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Recent developments in Competition policy and regional aid: a slow surrender or pushing against an open door?

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1. INTRODUCTION

In 2016 EU State aid control completed the latest phase of its evolution. By end 2014, the Commission had largely finished its reform programme, the State aid modernisation initiative (SAM); the final element was its Communication on the 'notion' of State aid, which it adopted in May this year. SAM placed new emphasis on transparency, effectiveness and evaluation. It recast the basis for the assessment and compliance of State aid across a range of policy areas and further increased the 'self-policing' element of State aid discipline. The reform agenda has been wide-ranging, and few aspects of regional aid control were immune from change. The approval of all the assisted area maps by the European Commission or the EFTA Surveillance Authority under the 2014-20 Regional Aid Guidelines (RAG) provided the basis for the introduction of new aid schemes almost exclusively on the basis of the 2014-20 General Block Exemption Regulation (GBER).[1].

As the current Regional Aid Guidelines approach the mid-point of their lifecycle, competition policy and regional aid relations have been rather quiescent. As anticipated, the Commission has undertaken a mid-term review of 'a' region eligibility, with implications for assisted areas in some countries, but no far-reaching changes. Perhaps more interestingly, two recent cases provide some insights into the circumstances in which the Commission will authorise aid for large firms in the 'c' areas. The RAG and GBER constrain the use of regional aid to large firms in the so-called 'c' areas, essentially limiting such aid to greenfield projects under the GBER. Until now, however, it has been unclear to what extent the Commission would entertain aid to large firms notified under the GBER and how it would interpret 'new process innovations.'

An important development in the recent State aid reforms has been the emphasis on evaluation. Under both the RAG and the GBER approval of regional aid schemes can be subject to evaluation plans negotiated with the Commission. Under the GBER, this applies whenever the estimated annual budget exceeds €150 million. For some countries this limit is well above likely regional aid spend, but for others there have been sometimes intense negotiations over the type of evaluation that should be undertaken. In due course, the outcome of evaluations may have direct implications for the Commission's willingness to extend approval of the schemes concerned.

At the same time, fewer aid *schemes* are subject to direct scrutiny by the Commission since the scope of the GBER has been broadened to encompass measures with which the Commission considered it had had sufficient experience. The Commission has proposed to extend the scope of this still further, and in a recent consultation exercise proposed to include aid to airports and ports, as well as simplifying some aspects of operating aid.

Recent developments in regional aid have been incremental rather than groundbreaking, and pale somewhat against the impact of controversial State aid decisions such as the recent Apple tax case or the policy and political fallout from the UK referendum on EU membership. Against this backdrop, the aim of this paper is to provide a brief overview of change.[2] The paper is structured as follows:

[1] Since then, however, two Member States – France and Finland – have amended their regional aid maps, taking advantage of a population reserve set aside at the time of the original map notification.

[2] This paper was originally prepared for prepared for the 37th meeting of the European Regional Policy Research Consortium (EoRPA) held on Loch Lomondside on 2-4 October 2016.

Section 2 outlines the changes implied by the midterm review of assisted areas; Section 3 discusses cases of notified regional aid assess on the basis of RAG 2014-20; Section 4 provides an overview of regional aid evaluation plans; Section 5 sets out the Commission proposals for amendments to the GBER; and Section 6 speculates on the implications of 'Brexit' for the future of State aid control, especially in the UK.[3]

[3] Annexed to the paper are copies of the assisted area maps approved in 2014.

2. REGIONAL AID MAPS

The 2014-20 Regional aid guidelines make provision for a limited review of assisted area coverage in 2016.[4] In June 2016, the Commission issued a Communication indicating the scope for changes to assisted areas with effect from 1 January 2017.[5] The Communication mainly concerns Article 107(3)(a) regions ('a regions') and rates of award, but also confirms the possibility to amend Article 107(3)(c) areas ('c areas'). In all cases, Member States wishing to amend their maps must notify the proposed changes to the Commission by 1 September 2016.

Table 1: NUTS 2 regions eligible for 'a' region status from 1 January 2017

Member State	Region	GDP(PPS) per head 2008-2010 EU27=100	GDP(PPS) per head 2012-2014 EU27=100
Greece			
	Dytiki Makedonia	83.67	69.00
	Ionia Nisia	82.67	66.67
	Sterea Ellada	83.33	64.67
	Kriti	83.33	62.00
Spain			
	Castilla-La-Mancha	82.33	72.67
	Andalucía	78.00	68.00
	Murcia	85.67	74.67
	Melilla	83.67	68.67
Italy			
	Sardegna	79.00	74.00
United Kingdom			
	Tees Valley and Durham	77.33	73.67

Source: European Commission Communication (see footnote 5).

The regions listed in Table 1 can be proposed for 'a' region eligibility with a maximum rate of award of 25 percent of eligible expenditure. Of key importance, however, the change in status also affects the treatment of aid to large firms, with eligibility in 'c' areas being essentially limited to greenfield investments. However, apart from Greece, which has assisted area status in its entirety, the decision to 'upgrade' eligible regions to 'a' region status affects the coverage of 'c' areas also, since it requires a downward adjustment in order to accommodate any population in the 'new' 'a' region that does not currently have 'c' area status. At the time of writing, it appears that the Italian authorities will notify Sardegna as an 'a' region, but the position is unclear for the remaining countries.

The overall changes in GDP(PPS) per head since the designation of the 'a' regions under RAG 2014-20 are shown in Table 2. It is important to note that the data for 2008-10 are not the same as those used in RAG 2014-20 since the current data are based on a new methodology – ESA 2010, as opposed to ESA 95. [6] In Madeira (PT) and some Greek regions, the change in methodology alone led to significantly lower levels of the GDP per head.

[4] Para 183-5, Guidelines on regional State aid for 2014-20 [hereafter 'RAG 2014-20'], OJEU C209/1 of 23 July 2013.

[5] Communication for the Commission amending Annex I to the Guidelines on regional aid for 2014-20, OJEU C231/1 of 25 June 2016.

[6] The change in methodology is worldwide – ESA 2010 is the European counterpart of the 2008 SNA adopted by the United Nations Statistical Commission and already implemented in the USA, Australia and Canada.

Table 2: GDP(PPS) per head 2008-14 EU=100

	NUTS 2 Regio	2008	2009	2010	2011	2012	2013	2014	'a' 2014-20	'a' 2017-20?
BG31	Severozapaden	29	28	27	28	29	29	30	a	
FRA5	Mayotte	27	27	28	28	28	30	31	a	
BG42	Yuzhen tsentralen	31	31	31	32	33	32	32	a	
BG32	Severen tsentralen	30	30	29	30	32	32	34	a	
RO21	Nord-Est	29	30	30	30	34	34	34	a	
BG33	Severoiztochen	38	37	36	37	38	38	39	a	
BG34	Yugoiztochen	36	37	36	36	38	39	39	a	
RO41	Sud-Vest Oltenia	36	37	38	39	41	40	41	a	
HU31	Észak-Magyarország	39	39	39	39	39	41	42	a	
HU32	Észak-Alföld	39	42	41	42	42	42	43	a	
RO31	Sud - Muntenia	39	41	41	42	41	43	43	a	
HU23	Dél-Dunántúl	43	44	44	44	44	45	45	a	
HU33	Dél-Alföld	42	43	42	44	44	46	47	a	
PL31	Lubelskie	39	41	43	45	47	47	47	a	
PL32	Podkarpackie	39	42	43	45	46	47	48	a	
PL62	Warminsko-Mazurskie	40	43	45	46	47	48	48	a	
RO11	Nord-Vest	43	44	44	44	47	47	48	a	
PL33	Swietokrzyskie	45	47	48	49	50	49	49	a	
PL34	Podlaskie	40	43	45	47	48	49	49	a	
EL51	Anatoliki Mak, Thraki	67	67	64	55	53	52	50	a	
RO22	Sud-Est	38	39	40	41	46	49	50	a	
EL54	Ipeiros	64	64	61	55	52	52	51	a	
RO12	Centru	45	47	47	47	52	51	52	a	
SK04	Východné Slovensko	50	48	50	49	51	52	53	a	
EL63	Dytiki Ellada	70	69	66	58	56	55	54	a	
EL61	Thessalia	70	70	62	55	55	56	55	a	
PL52	Opolskie	47	50	51	53	54	54	55	a	
PL61	Kujawsko-Pomorskie	47	49	51	53	54	55	55	a	
EL52	Kentriki Makedonia	75	75	68	60	58	58	56	a	
EL41	Voreio Aigaio	76	75	68	61	57	58	57	a	
HR03	Jadranska Hrvatska	62	59	56	57	57	57	57	a	
PL42	Zachodniopomorskie	49	51	53	54	56	56	57	a	
PL43	Lubuskie	47	50	52	53	55	56	57	a	
EL65	Peloponnisos	74	74	69	62	60	61	58	a	
FRA3	Guyane	51	55	53	52	55	56	58	a	
RO42	Vest	53	54	56	56	58	56	58	a	
ITF6	Calabria	65	66	64	64	63	60	59	a	
HR04	Kontinentalna Hrvatska	64	63	60	61	61	60	60	a	
PL21	Malopolskie	49	52	54	57	59	59	60	a	
EL64	Sterea Ellada	84	82	76	68	66	67	61		a
HU21	Közép-Dunántúl	57	54	56	58	57	59	61	a	
ITF3	Campania	70	70	67	65	65	63	61	a	
SK03	Stredné Slovensko	58	57	59	57	59	60	61	a	
ITG1	Sicilia	69	69	68	66	66	64	62	a	
CZ04	Severozápad	63	66	63	63	62	63	63	a	
EL43	Kriti	82	82	74	64	60	63	63		a
ES43	Extremadura	70	70	69	65	63	63	63	a	
ITF4	Puglia	66	67	66	65	66	64	63	a	
PL11	Lódzkie	51	54	57	59	62	62	63	a	
LV00	Latvija	60	52	52	56	60	62	64	a	
PL63	Pomorskie	52	58	59	62	65	64	64	a	
PT11	Norte	63	65	65	63	64	64	65	a	
EL53	Dytiki Makedonia	72	78	75	70	71	70	66		a
EL62	Ionia Nisia	93	89	82	69	67	66	67		a
ES61	Andalucía	78	77	74	71	69	68	67		a
PT16	Centro (PT)	66	69	69	66	67	67	67	a	
ES64	Melilla (ES)	82	82	77	73	69	69	68		a
SI03	Vzhodna Slovenija	73	69	68	68	67	66	68	a	
ITF5	Basilicata	75	74	72	72	72	70	69	a	
UKL1	West Wales & Valleys	69	71	67	67	68	69	69	a	

	NUTS 2 Regio	2008	2009	2010	2011	2012	2013	2014	'a' 2014-20	'a' 2017-20?
CZ05	Severovýchod	66	67	67	68	67	68	70	a	
CZ07	Střední Morava	64	66	64	67	66	67	70	a	
CZ08	Moravskoslezsko	68	67	67	71	71	69	70	a	
FRA4	La Réunion	67	68	67	65	69	70	70	a	
PL22	Slaskie	58	63	66	69	70	70	70	a	
PT18	Alentejo	71	72	74	71	70	69	70	a	
HU22	Nyugat-Dunántúl	61	60	64	66	65	67	71	a	
PT20	Açores (PT)	71	74	74	71	70	70	71	a	
ES42	Castilla-la Mancha	82	82	79	76	74	72	72		a
ITG2	Sardegna	78	79	77	76	76	74	72		a
SK02	Západné Slovensko	68	66	68	69	71	71	72	a	
FRA1	Guadeloupe	70	73	73	72	72	73	73	a	
PL41	Wielkopolskie	57	64	65	68	70	72	73	a	
PT30	Madeira (PT)	78	79	78	77	73	73	73		a
ES62	Región de Murcia	85	83	80	77	75	75	74		a
UKC1	Tees Valley & Durham	79	79	76	73	73	74	74		a
BG41	Yugozapaden	74	76	76	75	75	74	75	a	
ITF2	Molise	81	82	80	78	77	75	75		
LT00	Lietuva	63	56	60	65	70	73	75	a	
UKK3	Cornwall	80	81	77	75	78	77	75	a	
BE32	Prov. Hainaut	76	75	77	78	78	78	76		
BE34	Prov. Luxembourg	76	77	79	79	78	77	76		
CZ03	Jihozápad	69	73	71	72	71	74	76	a	
EE00	Eesti	68	62	63	69	74	75	76	a	
ES63	Ceuta (ES)	87	87	83	78	76	76	76		
PL51	Dolnoslaskie	59	64	70	73	75	75	76	a	
UKE3	South Yorkshire	81	81	78	75	75	75	76		
CZ02	Střední Cechy	76	75	72	75	74	74	77	a	
FR43	Franche-Comté	85	86	85	85	80	80	77		
FRA2	Martinique	71	74	74	74	75	76	77	a	
ES70	Canarias (ES)	89	87	84	81	79	78	78	a	
FR22	Picardie	82	82	82	83	82	81	78		
PT15	Algarve	83	82	80	76	77	77	78		
CZ06	Jihovýchod	72	74	73	75	76	79	79	a	

Source: Eurostat, RAG 2014-20 and European Commission Communication (see footnote 5).

In a number of regions a higher aid intensity can be applied as a result of the fall in GDP(PPS) per head. These (potential) changes are outlined in Table 3.

Table 3: Potential changes in rates of award from 1 January 2017

Member State	Region	GDP(PPS) per head 2008-2010 EU27=100	GDP(PPS) per head 2012-2014 EU27=100	Current aid intensity	Potential aid intensity
Greece					
	Anatoliki Makedonia, Thraki	68.00	51.67	25%	35%
	Kentriki Makedonia	72.33	57.33	25%	35%
	Thessalia	69.33	55.33	25%	35%
	Ipeiros	63.33	51.67	25%	35%
	Dytiki Ellada	65.00	55.00	25%	35%
	Peloponnisos	74.00	59.67	25%	35%
	Voreio Aigaio	75.00	57.33	25%	35%
Portugal					35%
	Madeira	104.00	73.00	25%	45%

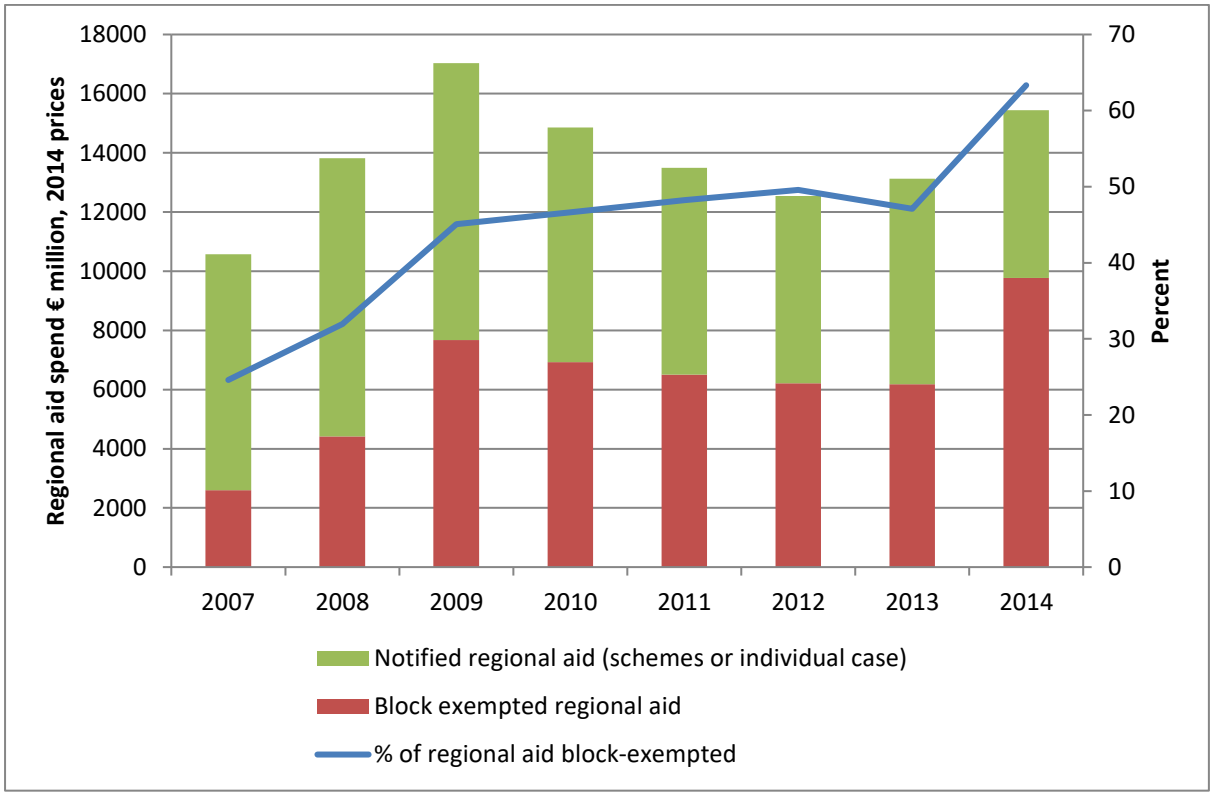
Source: European Commission Communication (see footnote 5); RAG 2014-20.

There is also scope to review ‘c’ area coverage. The changes may involve up to 50 percent of the non-predefined ‘c’ area population. In some counties (namely Spain, Italy, and the United Kingdom), the ‘c’ area population which can be amended has been reduced because of the potential eligibility of new ‘a’ regions. In others, the scope to amend the ‘c’ areas does not apply either because there are no existing ‘c’ areas or the country is already designated in its entirety, or, in the case of Sweden, because all the ‘c’ areas are ‘pre-defined’ by the population density criterion.

3. NOTIFIED REGIONAL AID UNDER RAG 2014-20

One of the Commission's key objectives under the State aid modernisation initiative was to reduce the number of notifications to scrutinise and to focus attention on measures perceived most likely to have serious implications for competition. The key tool to achieve this has been the increasing use of block exemptions. In the regional aid sphere, this began with the Block Exemption Regulation on Regional Aid in 2006, which was later subsumed into the 2008-2013 and 2014-20 General Block Exemption Regulations. Trends since 2006 show an increasing proportion of regional aid spend under block-exempted measures – rising from around a quarter of the total in 2006 to over 60 percent by 2014. It seems likely that this share will increase over the period 2015-20, not least since GBER 2014-20 entered into force only in July 2014.

Figure 1: Share of regional aid under block-exempted measures (EU28)



Source: EPRC calculations from European Commission State Aid Scoreboard: http://ec.europa.eu/competition/state_aid/scoreboard/index_en.html

3.1 Notified regional aid schemes

The intention of the expanded GBER was to include within the scope of the block exemption those types of scheme with which the Commission had some experience and considered did not pose particular concerns. In the context of regional aid, this involved extending GBER 2014-20 to certain transport aid schemes for the Outermost Regions (OMRs) and sparsely-populated areas, and specific operating aid measures for OMRs which had hitherto had to be notified.

The possibility of notifying under RAG 2014-20 an aid *scheme* for large firms in 'c' areas was the subject of some discussion among domestic policymakers. The framing of RAG 2014-20 and GBER 2014-20 meant this would have to be aimed at supporting the diversification of an existing

establishment into new products or new process innovations, but indications are that the notification of a *scheme*, as opposed to *individual aid,* has been discouraged by the Commission and is viewed as being outwith the 'spirit' of the RAG. No such schemes have so far been notified. In fact, to date, just six schemes have come to be scrutinised and approved on the basis of RAG 2014-20.[7]

Table 4: Schemes notified under RAG 2014-20

Country	Scheme	Reason for notification
Germany	Subordinated loans for SMEs in Saxony	Non-transparent aid – methodology for aid element calculation approved by COM
Norway	Social security concession	Operating aid falling outside the GBER
Lithuania	Regional aid scheme for the promotion of ICT projects on strategic sites	Sectoral scheme.
France	Reduced rate of excise duty on traditional rum produced in DOM	Outermost region operating aid falling outside the GBER
Portugal	Reduced rate of excise duty applied to liqueurs and eaux-de-vie in the Azores	Outermost region operating aid falling outside the GBER
Portugal	Reduced rate of excise duty applied to rum and liqueurs in Madeira	Outermost region operating aid falling outside the GBER

Source: DG COMP database: http://ec.europa.eu/competition/elojade/isef/index.cfm?clear=1&policy_area_id=3 and EFTA Surveillance Authority State aid register: http://www.eftasurv.int/state-aid/state-aid-register/

The ***Sachsen*** case[8] essentially concerns the approval by the Commission of a proposed methodology for assessing the aid element in a loan scheme. The precise nature and terms of the loan meant that the gross grant equivalent could not readily be calculated simply on the basis of the reference rates and the scheme was not 'transparent' within the meaning of the GBER. However, the Commission had accepted the proposed methodology in an earlier decision and raised no objections to the scheme.

The most significant decision to date concerns ***Norway.*** In June 2014 the EFTA Surveillance Authority approved the regionally-differentiated social security contributions (RDSSC). [9] The decision was based on the ESA Guidelines on Regional Aid,[10] which are analogous to RAG 2014-20 for the sectors covered by the EEA agreement.[11] The RDSCC is distinctive in several respects. First, it constitutes regional operating aid, which is rarely approved under the regional aid rules and then only in closely-defined circumstances. Second, assisted areas for operating aid are different from those for investment aid – they are not based on the population ceilings or designation criteria set out in the RAG, but rather subject to a separate assessment by the Commission, or, in this case, ESA. Third, the scheme is extremely large – annual spend is around NOK 13 billion – some €1.4 billion, of which around half is accounted for by undertakings engaged in economic activities. In other words, about €936 million involves State aid with the remainder accounted for by, for example, public sector bodies

[7] A Bulgarian regional aid tax scheme was also notified and considered by the Commission, but the legal basis for its approval appears ultimately to have been GBER 2014-20, suggesting that it fell within the block exemption. See SA.39869 –Bulgaria – Corporate Tax Exemption Scheme in accordance with Article 184 of the Corproate Income Tax Act.

[8] SA.38674 (N/2014) Germany – Subordinated Loans for SMEs, 25 November 2014: http://ec.europa.eu/competition/state_aid/cases/252601/252601_1628102_110_2.pdf

[9] EFTA Surveillance authority Decision of 18 June 2014 on regionally-differentiated social security contributions 2014-20 (Norway), Dec no: 225/14/COL: http://www.eftasurv.int/media/decisions/225-14-COL.pdf

[10] http://www.eftasurv.int/media/state-aid-guidelines/Part-III.pdf

[11] The EEA Agreement does not cover the common agriculture and fisheries policies.

not engaged in economic activities, and therefore not State aid recipients. ESA's decision was conditional on its approval of an evaluation plan, which is discussed in more detail below.[12]

ESA's decision approving the scheme was challenged in late 2014. The case was brought by Kimek Offshore AS which sought an action for annulment of the ESA decision on the grounds that ESA had not opened the investigative procedure or stated the reasons for some aspects of its decision. The substantive issue concerned the availability of the RDSSC to undertakings registered outside the aid area, but hiring workers employed within it; Kimek AS is established within the aid area in northern Norway. The challenge by Kimek AS was successful and the EFTA Court annulled[13] the part of ESA's decision concerning aid in respect of so-called 'ambulant' employees - a comparatively small element of the overall scheme. Following this judgement, ESA opened a formal investment into the RDSCC.[14] This does not call into question the scheme as whole, but only the exemption for ambulant workers.

In ***Lithuania*** the Commission has recently approved a regional aid scheme for the promotion of strategic information and communications technologies.[15] The scheme required notification because of its sectoral focus – it supports the setting up of data centres providing high-value data processing and hosting services. The scheme compensates for the particularly high electricity costs in Lithuania by providing an exemption from some electricity charges, subject to an aid ceiling expressed as a percentage of the initial investment. The Lithuanian authorities expect up to 10 beneficiaries under the scheme - more than 60 new large data centres are expected to be established in Western Europe by 2020;[16] the scheme has a budget of around €220 million. An interesting point to note is that the proposed measure is not part of an ESI Fund Operational Programme, so the scheme did *not* benefit from the presumption that it contributes to regional development objectives. The Lithuanian authorities were nevertheless able to demonstrate that the scheme aimed to boost overall economic activity and social development in Lithuania and that the aims of the measure were consistent with the broader development strategy agreed with the Commission for 2014-20. In consequence the Commission approved the measure.

The remaining three notified aid schemes concern the reduction of excise duties for traditional spirits in the Outermost regions; these have long been part of the portfolio of measures for the OMRs which the Commission has approved.

3.2 Notified regional aid cases

The number of individual cases subject to scrutiny under RAG 2014-20 has fallen dramatically compared to those under RAG 2007-13 and seems likely to stay a low level. So far, just two cases

[12] Previous EoRPA reports have provided a detailed overview of the context for this decision and the key issues arising, notably the sectoral dimension. These are not revisited here, but see: http://www.eprc.strath.ac.uk/eorpa/Documents/EoRPA_14_Conf/EoRPA_Paper_14-5_post-conf.pdf

[13] Case E-23/14 Kimek Offshore AS v The EFTA Surveillance Authority: http://www.eftacourt.int/uploads/tx_nvcases/23_14_Judgment_EN.pdf

[14] EFTA Surveillance Authority Decision of 9 December 2015 opening a formal investigation into the exemption rule for ambulant services under the scheme on differentiated social security contributions 2014-2020: http://www.eftasurv.int/media/esa-docs/physical/489-15-COL.pdf

[15] State aid SA.42225 – Lithuania – Regional aid scheme for the promotion of the development of strategic information and communication technology projects on strategic ICT sites: http://ec.europa.eu/competition/state_aid/cases/259105/259105_1738330_138_2.pdf

[16] Boston Consulting Group (2014) Digital Infrastructure and Economic Development – an impact assessment of Facebook's data center in Northern Sweden: http://image-src.bcg.com/BCG_COM/Digital-Infrastructure-Economic-Development-Jun-2014-Nordics_tcm22-29049.pdf

have been recorded, compared to over 100 in 2007-13. There are several reasons for this dramatic decline.

As before, regional aid below specified amounts (and meeting all the requirements of the GBER) is block-exempted. However, this now includes any *ad hoc* aid meeting the terms of the GBER – previously any *ad hoc* aid offered independently of another source or amounting to more that 50 percent of aid awarded under an approved scheme had to be notified individually. Under GBER 2007-13, this meant that in Poland, where each proposed award to a large firm was the subject of a specific ordinance, each award had to be individually notified and approved, even though it would have been GBER compliant if awarded under an aid scheme. Of the 100 or so cases dealt with under RAG 2014-20, over 40 concerned Polish cases of this type. That said, under GBER 2014-20, the 'incentive effect' criterion is relatively demanding for *ad hoc* regional aid to large firms insofar as the Member State must verify that the project would not have been carried out in the area concerned or would not have been sufficiently profitable for the beneficiary in the area concerned in the absence of aid.[17] Whilst domestic policymakers might want to assure themselves that proposed aid would have such an effect, being able to 'verify' this may be challenging.

A further reason for the decline in the number of cases is the level of scrutiny to which regional aid over the notification threshold is subjected. Until the *Smurfit Kappa* decision in 2012[18] the Commission only opened the formal investigative procedure if certain so-called 'screens' relating to market share or capacity were exceeded; otherwise the Commission deemed that there was no requirement for in-depth scrutiny.[19] In *Smurfit Kappa* the Court held that the Commission was not entitled routinely to exclude the possibility of an in-depth investigation just because the screens were not breached. This in turn made full investigations more likely for the remainder of RAG 2007-13 – creating a strong disincentive to notify and keep awards below the notification threshold; the screens were abolished altogether in RAG 2014-20 meaning that any notified aid is subject to scrutiny under the full range of common assessment criteria, and the prospect of a formal investigation if the Commission has any doubts about compatibility on the basis of these criteria.

Last, and perhaps most obviously, RAG 2014-20 and GBER 2014-20 curtail significantly the scope to award regional aid to large firms in 'c' areas at all, with the result that the number of case where the notification threshold is exceeded will inevitably be fewer.

The tortuous negotiation process of the RAG and the GBER led to a complicated compromise over the eligibility of large firms for regional investment aid in 'c' areas. These are summarised in Table 5.

Under RAG 2014-20, regional aid for large undertakings in 'c' areas may only be granted for 'initial investments that create new economic activities' or 'for the diversification of existing establishments into new products or new process innovations.'[20] This is wider than the scope of the GBER, which

[17] GBER 2014-20, Article 6(3)(a).

[18] In this case, the Court found that the Commission is not precluded from opening the formal procedure if the market share or capacity criteria are not exceeded and that, by inferring that the aid complied with the guidelines because the market screens were not exceeded without assessing the importance of the project for regional development, the Commission had both misconstrued the scope of the guidelines and failed to exercise its discretion – see Case T-304/08 *Smurfit Kappa v Commission* (judgment of 10 July 2012).

[19] For a more detailed discussion see Wishlade, F (2015) 'To what effect? The Overhaul of the Regional Aid Guidelines – the Demise of Competition Effects and the Rise of Incentive Effect?' *European State Aid Law Quarterly,* 12(4).

[20] RAG 2014-20, para 15.

does not allow for the possibility of regional aid to large firms for *new process innovations* in 'c' areas. However, new process innovations are not defined in RAG 2014-20 and the scope of this provision can only become apparent with some decisional practice on the part of the Commission. Nevertheless, while some definitional elements remain unclear, it is evident that investment aid simply to expand existing production facilities is no longer available to large firms in 'c' areas.

Table 5: Eligible project types by firm size, region and basis for eligibility

	SMEs 'a' and 'c' regions; large firms in 'a' region	**Large firms in 'c' areas**
Setting-up new establishment	GBER (Art 14.3, Art 2.49.a)	GBER (Art 14.3, Art 2.51.a)
Extension of the capacity of an existing establishment	GBER (Art 14.3, Art 2.49.a)	Incompatible
Diversification into ***products*** not previously produced	GBER (Art 14.3, Art 2.49.a)	Notify under RAG (para 15, 24)
Fundamental change in the overall production process	GBER (Art 14.3, Art 2.49.a)	Notify under RAG (para 15)
Acquisition of assets of an establishment that has closed or would have closed	GBER (Art 14.3, Art 2.49.b)	Incompatible
Acquisition of assets of an establishment that has closed, or would have closed, on condition of diversification into new activities that are not the same or similar	Less stringent conditions apply to diversification (Art 2.49.a)	GBER (Art 14.3, Art 2.51.b)
Diversification of the ***activity*** of an establishment into new activities that are not the same or similar	Less stringent conditions apply to diversification (Art 2.49.a)	GBER (Art 14.3, Art 2.51.b)
Diversification of an existing establishment into new products or new process innovations	GBER (Art 14.3, Art 2.49.a)	RAG (para 15)

Note: In all cases, the GBER only applies up to the adjusted aid amount (GBER 2014-20, Article 4(1)(a)), beyond which notification is required.

To date two cases have been notified on the basis of RAG 2014-20, both by the German authorities, but with different outcomes: in the case of REHAU AG+CO, the Commission has launched an in-depth investigation, while proposed aid to Hamburger Rieger GmbH has been approved.[21]

[21] European Commission Press Release (2016) State aid: Commission approves German investment aid to paper manufacturer Hamburger Rieger and opens investigation into German aid to polymer processer REHAU, Brussels, 13 June 2016: http://europa.eu/rapid/press-release_IP-16-2184_en.htm

3.2.1 Hamburger Rieger GmbH

The Hamburger Rieger decision is important because it provides the first indications of the circumstances in which the Commission will approve regional aid to large firms in 'c' areas where the investment project falls outside the scope of the GBER. Moreover, the Commission press release makes clear that the Commission intends that the criteria should provide a provide a precedent for future decisions; it is also likely to guide both policymakers and applicants on whether a notification is likely to be worthwhile.

(i) Background

Under RAG 2014-20, regional aid for large undertakings in 'c' areas may only be granted for 'initial investments that create new economic activities' or 'for the diversification of existing establishments into new products or new process innovations.'[22] This is wider than the scope of the GBER, which does not allow for the possibility of regional aid to large firms for *new process innovations* in 'c' areas. New process innovations are not defined in RAG 2014-20, though it does specify that eligible costs 'for a fundamental change in the production process', must exceed the depreciation of the assets linked to the activity to be modernised in the course of the preceding three years.[23] However, it is not clear from RAG2014-20 whether 'new process innovations' are the same as 'a fundamental change in the production process.'

Hamburger Rieger proposed investment and aid

- Paper manufacturer; wholly owned subsidiary of Prinzhorn Group with 5000 employees in 13 countries
- Notified project: extension of capacities for 'white top testliner' involving stock preparation processes and construction of an additional paper machine, both based on 'new process innovations'
- Proposed location: Spremberg, Brandenburg ('c' area); possible alternative: Bavaria (non-assisted location)
- Investment and aid proposed: €32.9 million in present value against eligible expenditure of €363 million, corresponding to aid intensity of 9.06 percent; estimated 195 new jobs.

The Commission's analysis of the aid proposal had two elements: first, to establish the eligibility of the project; and second to verify the compatibility of the proposed aid under the common assessment principles.

(ii) Project eligibility and defining 'new process innovation'

Project eligibility turned on the definition of ***new process innovation*** – as the plant was already producing so-called 'white top testliner' and this is an established standardised product, the investment could not qualify as a 'diversification of an existing establishment into a new product'.

[22] RAG 2014-20, para 15.

[23] RAG 2014-20, para 96.

'New process innovation' is not defined in RAG 2014-20; however, 'process innovation' is defined in GBER 2014-20 as:[24]

> "the implementation of a 'new 'or 'significantly improved' production or delivery method. This includes significant change in techniques, equipment and/or software"

As a result, eligibility hinged on what constituted 'new' process innovation, as opposed to just 'process innovation'.

The Commission concluded that 'new process innovations' should refer to 'process innovations' which have a high degree of novelty, and outlined three criteria to define this:

- that the planned production process should represent a substantial (fundamental) change to the state of art of the relevant production process, and not an incremental or routine improvement;
- that the innovative element should not be limited to a minor part of the production process, but should have a significant impact on the overall production process; and,
- that the innovative process is being applied for the first time in the sector in the EEA.

In the case of Hamburger Rieger, the Commission considered that these criteria were met because:

- the investment project has innovative elements in both stock preparation and the subsequent production process
- the stock preparation process if the first implementation worldwide on an innovation based on a patent, as confirmed by the patent holder and an independent expert
- the production process relies on several innovative elements, which are already individually known and applied, but their combination in a single production process is a worldwide first, as confirmed by an independent expert
- the two process innovations – in stock preparation and in the paper machine – are considered to have a significant impact on the entire production process as it will "have an impact across the entire stock production process" and "changes in the way most parts of the paper machine are built and the whole production is designed".

These elements combined led the Commission to conclude that the degree of novelty was high and the project therefore qualified as a 'new process innovation'.

(iii) Compatibility assessment

The second phase of the Commission decision involved appraising the proposed aid against the so-called common assessment principles.

Here the justification for approving the aid appears to draw heavily on the arguments put forward by the German authorities and which are relatively well-rehearsed. An interesting point, however, concerns the incentive effect. This can be proven in two possible scenarios: scenario 1 – that an investment which would not be sufficiently profitable without aid can take place in the assisted area;

[24] GBER 2014-20 ,Article 2(97) – interestingly, though, this definition appears in the section on R&D&I, and not in relation to regional aid.

and scenario 2 - that aid gives an incentive to invest in an assisted area because it compensates for the net disadvantages and costs linked to that location.

In Hamburger Rieger, scenario 2 applied and the firm had considered investing in a non-assisted area in Bavaria (location 1). Analysis undertaken by the firm showed that investment costs would be slightly higher in location 1 than in Spremberg, but that overall production costs calculated over a 10 year period would be lower in location 1, largely due to higher energy, raw material and water supply costs. The comparisons submitted suggested a cost disadvantage in Spremberg of €38.48 million, which would be reduced to €5.6 million by the aid proposed. This begs the question as to why the firm would pursue the Spremberg location when a net cost disadvantage remains, in spite of the aid. According to the decision, Spremberg "has certain non-quantifiable and strategic advantages as compared to the set up of an entirely new site in [location 1]"; these include an expandable workforce and an existing reliable supplier network. Nevertheless, the willingness of an undertaking to locate an investment in an assisted area in spite of the additional costs not being covered raises some questions about the incentive effect of the aid and the capacity of public authorities to quantify it.

3.2.2 REHAU AG+CO

Limited information on REHAU is available at the time of writing as the decision to open the formal investigation has not yet been published. REHAU is a polymer processor for car components, among other things, and headquartered in Switzerland. The planned investment involves €50 million to replace an existing paintshop which is reaching the end of its life expectancy. This is located in a 'c' area (Viechtach) in Bavaria. The proposed level of aid is €4 million.

The Commission has expressed it doubts about the eligibility of the project on several grounds: whether it is sufficiently innovative for the purposes of RAG 2014-20; whether the aid has any incentive effect or the investment would have been carried out anyway; and whether the project contributes to regional development. In view of these doubts, the Commission plans an in-depth information to ascertain whether these concerns are well-founded.

4. REGIONAL AID EVALUATION PLANS AND AID APPROVAL

Among the new developments in both RAG 2014-20 and GBER 2014-20 is the scope for the Commission to make aid authorisation conditional on its approval of an evaluation plan.

RAG 2014-20 provides the possibility for the Commission to limit the validity of aid schemes to four years in order for an evaluation to be carried out.[25] The precise terms of any requirement to undertake an evaluation[26] are defined in the approval of the aid measure. However, evaluations must by undertaken by experts independent from granting authorities, on the basis of a common methodology (which the Commission may provide) and must be made public. The circumstances in which an evaluation would be imposed as a condition of approval are limited to those with large budgets, schemes with novel characteristics or in areas where significant market, technological or regulatory changes are envisaged. Evaluations must be carried out in sufficient time for the results to feed in to the Commission decision on any extension of the scheme proposed, or at expiry.[27]

GBER 2014-20 provides for the expiry of GBER cover after six months for schemes with annual budgets exceeding €150 million, pending the approval by the Commission of an appropriate evaluation plan. In effect, this means that unless a Member State is able to provide an evaluation plan that is acceptable to the Commission, then GBER cover would be withdrawn and the scheme in question would need to be notified. As the whole scheme would then be subject to appraisal under RAG 2014-20, with the delays inherent in the notification process, there is a strong incentive for domestic policymakers to reach early agreement with the Commission on the evaluation plan.

GBER 2014-20 sets out the minimum requirements for an evaluation plan;[28] this should set out:

- the objectives of the aid scheme
- evaluation questions
- result indicators
- the methodology envisaged
- data collection requirements
- proposed timing, including the date of submission of the final report
- description of the independent body conducting the evaluation or the criteria to be used for selecting the evaluator
- mechanisms for publicising the evaluation.

A provisional supplementary information sheet for the submission of an evaluation plan is available. Its use is not yet mandatory as this requires changes to the Implementing Regulation. However, its use is recommended and it refers Member States to a staff working document on a common

[25] RAG 2014-20, para 27.

[26] See also: http://ec.europa.eu/competition/state_aid/modernisation/evaluation_issues_paper_en.pdf

[27] RAG 2014-20, para 144.

[28] GBER 2014-20, Article 2(14).

methodology for evaluation.[29] A version of this document had been subject to consultation at the end of 2013, and many Member States expressed concern at the ambition of the proposal and, more fundamentally, at the competence of the Commission to require evaluations of the effectiveness of measures financed with purely domestic resources. Nevertheless, the Commission has prevailed. By August 2016, evaluation plans had been approved for several regional aid schemes, though not all the decisions had been published by the Commission.

The approval of the social security concession in ***Norway*** by ESA[30] provides for quite an exhaustive evaluation designed to assess the impact of the scheme on job opportunities and employment in the eligible regions, using results indicators that measure the impact which lowering employment costs through the scheme has on a range of factors including labour market participation rates and employment growth in the public and private sector. In addition, the evaluation is to assess the impact of the scheme on competition and trade, including issues related to size of undertaking and international competition. A detailed timeline for the evaluation, as well as the participation of ESA in a methodological workshop, was also provided for with the delivery of the evaluation to ESA envisaged by end 2018. Domestically, the process began with a feasibility study which was the subject of a wider consultation. This led to the appointment of the successful tenderer late in 2015.

Table 6: Evaluation plans under RAG and GBER

Country	Scheme	Basis	Annual budget	Reference
Norway	Regionally-differentiated social security contribution (RDSSC)	RAG	€1404 million (NOK 13 billion)	Dec no: 225/14/COL
United Kingdom	Regional Growth Fund (RGF)	GBER	€4352 million (£3.2 billion – rounds 5 and 6, not all of which is State aid)	SA.39273
Czech Republic	Investment Incentives	GBER	437 million	SA.38751
Hungary	Development tax benefit scheme	GBER	€269 million (HUF 82.4 billion)	SA.39669
Germany	GA support for productive investment	GBER	€585 million	SA.39460
Poland	Special Economic Zones (SEZ)	GBER	€507 million (PLN 2.14 billion)	SA.40523, SA.38830 Not yet published
Poland	Competitiveness of SMEs under Regional Programme 2014-20	GBER	€226 million	SA. 43142
Portugal	Inovação Empresarial	GBER	€350 million	SA.42136
Italy	Tax credit for productive investment	GBER	€617 million	SA.45184

Note : A French scheme for the *Départements d'outre mer* (*Aide fiscale à l'investissement productif*) has also had an evaluation plan approved on the basis of the regional aid rules, but DOM policies are not considered part of regional policy *per se* in France.

Elsewhere, evaluation plans were reported on the basis of the GBER rather than the RAG (which was adopted earlier). In other words, the evaluation requirement was triggered by the budget of the

[29] Commission Staff Working Document "Common methodology for State aid evaluation, 28 May 2014, SWD(2014) 179 final http://ec.europa.eu/competition/state_aid/modernisation/state_aid_evaluation_methodology_en.pdf

[30] EFTA Surveillance authority Decision of 18 June 2014 on regionally-differentiated social security contributions 2014-20 (Norway), Dec no: 225/14/COL: http://www.eftasurv.int/media/state-aid/Consolidated_version_-_Decision_225_14_COL__NOR_Social_Security_contributions_2014-2020.pdf

scheme rather than through notification process under RAG 2014-20. In ***Germany***, a call for tenders for the evaluation is not expected until 2017. In ***Poland***, a steering group has been established to oversee the evaluation of the SME competitiveness scheme and a contractor is expected to be selected in October 2016. In ***Portugal***, a report fully setting out the specifications of the evaluation methodology is expected in the first half of 2018.

It also seems that the Commission's working paper[31] has been influential in determining the scope and nature of the plans approved – see Table 7, which shows the prominence of econometric techniques, especially difference in differences, in the evaluation plans. Indeed, some policymakers have criticised the 'over-prescriptiveness' of the Commission's approach.

In the Portuguese context a particular issue with the methodology concerns the counterfactual approach to measuring the impact of aid on beneficiaries, the spillover effects and effects of competition/crowding-out. The problem is that the scheme being evaluated is targeted at large enterprises which are small in number, making it difficult to identify 'twins' for the purposes of the analysis.

Another concern is the very short-term nature of the effects being measured – because of the timescale of the GBER and RAG requirements (with evaluation results required six months before the end of 2014-20 period) - and whether there is a risk that changes could be sought to schemes before information about their real longer-term impact is actually known – a concerned voiced explicitly by the German and Portuguese authorities. The German authorities were keen also to examine longer terms impacts and so have agreed to provide not only an evaluation by the end of June 2020, but also a second evaluation using data for the full 2014-20 period, to be published after the end of the period.

In the Polish context, a particular issue is the sheer number of evaluations required since much of Polish regional policy is co-financed by Cohesion policy, which has its own evaluation regime.

[31] Commission Staff Working Document "Common methodology for State aid evaluation, 28 May 2014, SWD(2014) 179 final
http://ec.europa.eu/competition/state_aid/modernisation/state_aid_evaluation_methodology_en.pdf

Table 7: Regional aid evaluation plans approved by the Commission (at August 2015)

Country	Scheme	Objectives	Evaluation questions	Results indicators	Methods
Norway	RDSSC	To prevent or reduce depopulation in already sparsely populated areas by lowering employment costs for companies located in these areas, with the expectation that this will stimulate the local labour markets and lead to increased job opportunities and employment.	What is the scheme's impact on job opportunities and employment in the eligible regions, and prevention or reduction of depopulation? What is the effect on competition and trade?	Labour market participation; employment level and growth by zone and industry; wage income by zone; disposable income; industrial structure; firms size distribution; education level; central and local government incomes; capital accumulation; use of intermediates; hourly wage costs (Feasibility study proposal)	Difference in differences modelling Regression discontinuity design Matching procedure to identify control group
United Kingdom	Regional Growth Fund (RGF)	Stimulate enterprises by supporting projects/programmes with potential for economic growth, leveraging private investment and creating additional sustainable private sector employment Support area which are currently dependent on the public sector to make the transition to sustainable private sector led growth and prosperity.	Impact: what are the causal effects of RGF-funded projects and programmes on beneficiary firms? Economic evaluation: how far are the costs of RGF justified by the benefits achieved?	For firm level grants and loans: capital investment, training expenditure, number of workers trained, research and development, patents, employment levels, profitability, productivity. For land and property: intermediate effects in local property markets (space and rents), employment and unemployment.	Longitudinal panel data sets comprising applicants, non-applicants, successful and unsuccessful applicants analysed through fuzzy regression discontinuity design, propensity score matching and fixed effects, difference in differences for survey data and synthetic control methods.
Czech Republic	Investment Incentives	Eliminate difference between developed and less-developed regions Reduce difference in unemployment rates through the creation of new jobs Promote creation of higher skilled jobs Promote economic development by supporting investment projects focused on advanced technologies and activities with high	How did assisted companies develop compared with a control group? Did amendments implemented on the basis of mid-term evaluation contribute to achievement of objective? What are the lessons for future aid schemes?	Projects assisted; amounts of aid; amount of investment aided; leverage effects; net jos created; increase in value-added; increase in labour productivity; increase in sales; total amount of investment;	Control group (non-assisted firms) and aided firms analysed using difference in differences. Qualitative data collected in interviews with beneficiaries and non-beneficiaries.

Country	Scheme	Objectives	Evaluation questions	Results indicators	Methods
		added value and export potential Increase international competitiveness in innovation, IT and strategic services			
Hungary	Development tax benefit scheme	Encourage sustainable new investment and job creation Alleviate regional disparities through regionally-differentiated support	Does the scheme generate additional improvement in the level of investment, employment, gross value-added and labour productivity? Does the scheme incur a deadweight loss? Is the scheme most cost-effective than other support schemes? What is the additional fiscal dividend of the scheme in the long term?	Annual investment flows; capitalised costs of assets; change in non-financial assets; wages and salaries; employment headcount; GVA/average headcount; GVA/wages.	Control group of 'matched' non-assisted firms for some eligible groups; case studies for niche sectors and projects with positive spillovers and externalities (R&D, environment). Difference in differences to measure direct impact, deadweight loss, proportionality and appropriateness.
Germany	GRW	To offset the locational disadvantages of the structurally weaker regions by supporting economic development to reduce regional disparities	Has GRW funding had an incentive effective on assisted firms? Does income and employment differ between comparable aided and non-aided firms? Are aided firms more viable in the long term? Is there evidence of other effect? Eg employee skills, R&D intensity? What is the causal impact of the GRW on aided firms? What is the cost of the programme?	Employment Revenue Survival rates Skills	Control group of 'matched' non-assisted firms. Difference in differences approach focussing on aided, non-aided and non-eligible firms
Poland	Special Economic Zones (SEZ)	To increase investment, innovation, develop an efficient business environment, support initial	Has the aid improved the performance of the beneficiaries? Has it encouraged increases in capital expenditure and has it	Sales, profits, productivity, financial indicators, capital expenditure, employment, share of innovative enterprises…	Econometric methods (difference-in-differences, propensity score matching and regression discontinuity design). For RDD,

Country	Scheme	Objectives	Evaluation questions	Results indicators	Methods
		development, increase availability of areas suitable for business development	change the behaviour of the firm? What has been the indirect impact – spillover effects, impact on competition and crowding out and have policy objectives been met?	Regional GDP(PPS) and employment rates, capital expenditure compared to GDP	control group will comprise unsuccessful applicants. Analysis of indirect effects through theory-based impact evaluation, including case studies, focus groups and case studies
Poland	Competitiveness of SMEs	Promoting entrepreneurship, start-ups, creation and expansion of product and service development	To what extent has investment aid encouraged companies to increase capital expenditure? How would economic operators have behaved in the absence of aid? Spillover effects; impact on competition and crowding-out, meeting policy objectives.	Value-added, productivity, employment, innovation GDP(PPS); employment rates; capital expenditure	Econometric methods (difference-in-differences, propensity score matching and regression discontinuity design). For RDD, control group will comprise unsuccessful applicants. Analysis of indirect effects through theory-based impact evaluation, including case studies, focus groups and case studies
Portugal	Inovacao Empresarial	To stimulate investment in structural weak regions; increase investment in innovative activities; promote increase in output and change in production profile of Portuguese firms.	A. Direct impact on beneficiaries: has aid contributed to improved performance of aided firms? Has it altered the investment behaviour or location of firms? B. Indirect impacts: (i) spillover effects and social benefits? (ii) crowding out and competition; (iii) contribution to policy objectives. C. Appropriateness / proportionality. Were types of aid most suitable? Was level of aid sufficient/too much to achieve results?	A. GVA; net employment; turnover; investment; productivity; 'new-to-the-market' products; 'new-to-the-firm' products (SMEs). B. (i) Indirect jobs; GVA linked to non-business R&I system; (ii) firm birth, death and survival rates; change in market shares (iii) GVA variation; business turnover variation; net employment creation; productivity increase; change in production profile. C. Leveraging of investment in relation to aid.	A. Econometric methods: difference-in-differences, complemented by cross-section data and panel methods; instrumental variables and regression discontinuity design; counterfactual approach at level of beneficiaries. B. Descriptive approach based on selected indicators, supplemented by case studies. C. Theory-based impact evaluation and benchmarking.

Source: DG COMP and ESA decisions, EPRC country research..

5. GENERAL BLOCK EXEMPTION REGULATION UNDER REVIEW

In March 2016 the Commission launched a public consultation on proposed amendments to GBER 2014-20.[32] The main changes concern proposals to extend the GBER to cover some investments in ports and airports, based on its experience in dealing with notified cases. In addition, the Commission proposes changes to aspects of regional operating aid and aims to simplify the interface between so-called 'simplified cost options' under the European Structural and Investment Funds and the State aid rules. The Commission plans to conduct two rounds of consultation, the first of which ended in May 2016.

5.1 Aid for regional airports

5.1.1 Commission proposals

The proposed changes to the GBER add a new Article 56a to the Regulation. The proposal is based on its handling of some 54 cases involving aid to airports, notably in the context of applying the Guidelines on State aid to airports and airlines.[33] The essence of the Commission proposals is to bring within the ambit of the GBER aid for airports that fulfil the following conditions:

- The airport must be located more than 100km or 60 minutes travelling time by car, bus, train or high speed train from an existing airport operating scheduled services (except for small airports – those with fewer than 50,000 passengers)
- In the two years before the aid, the airport must handle fewer than three million passengers and must expect to handle fewer than three million in the two years after the aid
- Similarly, the airport must handle less than 200,000 tonnes of freight annually in the two years before and after the aid.
- The relocation of existing airports and the creation of new passenger airports (including the conversion of existing airfields) is excluded
- Aid is limited to the difference between eligible costs and operating profit; it must not exceed 50% of eligible of eligible costs for airports with 1-3 million passengers and 75 percent of eligible costs for airports with fewer than one million passengers. These aid intensities can be raised by 20 percentage points for airports in 'remote' regions (which are not specified, but could be presumed the same as in the Guidelines on State aid to airports and airlines, namely, the outermost regions, Malta, Cyprus, Ceuta, Melilla, islands that are part of a territory of a member state and sparsely-populated regions).

5.1.2 National government responses

In broad terms these proposals are welcomed by the national governments.[34] However, a number of countries queried whether the distance criteria were adequate or sufficiently clear. Poland argued that the criteria should take account of specialisation among airports, not just distance, enabling airports

[32] Commission Regulation (EU) …/… of XXX amending Regulation (EU) No 651 declaring certain categories of aid compatible with the internal market in application of Article 107 and 108 of the Treaty: http://ec.europa.eu/competition/consultations/2016_gber_review/draft_regulation_en.pdf

[33] Communication form the Commission – Guidelines on State aid to airports and airlines, OJEU C99 of 4 April 2014.

[34] This refers to comments by national governments among the EoRPA partners; not all partners commented on all aspects of the proposed changes. The Austrian government did not reply to the consultation.

closer to existing one to be eligible, but the Netherlands suggested that *additional* criteria beyond distance (such as turnover) were needed to prevent distortions of competition. The German authorities argued that the GBER should acknowledge that some aid to airports does not involve aid at all since some have no potential impact on trade. Germany and France argued for particular treatment including operating aid, to apply to airports with fewer than 500,000 passengers per annum. Poland argued that the 'anticipated' passenger throughput ceiling discriminated against airports with over 2.5 million which were still likely to require support. Several countries noted that some tightening of the definitions was required in order to complete the text and bring it into line with the Guidelines on State aid to airports and airlines.

5.2 Aid for ports

5.2.1 Commission proposals

The Commission proposals aim to bring within the GBER aid to maritime and inland ports, subject to limits on the type of eligible expenditure and aid intensity, among other things.

The scope of the exemption relates solely to investment aid to infrastructure – so recent cases involving taxation of maritime port activities which amount to operating aid are unaffected.

The maximum aid is the difference between the eligible costs and the operating profits of the investment. For maritime ports aid intensities are 'pencilled in' in the proposal but range from 100 percent for eligible costs up to €20 million to 50 percent of eligible costs up to €120 million for projects that form part of the core network corridor under the Trans-European-Networks.[35] For ports located in assisted areas, the aid intensity could be increased by 10 percentage points in 'a' regions and 5 percentage points in 'c' areas. For inland ports, the maximum is 100 percent of eligible costs.

5.2.2 National government responses

National authorities differed quite widely in their response to the consultation with respect to ports. One important point to make here is that, unlike airports and airlines, there are no guidelines on aid to ports. In their response to the consultation, the Dutch authorities argue that if the Commission has sufficient experience with aid to ports to draft provisions for the GBER, then it should be in a position to propose guidelines for the assessment of aid falling outside the GBER. It also argues, as does France, that the Commission should specify the conditions under which the financing of ports does involve State aid at all.

The most fundamental objection to the proposal comes from the Netherlands, which argues that eligibility and rates of award should be driven by the size of the maritime port and not the size of the investment. As an alternative to the Commission's approach, the Dutch authorities propose that aid should *only* be available to ports where the total annual cargo volume is less than 0.1 percent of the maritime cargo volume handled in all EU ports.

[35] Regulation (EU) No 1315/2013 of the European Parliament and of the Council of 11 December 2013 on Union guidelines for the development of the trans-European transport network, OJEU L348/1 of 20 December 2013: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R1315

By contrast, the Polish authorities argued that the proposed thresholds were not high enough to accommodate projects under the Trans-European-Networks core corridor, so that the new provisions would be of minimal, if any, benefit.

Most of the remaining comments concerned the detail of the proposals. Several countries made observations about the scope of eligible expenditure, with some seeking greater clarity on definitions (Poland, Sweden) and others the inclusion of specific types of investment such as that linked to the use of alternative fuels including LNG (Finland) or power supply (Germany). France sought clarification of how the aid rates would operate in relation to the different investment bands, and, along with Germany and Poland questioned the definition of an investment project. Clarification was also sought on the definition of operating profits and the time horizon over which this should be calculated (Sweden).

There were fewer comments on the proposal for inland ports. However, the Dutch authorities questioned the legal basis for extending the GBER to include such aid, while the German government suggested that the scope should be extended to include inland ports which did not ultimately have access to the sea. Several countries commented that the threshold was not sufficiently high.

5.3 Regional operating aid

5.3.1 Commission proposals

The stated purpose of the amendments related to regional operating aid is to harmonise the State aid treatment of additional transport costs and other additional costs in the outermost regions (OMR). As such, for the OMRs, the provisions on transport aid are replaced with options for calculating operating aid based on a percentage of annual gross value added, annual labour costs or annual turnover. These amounts may vary between manufacturing and other activities, and may be increased by a given percentage for OMRs located more than 4000 km from the Member State capital.[36] An alternative absolute ceiling is proposed for enterprises with low turnover.[37]

The proposal makes no explicit change to the provisions on operating to aid sparsely-populated regions. However, it does alter the sectoral coverage of regional operating aid and the definition of sparsely-populated regions. Specifically:

- Article 1 of the GBER sets out the *general exclusions* from the exemption, and some exceptions to the exclusions. Article 1(3)(a)-(c) generally exclude aid to the fishery and aquaculture and primary agricultural production sectors. *The proposal makes regional operating aid an exception to the general exclusions, in other words, regional operating aid in OMRs and sparsely populated regions is in principle brought within the ambit of the GBER for agriculture and fisheries.*
- Article 13 of the GBER sets out the activities to which the exemption for *regional aid* does not apply.
    - Currently (Article 13(a)) does not apply to the transport sector and related infrastructure, energy generation, distribution and infrastructure – in other words, aid to these activities does not fall with the GBER. *The proposal makes an exception in*

[36] None of these percentages are specified in the draft.

[37] Again these levels are not specified.

favour of regional operating aid in OMRs and sparsely populated regions for these activities.

- Currently (Article 13(c)) it explicitly excludes regional operating for the production, processing and marketing of Annex I agricultural products, agriculture, forestry, fishing, (NACE section A) mining and quarrying (NACE section B), and electricity gas, steam and air conditioning supply (within section D), and transport of goods by pipeline. *In the proposal, this provision is dropped, implying that regional operating aid in OMRs and sparsely populated regions can now apply to these sectors.*

- Article 2(48) of the GBER defines 'sparsely populated areas' as those areas which are recognised by the Commission as such in the individual decisions on the regional aid maps for the period 1 July 2014 to 31 December 2020. *In the proposal, this is replaced by the following definition: '"sparsely populated areas" means NUTS 2 regions with less than 8 inhabitants per km^2 or NUTS 3 regions with less than 12.5 inhabitants per km^2.'* In short, this refers back to the basic definition provided for in RAG 2014-20, but without the scope to include adjacent areas in NUTS regions that do not themselves meet the sparse population criteria. This in turn means that regional operating aid could have GBER cover without there being an approved regional aid map for sparsely-populated areas.

A further detailed change is to the definition of regional operating aid. Article 2(42) of the GBER defines this as 'aid to reduce an undertaking's current expenditure that is not related to initial investment.' *The proposal drops the phrase 'that is not related to initial investment'.* It is not immediately apparent what the aim of this change is, but it would appear to enable regional operating aid to reduce expenditure that *is* related to initial investment.

The main impact of the proposed changes is on the provisions for regional operating aid in the OMRs where are broader definition of operating aid would replace the current combination of transport aid and aid to compensate for other additional costs.

For both OMRs and sparsely-populated regions, the sectoral scope is amended such that, with the exception of financial, insurance and certain intra-group activities,[38] regional operating aid becomes essentially horizontal in nature.

5.3.2 National government responses

The extent to which national governments are directly concerned with these changes varies, with Finland, Norway, Sweden and the United Kingdom having sparsely-populated regions, France and Portugal having Outermost Regions, and Austria, the Netherlands and Poland having neither.[39]

Several countries (Poland, the Netherlands, Portugal) query the revised definition of regional operating aid (the proposal to drop the reference to initial investment) – with the Dutch raising concerns about the impact of this provision on competition and Portugal and Poland essentially seeking clarification.

In general, countries welcomed the simplification of the *sectoral* coverage of regional operating aid. Norway argued strongly that the revised sectoral coverage should be extended to general operating

[38] GBER 2014-20, Article 13(e).

[39] Among the EoRPA partner countries.

aid approved under RAG 2014-20 in very sparsely-populated regions[40] - the GBER only allows for transport aid in sparsely-populated regions and general operating aid is only covered by the GBER for OMRs. Crucially, the RDSSC discussed earlier is approved under RAG 2014-20, but is subject to tighter sectoral constraints that were highly contested when the scheme was notified.

Sweden proposed a further change in respect of transport aid for sparsely-populated regions. Specifically, the Swedish authorities argue that the focus of the provisions on transport aid should be on the production area of the transported goods, rather than the production area of the aided beneficiary. In other words, the aid should be granted to the firm paying for the transport of the goods within the eligible area, whether that firm is located in the eligible area or not.

Regarding *spatial* coverage of the sparsely-populated areas, Finland (and Poland) noted that dropping the reference to the assisted areas map created potential for confusion.

On the proposals for the OMRs Portugal and France argued that sectoral scope should be extended to include regional *investment* aid in the OMRs. Both France and Portugal seek a discussion of the aid intensities, with France arguing that the levels of these are inadequate under the GBER, and questioning whether a distinction between manufacturing and other activities can be justified. Portugal argues that the possibility of transport aid should be retained for the OMRs, as well as sparsely populated regions. France and Portugal question the special treatment of very distant OMRs (more than 4000 km). The French response to the consultation includes an alternative proposal which apparently has the support of the Portuguese and Spanish authorities; it proposes, among other things, that all operating aid to the OMRs should be allowed subject to a ceiling by sector or by undertaking of 30 percent of annual turnover.

5.4 Simplified cost options under ESI Funds

Since the 1988 reform of the Structural Funds relations between Cohesion policy and Competition control of regional aid have often been strained. Historically, this was particularly so in context of assisted area coverage. However, the Commission has tried over time to improve the coordination of State aid and the ESI Funds, with RAG 2014-20 making explicit provision for aid proposals falling within Operational Programmes and for Interreg programmes. Nevertheless, some 'sticking points' remain. Among these are the use of so-called 'simplified costs options' which aim to extend the use of flat cost and lump sum payments instead of reimbursing 'real costs'.[41]

5.4.1 Commission proposals

The proposal to amend the GBER suggests amending Article 7(1) reads as follows:

> For the purposes of calculating aid intensity and eligible costs, all figures used shall be taken before any deduction of tax or other charge, the eligible costs shall be supported by documentary evidence which shall be clear specific and contemporary. *The amounts of eligible costs can be calculated in compliance with the simplified cost options set out in Article 67 and 68 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council,*

[40] Those with fewer than 8 inhabitants per km^2.

[41] Sara Davies (2015) 'Is simplification simply a fiction?': http://www.eprc.strath.ac.uk/iqnet/downloads/IQ-Net_Reports(Public)/ThematicPaper37(2).pdf

provided that the operation is at least partly financed through an eligible EU fund that allows the use of these simplified cost options and that the category of costs is eligible according to the relevant exemption provision.[42]

5.4.2 National government responses

Government responses to this proposal have been low key, which is perhaps surprising given the controversy which State aid issues seem to generate in ESI Fund implementation The Dutch authorities consider the change 'unnecessary', while the Swedish authorities welcome it without commenting further; the Polish, Portuguese, German and UK responses do not mention the proposal at all. The Finnish authorities suggest that explicit reference could also be made to the European Social Fund Regulation.

The French authorities also welcome the attempt to address the issue, but observe that the proposed amendment fails to do this. Specifically, the French response points out that the benefit of the simplified cost option is that the exact details of the costs incurred do not have to be identified, while the proposed change requires certainty that the expenditure is eligible, which in turn suggest that the exact details of the costs need to be known.

[42] Italicised text is the amendment proposed.

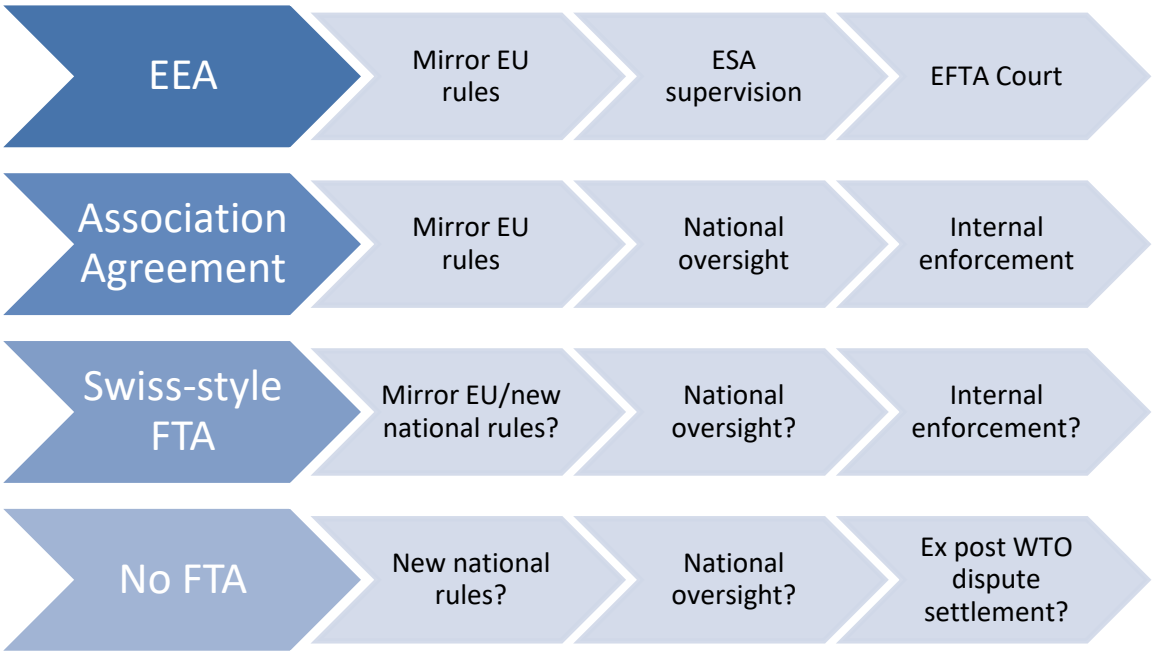
6. STATE AID AND THE IMPLICATIONS OF BREXIT

6.1 Implications for the UK

Both before and after the UK referendum on EU membership there was speculation about what Brexit might mean for the application of the State aid rules in the UK. On the one hand, there were arguments that, unfettered by EU competition rules, the UK government would have been free to intervene to support Tata, the troubled steel producer; on the other, there were suggestions that the UK would anyway opt for a regime of subsidy control that was similar to that of the EU either through membership of the EEA or an analogous arrangement, preventing such intervention.

In the post referendum period, the options for the UK have been characterised as 'hard' and 'soft' Brexit, though in reality each of these comprises a number of variants across different policy areas. Discussion of these is clearly outside the scope of this paper, but Figure 2 outlines a possible range of options for UK State aid control post-Brexit.

Figure 2: Post Brexit scenarios for UK State aid discipline



Source: Own elaboration.

In an ***EEA scenario***, the UK would remain a member of the Single European Market and would be bound by the European Economic Area Agreement. This largely replicates the EU rules on State aid. However, the EFTA surveillance authority plays a role analogous to that of the Commission, and the EFTA Court has jurisdiction over appeals from the three non-EU EEA states in cases involving ESA decisions.

An interesting point to note is that, although in general the EEA rules mirror those of the EU, in the context of *regional aid,* the EEA provisions on spatial coverage are somewhat different, reflecting the geographies of Iceland and Norway. Specifically, the EEA rules on regional aid[43] distinguish:

- 'a' regions – these being NUTS 2 areas with GPD(PPS) per head below 75 percent of the EEA average (as opposed to the EU average)
- 'c' areas – the population of which is set by the number of inhabitants in low population density areas. The EEA guidelines state that the population ceilings were set in the same way as in 2007-13, this being the population of NUTS 3 areas with population density of less than 12.5 per km^2 or NUTS 2 regions with a population density of less than 8 per km^2.

At present, no non-EU EEA countries contain 'a' regions, so the population ceiling within which Norway and Iceland designate their assisted areas are determined by the coverage of sparsely and very sparsely-populated areas. Based on 2012-14 GDP and population density data, UK assisted area coverage under the present EEA guidelines would comprise:

- West Wales and the Valleys ('a' region)
- Tees Valley and Durham ('a' region)
- South Yorkshire ('a' region)
- Highland & Islands ('c' area – low population density)

Somewhat curiously, based on 2012-14 data, South Yorkshire would become an 'a' region under the EEA guidelines, but would not be so under the EU regional aid guidelines since GDP per head in the EU28 is slightly lower than the EEA.

In practice, of course, were the UK to leave the EU but remain in the EEA, the regional aid rules would no doubt be adapted.

In an ***association agreement scenario,*** the UK would not be part of the EEA, but would have a bespoke arrangement. The EU currently has several such agreements, including the so-called 'stabilisation and association agreements' with Albania, Montenegro and Serbia.[44] Historically, comparable agreements – the so-called Europe Agreements – formed the basis for the accession of the Baltic and central and eastern European countries in 2004 and Bulgaria and Romania in 2007. The key features of these agreements in a State aid context are:

- the associated country agrees to State aid practices being assessed against the EU rules
- an independent national authority is established to implement those rules
- annual reports on the use of State aid are exchanged between the EU and the associated country.

Interestingly, from an institutional perspective, the requirement to establish an independent national authority prior to accession has meant that many of the newer Member States have found it easier to adapt to the rigours of the GBER, which has effectively inverted the responsibilities for policing State aid. For domestic reasons, there may be compelling reasons anyway to establish such a body since

[43] http://www.eftasurv.int/media/state-aid-guidelines/Part-III---Guidelines-on-regional-State-Aid-for-2014-2020.pdf

[44] The most recent such agreement was signed with Kosovo in April 2016. See: http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1463136627023&uri=CELEX:22016A0316(01)

the absence of Commission oversight might lead to competitive outbidding for investment within the UK.

Specifically from a regional aid perspective, association agreements with candidate or accession countries have recognised the entire territories of these countries as having 'a' region status, reflecting low levels of per capita GDP in relation to the EU average. This would not be applicable in the case of the UK where clearly some agreement would need to be reached on assisted area coverage, and especially the scope and scale of aid to firms that could affect trade between the EU and the UK.

Although the terms of the recent association agreements are designed to facilitate potential accession,[45] the UK as a departing Member State would be in the opposite situation. Nevertheless, as far as State aid is concerned, this approach could provide a viable starting point for UK-EU State aid relations.

A ***Swiss-style FTA scenario*** would involve a somewhat looser approach to State aid control. The Swiss FTA was concluded in 1972[46] and provides that "any public aid which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods"[47] is incompatible with the proper functioning of the agreement. However, this provision has been considered problematic by some commentators as it does not define the consequences of a violation and a restrictive interpretation of the FTA in early case law in the Swiss courts meant that no national State aid control legislation was introduced. That said, domestic legislation only allows public bodies to grant financial aid when it can fulfil policy goals in an "efficient and economic" manner and Swiss authorities are required to respect the principle of 'competitive neutrality'.[48]

An important point to note here is the longevity of the Swiss FTA. In 1972 the EU State aid rules were embryonic: there was very little case law and the Commission had not begun to address how it would implement the Treaty provisions on State aid. It is likely this, coupled with the absence of a domestic appetite for using State aids, that has resulted in these arrangements remaining rather loose. Reflecting this, the later (1999) Air Transport Agreement (ATA) between the EU and Switzerland on civil aviation contains more developed provisions that reflect the EU State aid rules. It seems likely that if there were some form of trade agreement between the UK and the EU that more developed provisions than those in the Swiss FTA would be sought by the EU. For the reasons cited above, it may well any suit the UK largely to adopt the EU rules on State aid and establish a domestic authority which, among other things, would play a role in internal subsidy discipline.

In a ***no free trade agreement scenario*** the UK would be bound only by the WTO rules on subsidies. The concepts of WTO subsidies and EU State aid are not dissimilar. However, the WTO rules on subsidies do not include services[49] and therefore preclude subsidy discipline in activities such as banking, telecommunications and air transport, where EU controls on State aid have been both active

[45] Although at present there are no accession countries, but several candidates.

[46] Agreement between the European Economic Community and the Swiss Confederation http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:21972A0722(03):EN:HTML

[47] Article 23(1)(iii).

[48] Hoffet, F, Dietrich, M., Brei G and Girard A. (2015) State aid 2015 Switzerland, Global Competition Review.

[49] Subsidies to services are subject only to the general obligations of the GATS – most-favoured nation and national treatment obligations, where members have schedules liberalisation commitments.

and controversial. The WTO agreement on subsidies distinguishes between *prohibited* subsidies (essentially those linked to quantities of exported goods) and *actionable* subsidies.[50] The key difference between the WTO approach to subsidies and the EU approach to State aid lies in enforcement – even prohibited subsidies have to be challenged before a dispute settlement panel before any consequences follow.[51] The WTO has no supranational role comparable to that of the Commission in providing *ex ante* authorisation of proposed subsidies. Instead, it provides a framework for members of the WTO (ie. governments, including the EU, but not undertakings) can seek withdrawal of a subsidy or impose countervailing duties where subsidies are considered to have 'adverse effects' on their interests.

Recourse to the WTO system of subsidy discipline would involve a significant change of context. It would not preclude the setting-up of a UK body to enforce domestic State aid discipline (indeed this might be desirable for the reasons already mentioned), but it would render challenges by UK authorities to State aid in the EU (and vice versa) far more complex, as well excluding the possibility for firms directly to bring such challenges.

6.2 Implications for the EU27

The potential implications of Brexit for State aid control in the EU27 are inevitably less dramatic. In an EEA scenario the UK would be in the same situation as Norway, and little would change for the EU27.

If the eventual arrangement is some form of UK-EU trade agreement, there would doubtless be concerns to ensure that this includes both substantive State aid rules and enforcement mechanisms that largely mirror EU arrangements. If this were so, again, the impact on EU27 would be limited.

The impact for the EU would be less clear in the absence of any UK-EU trade agreement with State aid relations reliant on the WTO subsidies code. In this environment, the EU27 might have concerns about taxation and the extent to which some tax arrangements which the Commission has recently challenged – like those concerning Apple, Starbucks, Fiat – would fall outside the scope for challenge under the WTO rules. The exclusion of services from the WTO subsidy rules may also be a concern.

Last, given the topic of this paper, it should also be mentioned that Brexit would have some implications for assisted area coverage in the EU27. Specifically, 'a' region eligibility is based on EU GDP(PPS) per head, which would, on the basis of present data, fall slightly following Brexit. Based on data for 2012-14, the following regions would lose 'a' region status purely as a consequence of Brexit:

- Yugozapaden (BG)
- Murcia (ES)
- Estonia

This in turn would feed through into the coverage of the 'c' areas, though clearly much would depend on Commission decisions about the overall coverage of the assisted areas. Among the many unknowns is the question of *when* this would take effect. For regional aid map purposes, the Commission has always used EU membership at the time of adoption of the rules as the baseline for

[50] Until 1999 there was a 'non-actionable' category of subsidies comprising regional development and R&D aid, largely modelled on the then EU approach, but this category was not renewed.

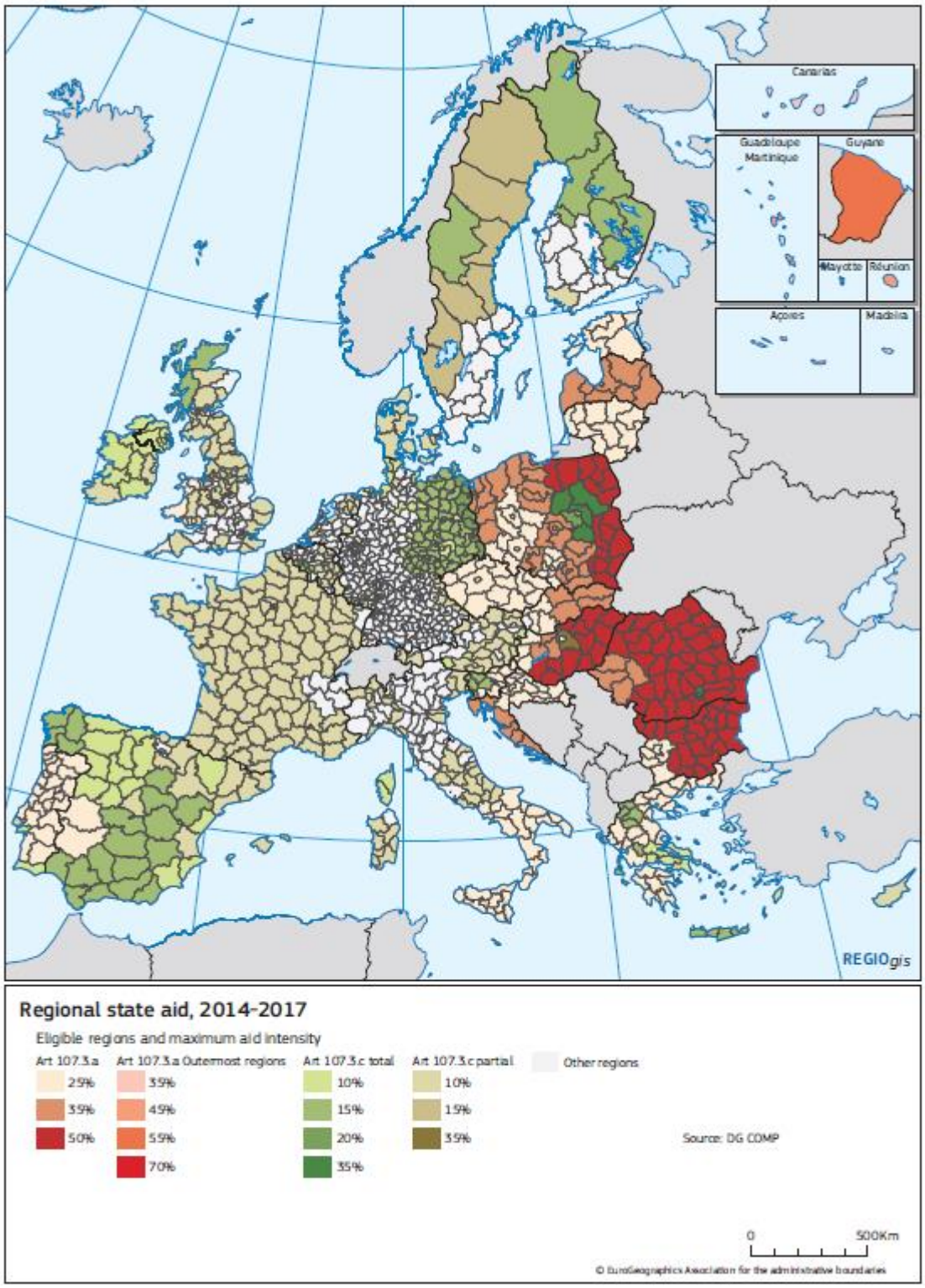
[51] Slocock, B. (2007) EC and WTO Subsidy Control Systems – some reflections, European State Aid Law Quarterly, 6(2).

its calculations, irrespective of when they come into force.[52] As such, it may well be that EU27 'a' regions for 2021-27 could still be determined on the basis of data with the UK as an EU Member State.

[52] For example, RAG 2007-13 did not include Bulgaria or Romania, though they acceded in 2007 and RAG 2014-20 did not include Croatia in its calculations even though it acceded in 2013.

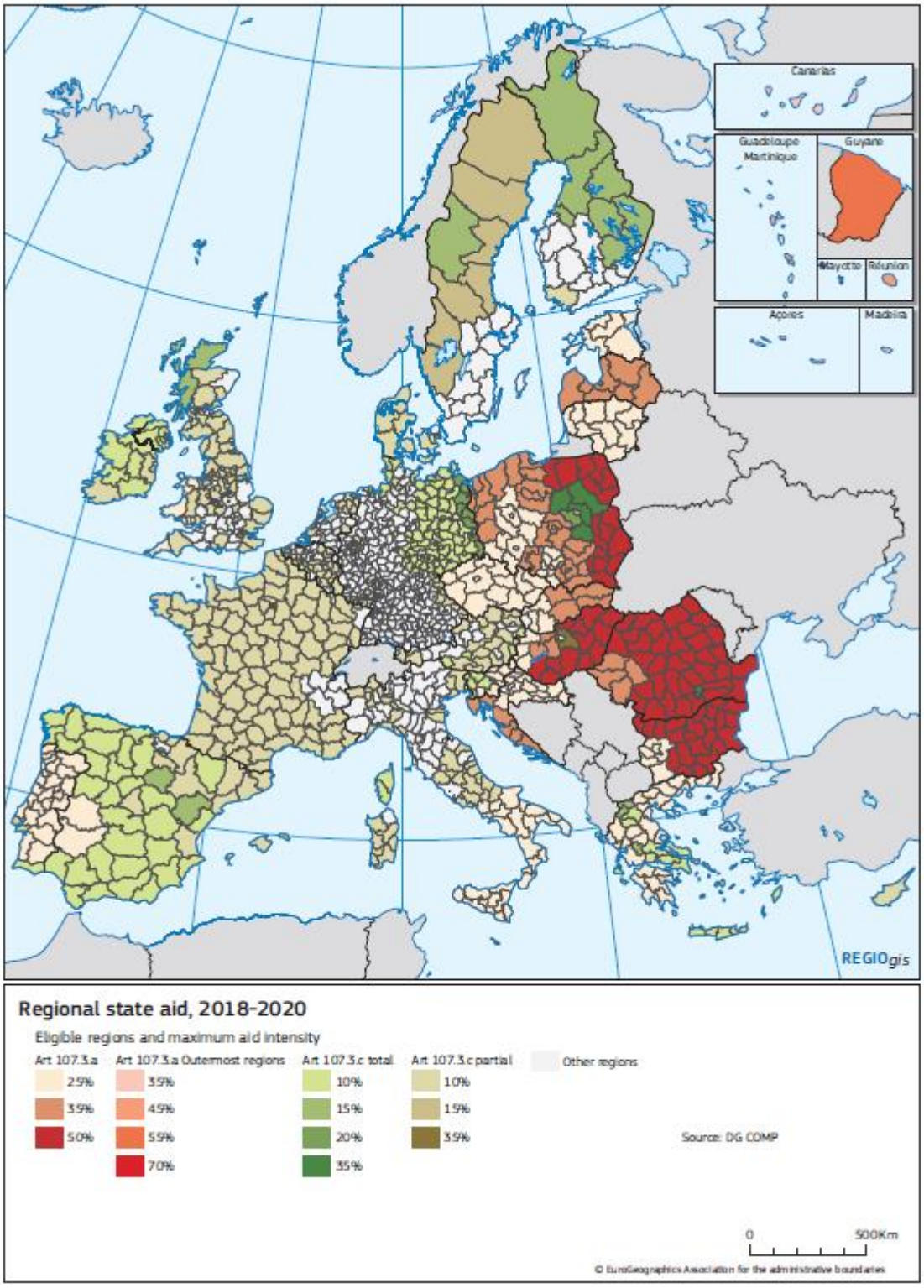
ANNEX: ASSISTED AREA MAPS 2014-20

Regional aid ceilings 2014-17



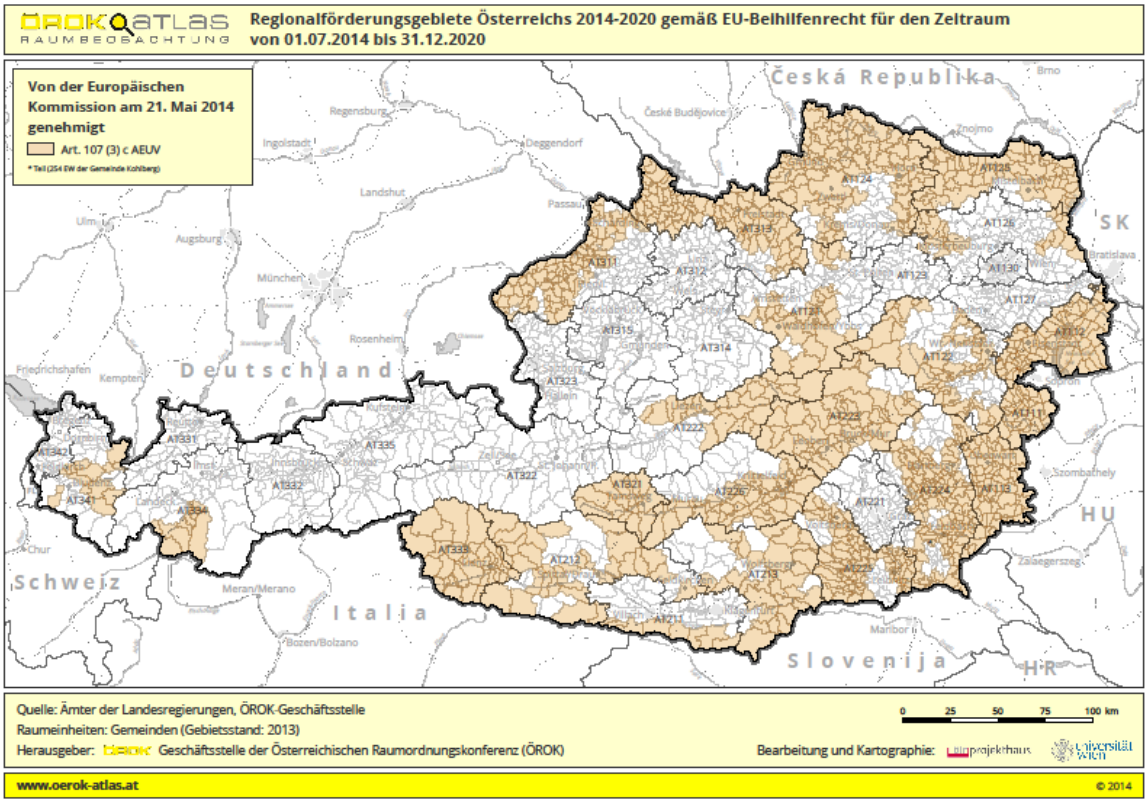
Source: DG COMP.

Regional aid ceilings 2018-20



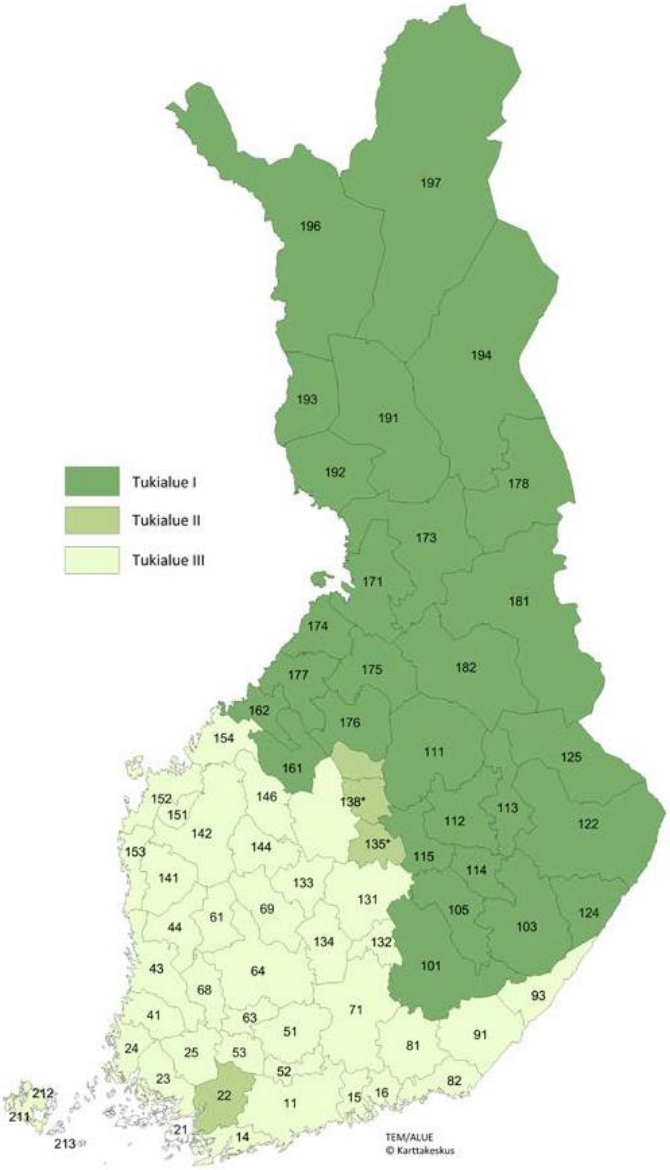
Note: Subject to notifications and approvals following on from Commission Communication amending Annex I to the Guidelines on regional aid for 2014-20, OJEU C231/1 of 25 June 2016.
Source: DG COMP.

Assisted Areas in Austria 2014-20

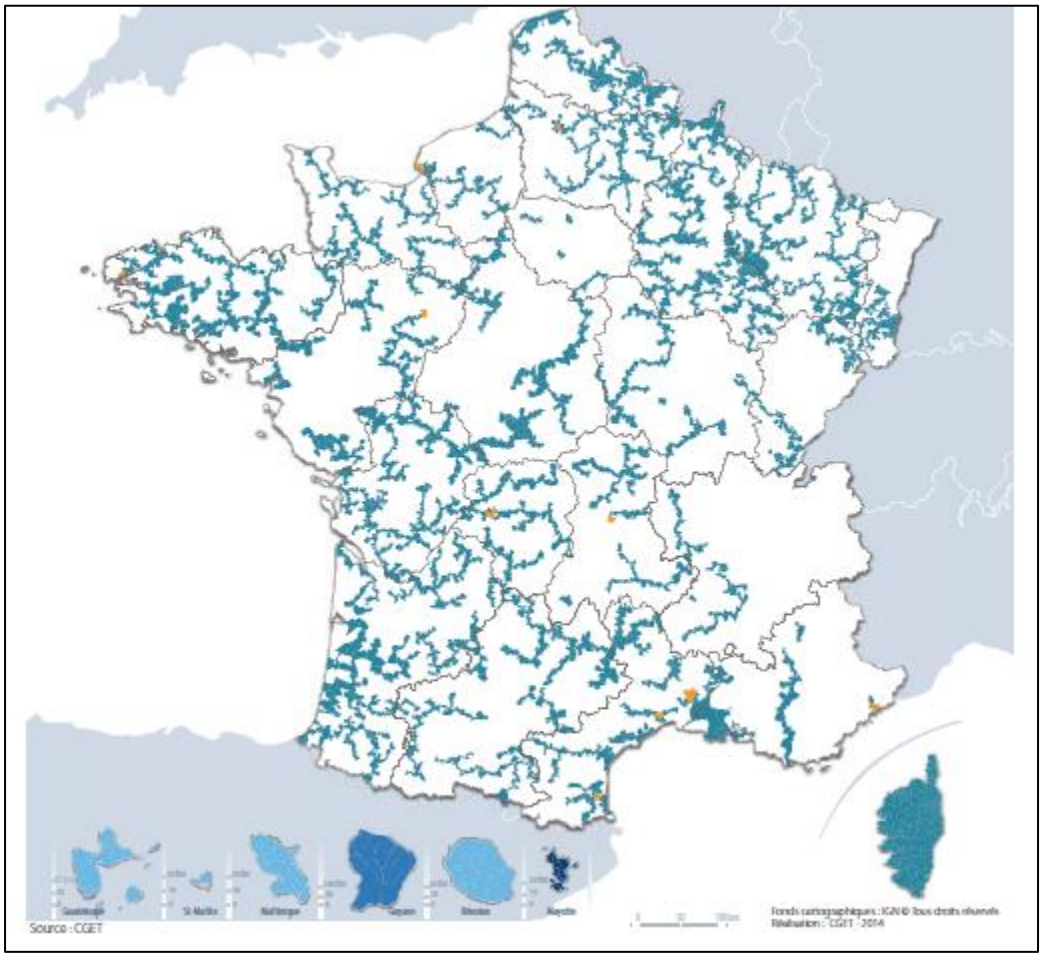


Assisted Areas in Finland 2014-20

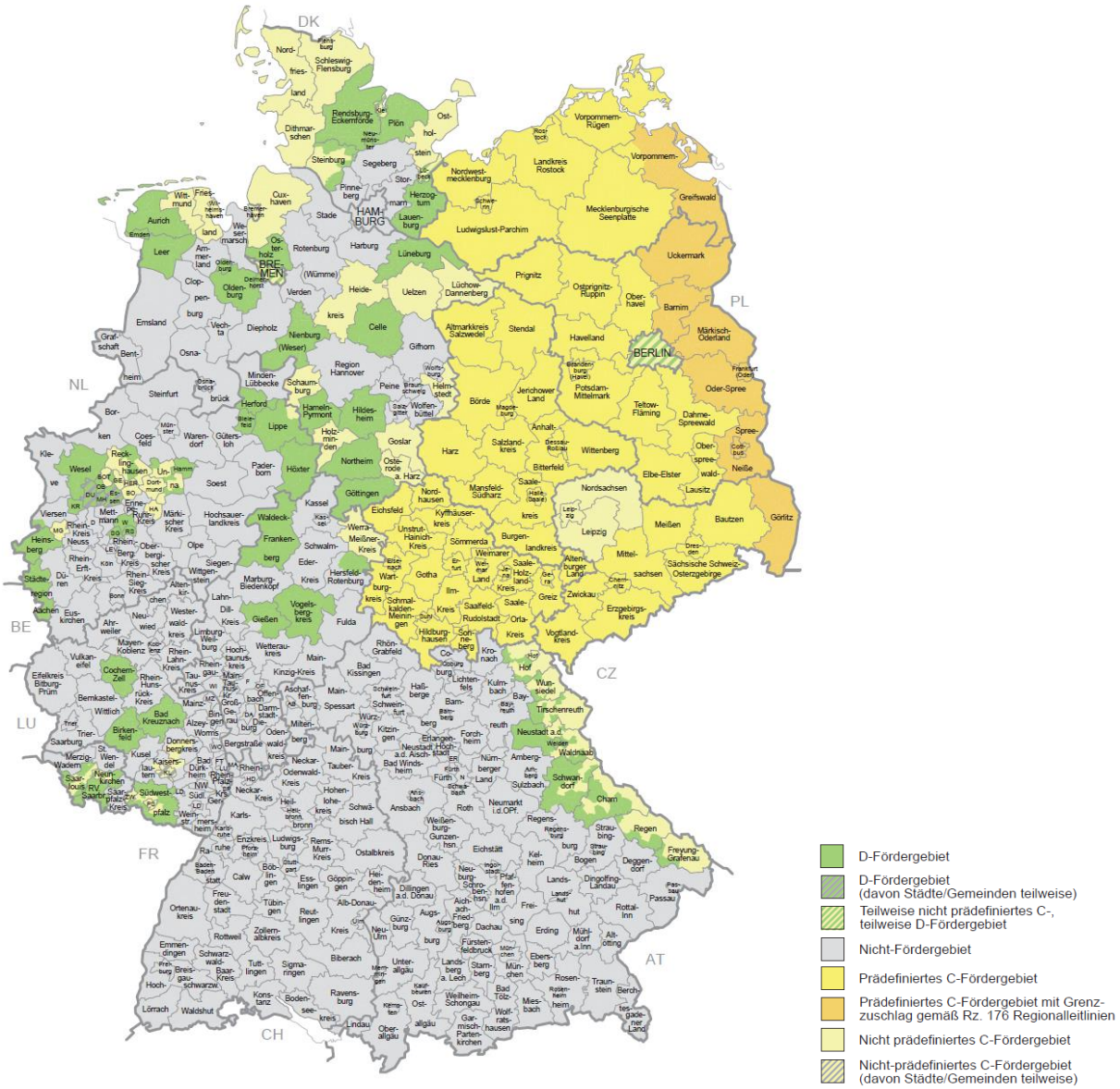
Aid Area 1	**Article 107(3)(c) predefined**
Central Ostrobothnia	
Kainuu	
Lapland	
Northern Karelia	
Northern Ostrobothnia	
Northern Savonia	
Southern Savonia	
Aid Area 2	**Article 107(3)(c) non-predefined**
Salo	
Äänekoski	
Viiitasaari	
Pihtipudas	



Assisted Areas in France 2014-20

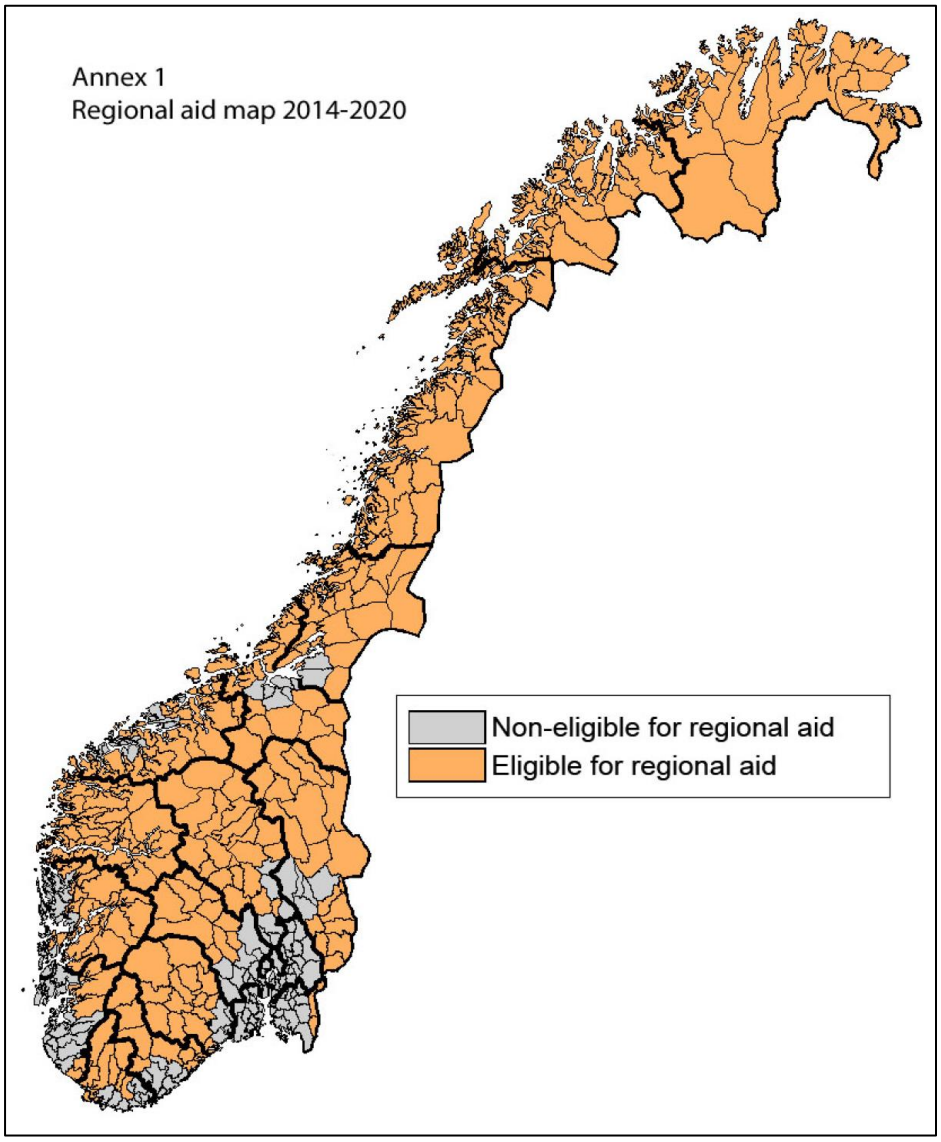


Assisted Areas in Germany 2014

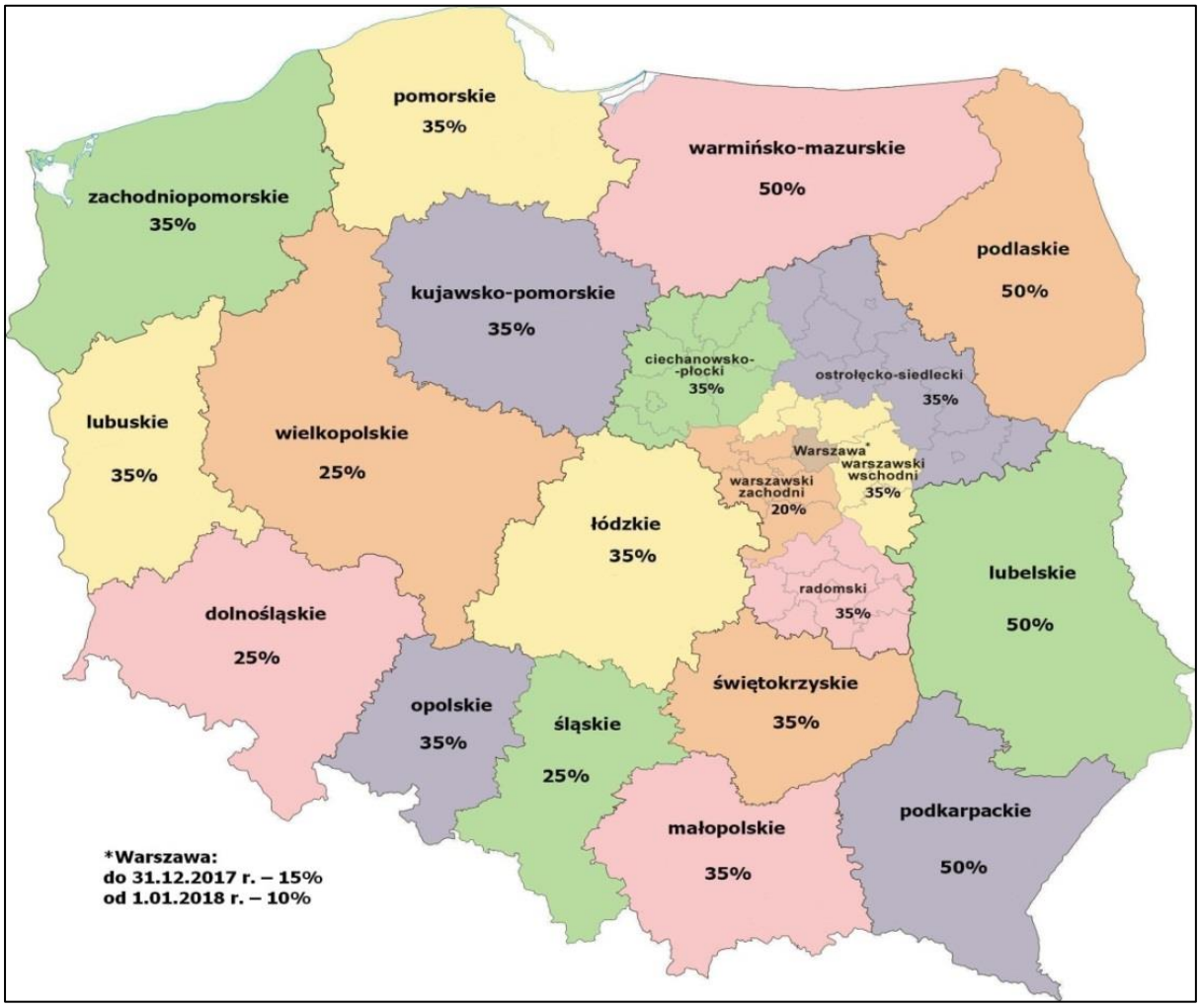


Source: Federal Ministry for Economic Affairs and Energy

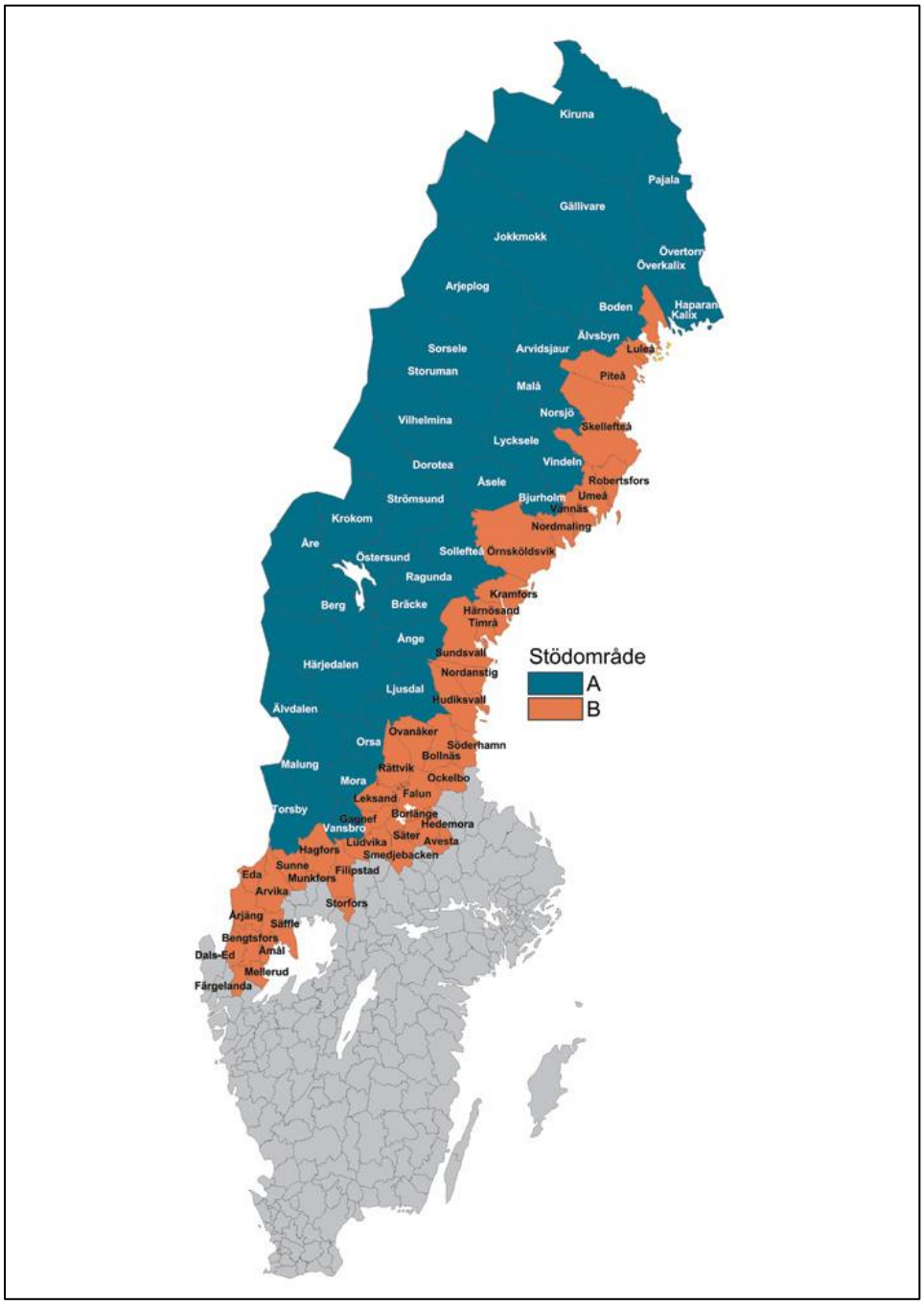
Assisted Areas in Norway 2014-20 (Investment Aid)



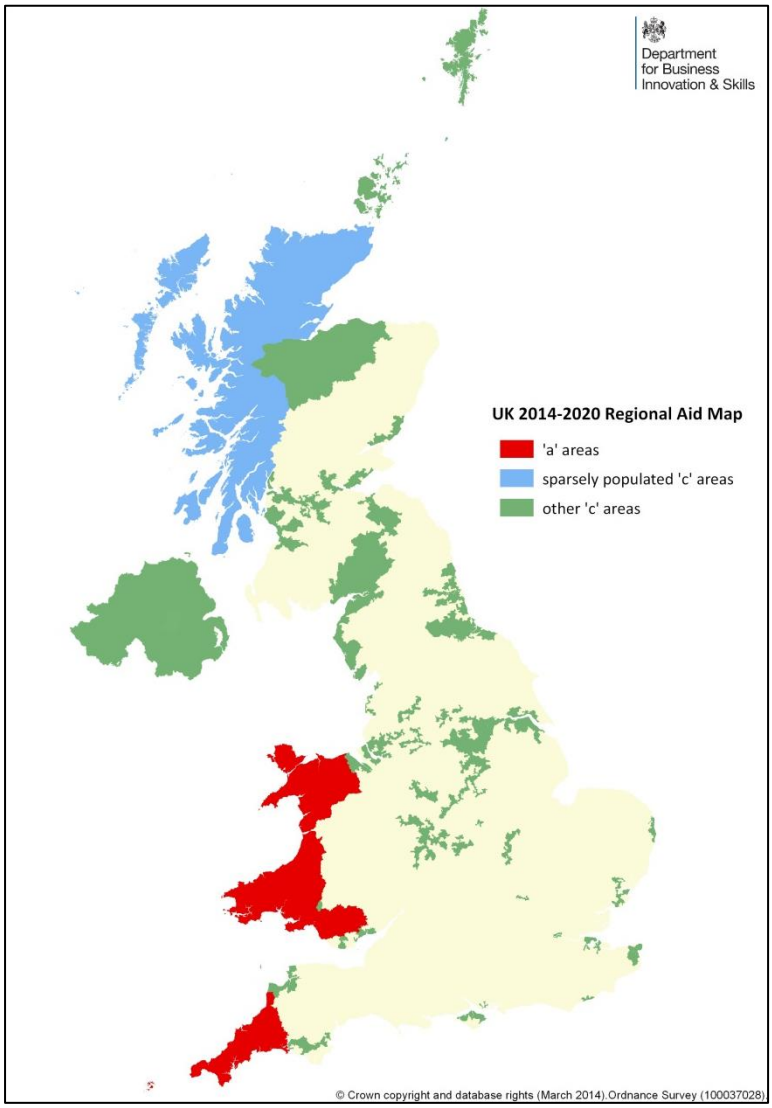
Assisted Areas in Poland 2014-20



Assisted Areas in Sweden 2014-20



Assisted Areas in the United Kingdom 2014-20



EoRPA RESEARCH

This paper has been written by Fiona Wishlade of the European Policies Research Centre (EPRC), initially drafted as a report produced for the EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from 12 European countries. The Consortium provides sponsorship for EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. At time of writing, the EoRPA members comprised the following partners:

Austria
- Bundeskanzleramt (Federal Chancellery), Vienna

Finland
- Työ- ja elinkeinoministeriö (Ministry of Employment and the Economy), Helsinki

France
- Commissariat Général à l'Egalité des territoires (General Commissariat for Territorial Equality, CGET, previously DATAR), Paris

Germany
- Bundesministerium für Wirtschaft und Energie (Federal Ministry for Economic Affairs and Energy), Berlin
- Ministerium für Wissenschaft und Wirtschaft (Ministry of Science and Economic Affairs), Sachsen-Anhalt

Netherlands
- Ministerie van Economische Zaken (Ministry of Economic Affairs), The Hague

Norway
- Kommunal- og moderniseringsdepartementet (Ministry of Local Government and Modernisation), Oslo

Poland
- Ministerstwo Rozwoju (Ministry of Development), Warsaw

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 research for the country reviews was undertaken by EPRC in consultation with EoRPA partners. It involved a programme of desk research and fieldwork visits among national and regional authorities in sponsoring countries during the first half of 2016. The EoRPA research programme is directed by Professor John Bachtler, Dr Sara Davies and Fiona Wishlade, and managed by Heidi Vironen.

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United Kingdom: Rona Michie, EPRC

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Disclaimer: It should be noted that the content and conclusions of this paper do not necessarily represent the views of individual members of the EoRPA Consortium.

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