

The Overhaul of the Regional Aid Guidelines and the Implementation of Economic Analysis: Some comments

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*European State Aid Law Institute, 7-8 June 2012,
Brussels*

Context for regional aid reform

- State aid modernisation
 - ‘smart sustainable growth’; focus on cases with biggest impact; streamlining rules and faster decisions. Also, emphasis on public spending.
- Cohesion policy reform
 - new geography of intervention: economic change results in new map of ‘less developed’ regions; new category: ‘transition’ regions - GDP(PPS) between 75% and 90% EU average
- Fallout from financial and economic crisis
 - regional economic disparities shifting, some rapidly; ‘real’ effect on regional economic geography and statistical impacts, especially in relative context (EU average)
- Experience of Commission, and national and subnational authorities (and public consultation)
 - Relationship between RAG and GBER; regional aid maps; aid ceilings; treatment of large investment projects...

Long term trends in regional aid control

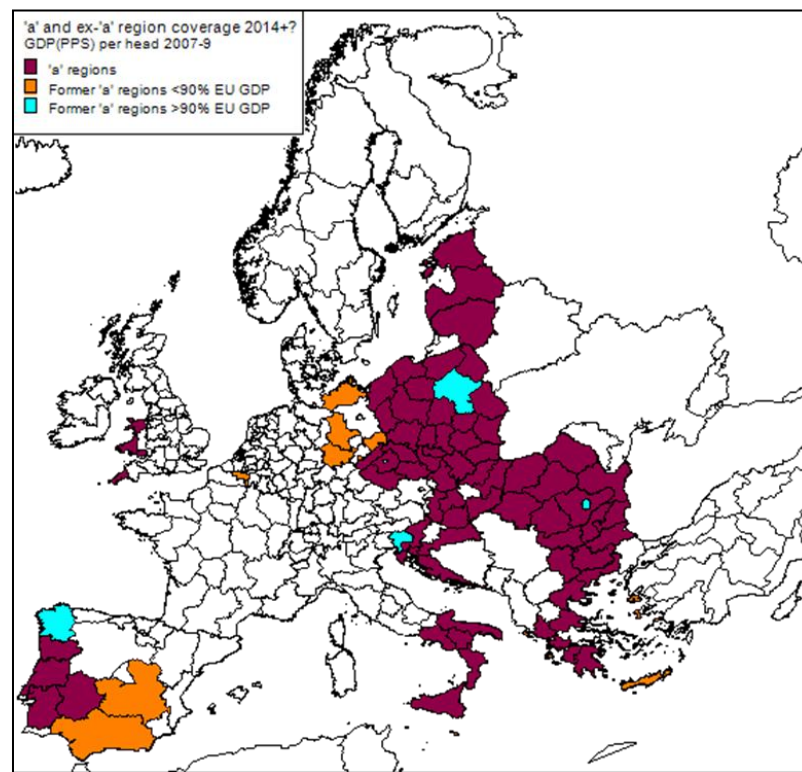
- Successive COM interventions have:
 - restricted forms of aid to transparent investment/employment aid measurable in grant equivalents; plus v. limited operating aid
 - narrowed geographical scope of regional aid (dramatic reductions in assisted area coverage esp. in EU15 as measured in population - 47% in 1999 → 32% now)
 - lowered regional aid rate maxima (historically up to 75% NGE in 'a' regions and 30% in 'c' areas, now typically 30-50% GGE and 10-15% GGE)
 - imposed tougher rules and greater scrutiny of aid to large projects; more 'economic analysis' of large cases and lower rates for all LIPS
 - applied predictable frameworks (2000-6; 2007-13; 2014-20?), facilitating (and constraining) regional development policies; contrast with *ad hoc* approaches until 1990s
- Regional aid discipline a mature system; many aspects now uncontroversial; unique role in dampening competitive outbidding for mobile projects. A success story?

Reform agenda?

- Key proposal: exclusion of support for large firms in 'c' areas ('a' regions only); 'c' area map would simply determine availability of regional 'bonus' for SMEs
- Further reduction in EU27 assisted area coverage (from c46%→c42% of population)
- Changes to transitional arrangements for former 'a' regions
- 'c' area population 'quotas' decided on basis of EU GDP and unemployment averages, not *national* situation
- Lower aid maxima for all firm sizes and regions (no aid for large firms in 'c' areas); eligible expenditure capped?
- Some proposals have significant implications for some Member States regional policies
- Remains to be seen which are retained in final draft....

Some issues...

- GDP(PPS) per head entrenched for EU policy, but never used by Member States for ‘problem’ region designation: relevance? Arbitrariness? Volatility in current climate (2007-9 data shows significant differences in eligible regions from 2006-8)
- Does use of EU averages to determine ‘c’ area coverage adequately reflect Article 107(3)(c) and case law related to areas disadvantaged in *national* context?
- If ‘c’ areas only determine ‘bonus’ rates for SMEs, is such a prescriptive approach to maps needed? Scope for sharper rural or urban development focus instead of administrative units?



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- Shift in emphasis: impact of aid on competition → effectiveness of regional aid?
 - Is effectiveness of regional policy an *EU Competition policy* concern? Does perceived non-effectiveness justify outlawing regional aid in 'c' areas?
 - If so, why not also 'save 'a' regions from themselves'?
 - Incentive effect:
 - National policymakers *are* concerned about incentive effect, but information asymmetries complicate assessment
 - Have lower aid values and discretionary administration increased windfall gains?
 - Will COM retain scrutiny of LIPs or to be replaced by eligible expenditure cap?
 - Does the prospect of LIP scrutiny reduce incentive effect? (cf. Intel IE)
 - Is aid rate 'reduction matrix' better mechanism? (note threshold effects)
 - Impact on international competitiveness? Scope to notify *ad hoc* regional aid for assessment against Regional Aid Guidelines? cf Petrolgal, Pirelli, Alas Slovakia.... Full circle in terms of scrutiny, with attendant data and delay issues as now...?
 - How might SAM affect *substance* of regional aid policy at national and subnational levels? As much industrial policy as competition policy...?