



Regional State Aid Rules for 2014-2020

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** The information and views of this presentation are those of the speaker and do not necessarily reflect the official position of the EU Commission*

Structure of presentation

- 1. Regional State aid: Basics**
- 2. Regional aid: Where?**
- 3. Regional aid: What for?**
 - 3.1 Operating aid
 - 3.2 Investment aid
- 4. Compatibility assessment of investment aid**

RAG/GBER 2014-2020

■ Purpose of regional aid:

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

■ How?

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

■ Criteria set out in RAG & GBER:

- Where can regional aid be granted?
- What can aid be granted for?
- How much aid can be granted?

Regional aid maps - 1

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

■ **Art. 107(3)(a)**

- Regions with abnormally low standard of living or with serious underemployment → reference point is EU average
→ GDP/cap lower than 75% EU average
- **Outermost Regions – automatically (Art. 349 TFEU)**

■ **Other disadvantaged areas → Art. 107(3)(c)**

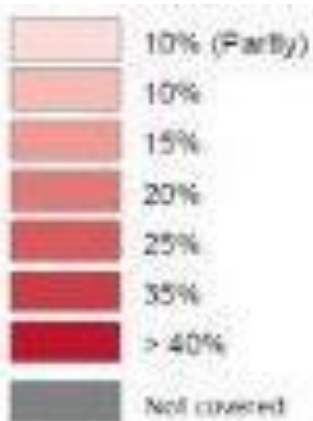
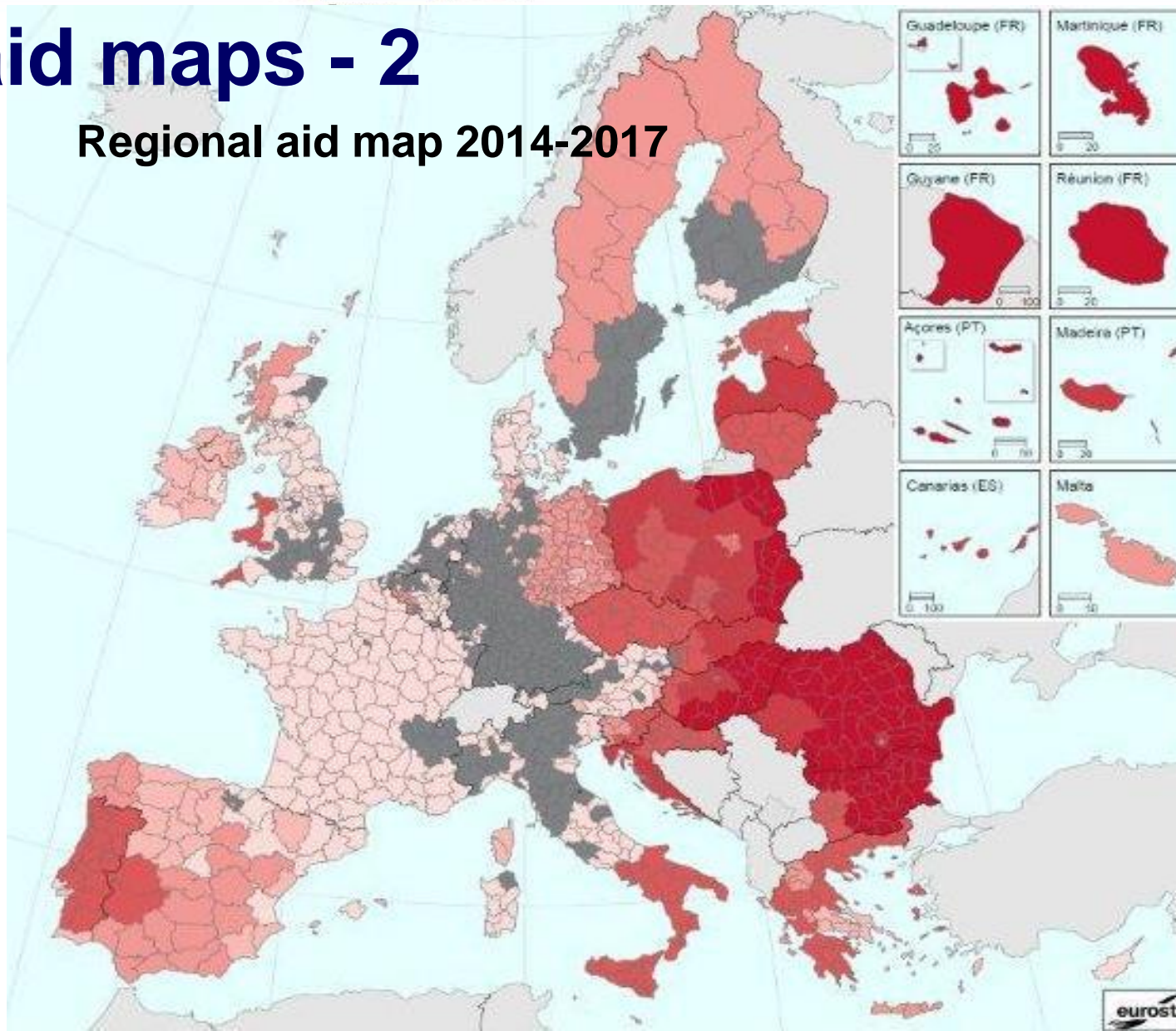
- Ex-Article 107(3)(a) regions (2011-2013)
- Sparsely populated areas
- Other regions in difficulty with population of at least 50,000



Regional aid maps - 2

Regional aid map 2014-2017

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



Regional aid maps - 3

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

Assisted area (% EU GDP/head)	Large firms
'a' areas (<45%)	50%
'a' areas (45%-60%)	35%
'a' areas (60%-75%)	25%
Former 'a' areas (until end '17)	15%
Sparsely populated areas, external border areas	15%
Other 'c' areas	10%

SME "bonus":
10% for medium-
sizes firms and
20% for small
firms

Açores 45%

Madeira 45%

Operating aid

■ Operating aid:

- aimed at reducing a firm's current expenses
- not linked to initial investment

■ Normally prohibited

■ Permitted exceptionally in cases where investment aid alone is not enough to trigger a process of regional development of disadvantaged regions:

- In least developed 'a' regions – specific difficulties - SMEs only
- In very sparsely populated 'c' regions – SME & LE
- **In Outermost Regions permanently (SME & LE)**

Principles of Regional operating aid

■ MS has to demonstrate that:

- Demonstrate the handicap/problem that needs to be addressed
- The aid is an appropriate instrument for addressing the specific problem
- Proportionate to the specific handicap – not overcompensation

■ Aid should be limited in time and progressively reduced, except in the following cases:

- Aid to prevent/reduce depopulation in very sparsely populated areas
- Aid for additional transport costs in sparsely populated areas
- **Aid for additional costs due to the permanent handicaps of the outermost areas**

GBER: Operating aid in OR - 1

- **2014: regional** operating aid for outermost regions was introduced **in GBER** to allow MS to grant aid without notification to the Commission
 - **2017: GBER** Revision included **revision of regional operating aid** provisions to address MS concerns on practical implementation
 - Main elements of the revision:
 - **Enlarged scope of the aid** – sectoral exclusions, undertakings in difficulty
 - Increase and simplification of **ceilings**
- New provisions **apply retroactively** (art. 58 GBER)

GBER: operating aid in OR - 2

■ Enlarged scope of the aid – included:

- Fishery and aquaculture (also investment aid)
- Primary agricultural production sector (also investment aid)
- Energy (also investment aid)
- Undertakings in difficulty

NO for Financial – Insurance – Intragroup activities

■ Simple conditions:

- Beneficiary's activity in the region
- No calculation of additional costs - Ceilings linked to annual turnover/labour costs/gross value added generated in the region
- Cumulation of aid only between aid schemes under the GBER

GBER: operating aid in OR - 3

Ceilings under the GBER:

Ceiling	Ceilings in the 2014 GBER	2017 Revised ceilings
Ceiling as % of annual turnover	10%	30%
Ceiling as % of annual value added	15%	35%
Ceiling as % of annual labour costs	25%	40%

Operating aid in OR - RAG

- In case MS wish to grant aid **on top of the generous ceilings of the GBER** => Notification to the Commission - **Regional aid Guidelines** – MS has to demonstrate compliance with **cumulative conditions**:
 1. Identify of **specific additional costs** related to permanent handicaps
 2. Demonstrate that the aid measure is **appropriate**; eg. the measure incentivises the undertaking to develop its business in an efficient manner? Why not other less distortive means?
 3. **Incentive effect**: demonstrate that the level of economic activity would be significantly reduced otherwise.



Operating aid in OR - RAG

4. Proportionality:

- ✓ Determination of the aid in relation to a predefined set of eligible costs fully attributable to the identified problems
- ✓ No excess of these costs
- ✓ Aid amount / beneficiary : proportional to the level of problems experienced by each beneficiary

To be notified under RAG

- Aid to **shipbuilding & coal**
- Individual aid > Notification threshold
 - Individual aid > Maximum aid allowed for project > €100 Mio
- Sectoral aid schemes
- If beneficiary has carried out a **relocation to the establishment of the aided investment** (2 years before) or have not committed that they will not do so up to 2 years after completion of the investment
- Aid measures involving **non-transparent forms** of aid

NO regional aid under RAG for:

Energy, transport, airports, fisheries & aquaculture, primary agricultural production

Investment aid: “*Initial investment*” - 1

■ Investment in tangible and intangible assets relating to

- Setting up of a new establishment;
- Diversification of output of establishment into products not previously produced in the establishment;
- Extension of the capacity of an existing establishment;
- Fundamental change in the production process.

■ Acquisition of assets linked to establishment that has closed or would have closed

■ **No replacement investment!**

Investment aid: “*Conditions*”

■ Conditions for regional investment aid:

- Maintenance of investment (or jobs) in the region:
 - 5 years for large enterprises
 - 3 years for SMEs
- 25% of investment should be from own contribution or external finance, but totally free of public support

Investment aid: “*Eligible costs*”

Two ways to calculate “eligible costs”:

■ **Costs calculated on the basis of *investment costs*:**

- Material assets (land, building, equipment)
- Immaterial assets:
 - Transfer of technology
 - Patents, operating or patented and non-patented know-how licenses
 - For large enterprises, limited to 50% of eligible costs

■ **Costs calculated on the basis of *wage costs*:**

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

Investment aid: *“How much aid?” - 1*

- Maximum allowable aid is defined as a percentage of eligible costs of the initial investment (Gross Grant Equivalent)
- **Maximum aid intensity is set in the regional aid maps** approved by the Commission (current PT map: SA. 46356)

Açores 45%

Madeira 45%

+10 % for Medium

+20% for Small

Investment aid: *“How much aid?”* - 2

■ Example: investment of small enterprise

- **Regional aid ceiling:** 40% for LE + 20% Small enterprise
- **Project:**
 - Investment in building & machines: € 400,000
 - Purchase of licences: € 100,000
 - Creation of 10 jobs (annual labour cost: € 20,000)
- **Eligible cost:**
 - Investment cost: € 400,000 + € 100,000 = € 500,000
 - Labour cost: (10 jobs * € 20,000) * 2 years = € 400,000
- **Maximum aid:** € 500,000 * (40% + 20%) = € 300,000

Investment aid: *“How much aid?”* - 3

- **Large Investment Projects:** Eligible cost > €50 Mio

- Scaled down **“adjusted aid amount”**:

Adjusted max. aid amount = $RAC \times [(50 + (0.5 \times B) + (0.34 \times C))]$

(B = Cost between 50 Mio and 100 Mio; C = Cost above 100 Mio)

- **Example:**

- Regional aid ceiling for LE: 40%
- Eligible cost = €120 Mio
- Adjusted maximum aid amount:

$$40\% \times [(\text{€}50\text{Mio} + (0.50 \times \text{€}50\text{Mio}) + (0.34 \times \text{€}20\text{Mio}))] = \text{€}32.72\text{Mio}$$

Investment aid: *“How much aid?”* - 4

- Projects involving high aid amounts → **To be notified!**

	Notification required if:
10% Region	Aid > € 7.5 Mio
15% Region	Aid > € 11.25 Mio
25% Region	Aid > € 18.75 Mio
35% Region	Aid > € 26.25 Mio
45% Region	Aid > € 33.75 Mio
50% Region	Aid > € 37.5 Mio

Compatibility Assessment of Investment Aid under RAG

■ Common principles:

- contribution to an objective of common interest
- necessity of the aid
- appropriateness of the aid
- incentive effect of the aid
- aid limited to the minimum necessary
- avoidance of undue negative effects (black-list)
- transparency of aid + evaluation

■ NO compatible aid if one principle is NOT respected

■ Requirements for aid under - **RAG more demanding than GBER**

1. Objective of common interest

2. Appropriateness

RAG:

- ESI Funds co-financed schemes:
 - Assumed
- Other measures
 - MS to demonstrate contribution to development strategy for the region and appropriateness of measure

GBER:

- -

3. Necessity of aid - Maps

4. Incentive effect

Always: Submission of standard application form before start of work

RAG:

- **Counterfactual:**
 - Impact on investment decision
 - Impact on location choice
- **Explanation of counterfactual scenario necessary**
- **LE's to submit evidence on counterfactual scenario**

GBER:

Additional for LE's in case of ad-hoc aid:

- Documentation to be submitted by beneficiary showing that project would not have been carried out in the area concerned or would not have been sufficiently profitable in absence of aid

5. Proportionality

In all cases:

Aid should respect (adjusted) maximum aid intensity set out in RAM

RAG:

Additional condition for LE's:

- Aid should not exceed net extra cost of implementing the project in the area concerned
- Verification:
 - Notified individual aid: COM
 - Aid schemes: MS

GBER:

■ -

6. Avoid undue distortive effects

RAG

■ Distortive effects:

- Scenario 1: Product market (overcapacity, market power)
- Scenario 2: Location

■ No aid if:

- it attracts an investment from a poorer region or from a region with the same level of development^(*)(°)
- relocation of an investment due to the aid (°)
- if investment takes place on a market in absolute decline(°)

GBER

GBER does not apply :

- Relocation
- Sectoral aid schemes

(°) EC to verify when assessing notified individual aid

(*) MS to verify when awarding aid under scheme

7. Transparency

RAG

- **Publication on Central/Regional Website:**
 - Text of aid scheme
 - Aid granting authority
 - Individual aid (Aid scheme, aid granting authority, beneficiary, form and amount of aid, region)
- **Evaluation**
 - Large or novel aid schemes
 - COM may limit duration to four years

GBER

- **Publication on Central/Regional Website:**
 - Text of aid scheme
 - Aid granting authority
 - Individual aid > € 0.5 Mio (Beneficiary, aid amount, type of measure, sectors, aid instrument, ...)
- **Evaluation:**
 - Schemes > € 150 Mio
 - Evaluation Plan to be approved by COM

Thank you for your attention!

