25.64	25.64	-26.34	-50.67	-1.272
GR	60.89		39.11	100.00	65.07		16.14	81.21	-18.79	-18.79	-2.018
ES	32.55	6.45	29.66	68.66	29.66	3.65	30.81	64.12	-4.54	-6.61	-2.118
FR	2.93		21.24	24.17	3.28		26.79	30.07	5.90	24.41	3.948
CY			50.00	50.00			46.20	46.20	-3.80	-7.60	-0.033
HR	100.00			100.00	80.54	19.46		100.00	0.00	0.00	0.000
IT	31.80		3.71	35.52	32.00		9.33	41.33	5.81	16.36	3.514
LV	100.00			100.00	100.00			100.00	0.00	0.00	0.000
LT	100.00			100.00	71.16	28.84		100.00	0.00	0.00	0.000
LU			8.00	8.00			7.50	7.50	-0.50	-6.25	-0.003
HU	70.38		6.33	76.71	82.09			82.09	5.38	7.01	0.526
MT		100.00		100.00			50.00	50.00	-50.00	-50.00	-0.238
NL			7.50	7.50			8.39	8.39	0.89	11.87	0.153
AT			25.87	25.87			20.94	20.94	-4.93	-19.06	-0.435
PL	86.30	13.70		100.00	75.43	16.64	0.77	92.84	-7.16	-7.16	-2.719
PT	69.25		15.77	85.02	68.12		1.97	70.09	-14.93	-17.56	-1.536
RO	89.44	10.56		100.00	88.15		1.11	89.26	-10.74	-10.74	-2.098
SK	88.48			88.48	87.97			87.97	-0.51	-0.58	-0.028
SI	52.92	48.08		100.00	52.71		9.71	62.42	-37.58	-37.58	-0.777
FI		24.18	1.85	26.03		23.34	3.29	26.63	0.60	2.31	0.033
SE		12.26		12.26		11.62	9.32	20.94	8.68	70.80	0.878
EU27	**31.30**	**5.72**	**12.87**	**49.90**	**28.39**	**4.44**	**14.28**	**47.11**	**-2.79**	**-5.59**	**-12.448**
UK	5.80	0.35	21.63	27.78	~	~	~	~	~	~	~
NO		25.51				24.68			-0.83	-3.25	-0.045

Source: *Communication from the Commission amending Annex I to the Guidelines on regional aid for 2014-20, OJEU C231/ 1 of 25 June 2016 and Commission proposals for RAGS (see endnote 2); calculations from Eurostat data. Norway: EPRC calculations from Statistics Norway data.*

For **several EU countries, the *reductions* in coverage are substantial** (see Table 3). In percentage point terms, the largest reductions are in Malta, Ireland and Slovenia, which also see the largest percentage reduction compared to current coverage. Percentage cuts in coverage would also be significant in Germany (35 percent), Austria (19 percent) and Portugal (18 percent). In population terms, these reductions would involve over 7.5 million inhabitants being removed from the assisted areas map in Germany and over 2.7 million in Poland.

At the opposite end of the spectrum, there are relatively **significant *increases* in coverage** in a few countries. In Sweden coverage would increase by more than 8 percentage points, which translates into a 71 percent increase in population coverage (from 12.3 percent in 2017-21 to 21 percent in 2022-27). Also significant, coverage would increase by a quarter in France and around one-sixth in Italy. Reflecting country size, the ***eligible population increase*** in Sweden is relatively modest at around 878,000 inhabitants but amounts to almost 4 million in France and 3.5 million in Italy.

Table 3: Assessing the impact of coverage changes

Member State	% point change
MT	-50.00
SI	-37.58
IE	-26.34
GR	-18.79
PT	-14.93
RO	-10.74
DE	-9.12
PL	-7.16
BE	-5.65
AT	-4.93
ES	-4.54
CY	-3.80
SK	-0.51
LU	-0.50
DK	-0.47
CZ	-0.35
BG	0.00
EE	0.00
HR	0.00
LT	0.00
LV	0.00
FI	0.60
NL	0.89
HU	5.38
IT	5.81
FR	5.90
SE	8.68

Member State	Percentage change
IE	-50.67
MT	-50.00
SI	-37.58
DE	-35.28
AT	-19.06
BE	-18.86
GR	-18.79
PT	-17.56
RO	-10.74
CY	-7.60
PL	-7.16
ES	-6.61
LU	-6.25
DK	-5.90
SK	-0.58
CZ	-0.40
BG	0.00
EE	0.00
HR	0.00
LT	0.00
LV	0.00
FI	2.31
HU	7.01
NL	11.87
IT	16.36
FR	24.41
SE	70.80

Member State	Population change (millions)
DE	-7.551
PL	-2.719
ES	-2.118
RO	-2.098
GR	-2.018
PT	-1.536
IE	-1.272
SI	-0.777
BE	-0.644
AT	-0.435
MT	-0.238
CZ	-0.037
CY	-0.033
SK	-0.028
DK	-0.027
LU	-0.003
BG	0.000
EE	0.000
HR	0.000
LT	0.000
LV	0.000
FI	0.033
NL	0.153
HU	0.526
SE	0.878
IT	3.514
FR	3.948

Source: *EPRC calculations from Commission proposals and Eurostat data.*

3.4 Area designation

The **provisions for area designation are essentially unchanged**. Area designation is the responsibility of the Member States, subject to the parameters of the guidelines and the approval of the Commission.

As in 2014-21, there is no flexibility in the designation of 'a' regions or former 'a' regions – ie. the population quota is not 'portable' for use in other regions.

For sparsely-populated regions, as now, there is flexibility to designate areas adjacent to qualifying NUTS 2 and 3 regions that meet the population density criterion, subject to the population ceiling. Similarly, 'very-sparsely-populated' areas may be designated for operating aid where the national authorities can show that there is a risk of depopulation in the absence of aid. This means that additional justification is required, beyond population density alone.

For non-predefined 'c' areas, the criteria are summarised in Figure 4. **The only change to area designation concerns Just Transition Areas**. These do not require any specific justification to be included in the regional aid map under Criterion 5 – areas undergoing major structural change or those in serious decline. Such areas are otherwise subject to quite stringent criteria and evidence put forward by the Member State.

Figure 4: Non-predefined 'c' area designation criteria

Criterion	Conditions	Minimum population
1. Contiguous areas	Within NUTS 2 or NUTS 3 regions with either: • GDP(PPS) per head ≤ EU27 or • Unemployment rate ≥ 115% of national average	• General case: 100,000 • For MS with 'c' coverage <1million: 50,000 • For MS with national pop <1million: 10,000
2. NUTS 3 regions with pop < 100,000	• GDP(PPS) per head ≤ EU27 or • Unemployment rate ≥ 115% of national average	Not applicable
3. Islands and other contiguous areas characterised by geographical isolation	• GDP(PPS) per head ≤ EU27 or • Unemployment rate ≥ 115% of national average or • <5000 population	None
4. Border areas	• Contiguous areas • NUTS 3 or parts of • Adjacent to 'a' region, or • Land border with non-EEA country	None
5. Structural change or serious decline	• Must not be within areas that fulfil criteria 1-4 above • Contiguous areas of whole or adjoining LAU2	• General case: 50,000 • For MS with 'c' coverage <1million: 25,000 • For MS with national pop <1million: 10,000 • Isolated areas (cf criterion 3): 5,000

Source: *Commission proposals, para 175-176.*

Notwithstanding the absence of change in the criteria, the change in coverage may be problematic for some countries. In most Member States with 'c' areas the coverage exceeds

7.5 percent of the population. However, in some – notably Poland, Portugal, Romania, and to a lesser extent Finland – the non-predefined coverage is extremely limited – less than 3.5 percent - and may pose **challenges in defining a coherent map**.

The proposals provide for **a mid-term review of regional aid maps to take place in 2024.** However, in contrast with RAGS 2014-20, the provisions are not specific. Under the current rules the (2017) review involved an assessment of whether any NUTS 2 regions had since fallen below the 75 percent GDP(PPS) threshold and thus qualified for 'a' region status. Aid intensities for 'a' regions were also adjusted where 'a' regions had changed prosperity 'bands'.

3.5 Aid intensities

The proposals on aid intensities are a break from past trends: the ***draft guidelines propose an increase in aid rates for most eligible areas***, essentially back to the levels of RAGS 2007-13. This is partly achieved by raising aid rates and partly by changing the 'bands' to which different rates apply (see Table 4).

Table 4: Maximum aid intensities ('standard' matrix) gross grant-equivalent

RAG 2014-20/21	Large firms	Medium-sized firms	Small firms
'a' regions GDP per head <45% EU27 av.	50%	+10% points	+20% points
'a' regions GDP per head < 60% EU27 av.	35%	+10% points	+20% points
'a' regions GDP per head <75% EU27 av	25%	+10% points	+20% points
'c' areas – ex 'a' regions until 31.12.2017	15%	+10% points	+20% points
'c' areas – sparsely populated/border	15%	+10% points	+20% points
'c' areas	10%	+10% points	+20% points
Proposals for 2022-27	**Large firms**	**Medium-sized firms**	**Small firms**
'a' regions GDP per head <55% EU27 av.	50%	+10% points	+20% points
'a' regions GDP per head <65% EU27 av.	40%	+10% points	+20% points
'a' regions GDP per head <75% EU27 av	30%	+10% points	+20% points
'c' areas – ex 'a' regions until 31.12.2024	20%	+10% points	+20% points
'c' areas – sparsely populated/border	20%	+10% points	+20% points
'c' areas	15%	+10% points	+20% points
'c' areas GDP>EU27 av AND unemployment <EU27 av	10%	+10% points	+20% points

Notes: (i) Aid to large firms in 'c' areas is restricted to certain types of investment, so that in practice a zero rate will often apply. (ii) Rates for OMRs are increased by up to 20 percent for those with GDP per head at or below 75 percent of the EU average and 10 percent for the remainder. (iii) In 'c' areas (at NUTS 3 or below) that are adjacent to 'a' areas, the aid intensity may be increased so that the differential does not exceed 15 percentage points. (iv) Changes proposed from 2022 are highlighted in the second table.
Source: Assembled from RAG 2014-20, para 171-177; RAGS proposals, para 179-184.

These changes make direct comparisons complicated, not least since the reference to EU27 in 2014-20 refers to the EU28 without Croatia, rather than without the United Kingdom, as now. Nevertheless, it can be seen that the increases are sometimes substantial. For example, for large firms in 'a' regions with GDP of 50 percent of the EU average, the maximum rate would be raised from 35 percent gross grant equivalent in 2014-21 to 50 percent in 2022-27.

The rationale for the changes is not wholly clear. As mentioned earlier, the evaluation of the regional aid framework found that for large enterprises in 'c' areas, there is a correlation between a fall in maximum aid intensities and investment – the larger the reduction in aid intensities, the larger the drop in investment. Importantly, a key change in RAGS 2014-20 was, as discussed below, the exclusion from eligibility of expansion projects by large firms in 'c' areas. The evaluation was not able fully to determine whether this exclusion underlay the correlation between reduced award rates and lower investment level. However, granting authorities interviewed for the study claimed that the restrictions on aid for large firms in 'c' areas constrained their ability to attract investment. It is therefore unclear how and whether increasing aid rates across the board addresses the issue in the absence of any change to eligible project types for large firms in 'c' areas.

3.6 Investment by large enterprises in 'c' areas

RAGS 2014-20 introduced a significant change to the eligibility criteria for large firms in 'c' areas; specifically, it restricted eligibility to initial investments that create 'new economic activities' or involve the diversification of existing establishments into new products or new process innovations. The aim of the change was to exclude simple expansion projects from eligibility.

Under the GBER, aid for 'new economic activity' (meaning new establishments or the diversification of existing establishments) was block-exempted, but 'new process innovations' were not and fell to be notified and assessed under the RAGS. Comparatively few such notifications have arisen and only one instance of aid for 'process innovation' has been approved. The Commission proposes **to remove process innovation from the scope of eligibility** whilst retaining greenfield investment and diversification into new products.

4 DISCUSSION ISSUES

This paper has provided a brief overview of the main changes proposed by the Commission. Although this review is not exhaustive, it is fair to suggest that the Commission proposals involve more continuity than change, and are more retrenchment than retreat: only in respect of aid intensities are the regional aid rules relaxed. Against this background, it is appropriate to ask whether more significant changes are in order. In short, is the Commission right in thinking that the RAGS work well? More specifically:

(i) The provisions on spatial coverage have, ostensibly, simply been rolled forward with new data while maintaining the same EU-wide cap on coverage. However, the impact of Brexit means that EU27 coverage is cut by almost five percent and the eligible population by over 10 million. The effect on individual countries varies widely with some gaining significantly and others losing, partly due to the role of unemployment rates in the methodology. To what extent are there concerns that spatial coverage has become a zero-sum game? Are there arguments to adjust for the impact of Brexit in coverage?

(ii) Can data for 2016-18 reasonably be used to determine assisted area coverage given that patterns of regional inequality may already have changed due to the impact of COVID-19 by the time the maps come into force? Are there any alternatives? How relevant is regional aid in addressing the impacts of COVID-19 – would an extended COVID-19 aid framework be preferable? Is a 2024 mid-term review enough? The scope of such a review is unspecified – what should it cover?

(iii) Do the proposed increases in aid intensities address a genuine concern amongst granting authorities given that a significant proportion have insufficient budgets to reach the ceilings authorised?

(iv) The changes to eligibility for large firms in 'c' areas involve a small tightening of the criteria. Policymaker feedback in some countries indicates that the lack of scope to support large firm expansion projects leads to lost investment in 'c' regions. Should the Commission have considered relaxing large firm support in 'c' areas?

(v) The proposals 'nod' to the European Green Deal and the European Digital Strategy, but seem not to make a substantive contribution to them? Should they, and if so how?

(vi) The calendars for the GBER, the RAGS and Cohesion Policy cease to be aligned – does this matter in principle or in practice?

Annex: Respondents to the Commission's targeted questionnaire on the Regional Aid Guidelines

	Type of contributor					Geographical remit						Named respondent		
	Academic / research institution	Business association	Company/ business organisation	EU citizen	Other	Public authority	N/A	International	Local	National	Regional	No	Y	Total
BE		1		1			1	1				1	1	2
BG	1					2		1		2		1	2	3
CY						1				1		1		1
CZ						2				2		1	1	2
DK						1	1						1	1
EE						1				1			1	1
FI						1				1		1		1
FR			1			4	1				4	2	3	5
DE		2								2			2	2
HU						2				2		2		2
IT		1					1						1	1
LV			1		1	9		1		8	2	4	7	11
MT		1				1				2		2		2
NO		1				1	1			1			2	2
PL				1	1	5				2	5	3	4	7
PT			3	3		4	3	2	1	2	2	4	6	10
RO						1				1		1		1
SK				1		2	1			2		1	2	3
ES						2					2		2	2
SE					1		1						1	1
UK						2				1	1		2	2
	1	**6**	**5**	**6**	**3**	**41**	**10**	**5**	**1**	**30**	**16**	**24**	**38**	**62**

Notes

[1] Or the equivalents for agriculture (ABER) and fisheries (FIBER).

[2] See: https://ec.europa.eu/competition/consultations/2020_rag/index_en.html; the deadline for responses is 30 September 2020.

[3] Consultation ref HT.5594: https://ec.europa.eu/competition/consultations/2019_gber_deminimis/index_en.html#contributions

[4] [Draft] Regulation amending Commission Regulation (EU) No 1407/2013 [*the* de minimis *Regulation*]… and Commission Regulation (EU) No 651/2014 [*the GBER*]… as regards their period of validity: https://ec.europa.eu/competition/consultations/2019_gber_deminimis/gber_deminimis_en.pdf

[5] As well as the Regional Aid Guidelines, those on risk finance aid, important projects of common European interest, environmental protection & energy and rescue & restructuring aid.

[6] See: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/2044-Fitness-check-of-2012-State-aid-modernisation-package-railways-guidelines-and-short-term-export-credit-insurance/public-consultation

[7] Consultation ref HT.5486: https://ec.europa.eu/competition/consultations/closed.html

[8] European Commission (2019) Retrospective evaluation of the regional aid framework: https://op.europa.eu/en/publication-detail/-/publication/4c143fec-6281-11ea-b735-01aa75ed71a1

[9] Commission Regulation (EU) 2020/972 of 2 July 2020 amending Regulation (EU) No 1407/2013 as regards its prolongation and amending Regulation (EU) No 651/2014 as regards its prolongation and relevant adjustments, OJEU L217/3 of 7 July 2020: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2020.215.01.0003.01.ENG&toc=OJ:L:2020:215:FULL

[10] Communication from the Commission concerning the prolongation and the amendments of the Guidelines on Regional State Aid for 2014-2020, Guidelines on State Aid to Promote Risk Finance Investments, Guidelines on State Aid for Environmental Protection and Energy 2014-2020, Guidelines on State aid for rescuing and restructuring non-financial undertakings in difficulty, Communication on the Criteria for the Analysis of the Compatibility with the Internal Market of State Aid to Promote the Execution of Important Projects of Common European Interest, Communication from the Commission – Framework for State aid for research and development and innovation and Communication from the Commission to the Member States on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to short-term export-credit insurance, OJEU C224/2 of 8 July 2020: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2020.224.01.0002.01.ENG&toc=OJ:C:2020:224:FULL

[11] The EFTA Surveillance Authority has already approved prolongations for Norway and Iceland.

[12] Parallel changes were made by the EFTA Surveillance Authority, see: https://www.eftasurv.int/cms/sites/default/files/documents/Consolidated-version.-Regional-Guidelines-2014-2020_0.pdf

[13] Comments by the German Government submitted as part of the public consultation on the 'fitness check' for EU State aid law, Berlin, 15 August 2019: https://ec.europa.eu/competition/state_aid/modernisation/190815_en.pdf

[14] Wishlade, F (2019) Regional State Aid Control: does it need rebooting or re-routing? Paper prepared for the 40th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside, 29 September - 1 October 2019: https://eprc-strath.eu/Publications/EU-Competition-policy.html

[15] The responses are available here: https://ec.europa.eu/competition/consultations/2019_rag/index_en.html

[16] See, in particular, Chapter VI: https://ec.europa.eu/info/sites/info/files/better-regulation-guidelines-evaluation-fitness-checks.pdf

[17] See: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1385

[18] Absent the United Kingdom, EU GDP(PPS) per capita is marginally lower for 2016-18.

[19] For 2014 the following eight counties (NUTS 3) met the low population density threshold (<12.5 inhabitants per km^2): Finnmark, Troms, Nordland, Nord-Trøndelag, Sogn Fjordane, Hedmark, Oppland and Telemark); with the reconfigured counties under NUTS 2021, eligible counties would be Innlandet (formerly Hedmark and Oppland), Trøndelag (formerly Nord and Sud Trøndelag); Nordland; and Troms og Finnmark.

EoRPA RESEARCH

This paper has been prepared by Fiona Wishlade at the European Policies Research Centre (EPRC) for the EoRPA European Regional Policy Research Consortium, EoRPA. In 2019-20, EoRPA partners are:

Austria	Bundesministerium für Nachhaltigkeit und Tourismus (Ministry for Sustainability and Tourism), Vienna
Finland	Työ- ja elinkeinoministeriö (Ministry of Economic Affairs and Employment), Helsinki
France	National Agency for Territorial Cohesion (*Agence nationale de la cohésion des territoires ANCT)*, Paris (membership renewal pending)
Germany	Bundesministerium für Wirtschaft und Energie (Federal Ministry for Economic Affairs and Energy), Berlin Niedersächsisches Ministerium für Wirtschaft, Arbeit, Verkehr und Digitalisierung (Lower Saxony Ministry for Economic Affairs, Employment, Transport and Digitalisation), Lower Saxony
Italy	Agenzia per la Coesione Territoriale (Agency for Territorial Cohesion), Rome
Netherlands	Ministerie van Economische Zaken en Klimaat (Ministry of Economic Affairs and Climate Policy), The Hague
Norway	Kommunal- og moderniseringsdepartementet (Ministry of Local Government and Modernisation), Oslo
Poland	Ministerstwo Funduszy i Polityki Regionalnej (Ministry of Development Funds and Regional Policy)
Portugal	Agência para o Desenvolvimento e Coesão (Agency for Development and Cohesion), Lisbon
Sweden	Näringsdepartementet (Ministry of Enterprise and Innovation), Stockholm
Switzerland	Staatssekretariat für Wirtschaft (SECO, State Secretariat for Economic Affairs), Bern
United Kingdom	Department for Business, Energy & Industrial Strategy, London Scottish Government, Glasgow

The EoRPA research programme is directed by Professors John Bachtler and Fiona Wishlade, and managed by Ruth Downes. The European Policies Research Centre gratefully acknowledges the financial support provided by the members of the EoRPA Consortium.

European Policies Research Centre
School of Government and Public Policy
University of Strathclyde
40 George Street
Glasgow G1 1QE
T +44(0) 141 548 4898
T +44(0) 141 548 3061
E eprc@strath.ac.uk
W http://www.eprc-strath.eu/

Stichting EPRC Delft
Faculty of Architecture and the Built Environment,
Technische Universiteit Delft
Julianalaan 134
2628 Delft
T +31 (0) 15 27 86093
E info@eprcdelft.eu
W http://www.eprc-strath.eu/

The place of useful learning
The University of Strathclyde is a charitable body, registered in Scotland, No SC015263

Stichting EPRC Delft is a foundation registered in the Netherlands (No. 69203288)