Targeted review of the General Block Exemption Regulation (State aid): extension to ports and airports

HT.4691

Interact Programme

To Whom it May Concern,

INTERACT is the platform of European Territorial Cooperation (ETC or 'Interreg') programmes. One of the objectives of the Interact programme is to support Interreg programmes in the simplification and harmonisation of their approaches to programme and project management.

Interreg programmes provide grants to co-finance cooperation projects across national borders. Decisions to co-finance cooperation projects are taken jointly by all Member States participating in a programme. **Our response below is based on inputs we received from Interreg programmes**.

For Interreg programmes and projects State aid rules still cause un-proportional administrative burden. Despite noticeable improvements through GBER Article 20, **Interreg programmes and projects will spend more than 100 million Euros on dealing with State aid rules in the current Structural Funds period.** This estimate is based on resources directly spent by programmes and projects on compliance with State aid rules and does not take into account a wide variety of less tangible costs (We provide more details on the estimate and less tangible costs at the end of this contribution).

At the same time, Interreg programmes and projects are relatively small and potential negative impacts of cooperation projects on competition in the internal market appear very limited. Programmes continuously receive feedback from all levels (technical, political/institutional) that Interreg should be exempted from State aid since - by its nature - Interreg focuses on cooperation for the general interest of the European Union. Experiences from 25 years of Interreg show that there is insignificant market distortion through Interreg projects. All Interreg projects consist of multi-national partnerships mostly with a small amount of public funds (usually below 5 million EUR). They are approved and monitored by multi-national committees and are meant to reduce the barrier effects of European borders for the public wealth. Cooperation across national borders can also help to reduce existing distortions of the single market.

Article 20 of the GBER has already facilitated the application of State aid rules for certain types of projects and beneficiaries. Still, due to the lack of a suitable solution for Interreg as a whole (all sectors, all types of beneficiaries, all intensities of public support), costs for dealing with State aid are still un-proportionally high.

To find a one-size-fits-all solution to State aid in Interreg (e.g. an exemption of ETC from State aid or a widening of the scope of Article 20 of the GBER – see below) would have substantial benefits beyond saving 100 million Euros. As described in more detail below, programmes would be able to fund better projects, reach their programme goals more effectively and lower their error risks. Programmes would also be able to treat all project beneficiaries equally, regardless of their size, economic sector or project activity. Europe as a whole would benefit from better cooperation projects and EU cooperation policies and actions would improve their reputation through effective and very noticeable simplification.

One-size-fits-all solution to State aid in Interreg - Widening of the Scope of GBER Article 20

Programmes generally welcome Article 20 of the GBER but urgently need simplification for project beneficiaries that presently cannot be covered by Article 20. In order for Article 20 to work for Interreg in a practical way, Interreg programmes kindly ask the European Commission to consider one Article for Interreg programmes that covers all project beneficiaries, sectors and activities:

1. <u>Article 20 should cover all types of Interreg projects beneficiaries</u>. Currently Article 20 covers only SMEs and this is too limited for typical Interreg programmes. Typical project beneficiaries include also large enterprises such as some research institutes as well as others that do not fall under the definition of SME.
2. <u>Article 20 should cover all relevant sectors</u>. Due to Interreg's focus on regional development, Interreg projects cover a wide range of sectors, including some not covered by the GBER such as the primary sector of the economy (e.g. fisheries, aquaculture and agricultural production). Article 20 should be extended to cover all sectors in Interreg.
3. <u>The permissible aid ceiling should be raised</u>. Because of the low permissible aid ceiling (50%) of Article 20, programmes currently have to deal with different co-financing rates for different partner activities. This causes un-proportional administrative burden in a cooperation context. Some Interreg programmes cannot use Article 20 at all because of the low aid ceiling. The only practical way to simplify would be to raise the permissible aid ceiling to 85% in order to match the maximum co-financing rates of Interreg projects.
4. <u>Article 20 should cover all activities co-financed by Interreg</u>: Programmes currently have to combine Article 20 with other Articles of the GBER (e.g. RD&I) because Article 20 does not fully cover the needs of cooperation projects (i.e. the variety of projects activities). This leads to different co-financing rates for different partners and activities within the same cooperation project that are very difficult to administer and hard to communicate to beneficiaries.

5. It should be clarified that IPA CBC and (potentially) ENI programmes can also apply Article 20.

Costs of compliance with current State aid rules (quantifiable costs)

Interact asked Interreg programmes to estimate time and resources currently allocated to dealing with State aid in a cooperation context. This concerns resources on the side of Managing Authorities (MA) and Joint Secretariats (JS) as well as project beneficiaries and national controllers in charge of management verifications (First Level Control).

Figures provided below are based on the estimates of 6 cooperation programmes (3 Transnational programmes and 3 cross-boder programmes) well representing the Interreg community.

*How much would your **Managing Authority / Joint Secretariat** save if your programme would have a one-size fits all solution to all State aid issues?*

Most programmes estimate that the MA/JS currently allocates about 1 Full Time Equivalent (FTE) to dealing with State aid. Figures can be much higher for individual programmes depending on their approach to State aid and the types of projects. Assuming an average yearly employment cost of EUR 70.000 per FTE, the total amount that could be saved in MA/JS employment costs amounts to EUR 420.000 over a period of 6 years (2015 to 2020) for each programme.

Based on a total of 79 Cooperation programmes (not counting IPA CBC and ENI), potential saving for Interreg MAs and JS would amount to approximately **EUR 33,2 million** (= EUR 70.000 * 6 years * 79 programmes).

There was no apparent correlation between the size of the programme (Interreg programmes manage between 50 and 400 Million EUR ERDF) and the resources spent by MA/JS on State aid, indicating that 1 FTE is required to obtain sufficient State aid expertise for the programme Managing Authority and Joint Secretariat.

In addition to internal resources, many programmes (50% among the programmes that answered the questionnaire) also obtain **external State aid expertise**. These programmes spend EUR 3.000 to EUR 20.000 per year on State aid experts in addition to own resources. Assuming that only 50% of the programmes involve external experts in State aid assessment (39,5 programmes) and these programmes need external State aid expertise in the first three years only, the total potential savings can be estimated at **EUR 0,4 million to EUR 2,4 million** (= EUR 3.000 to 20.000 * 3 years * 39,5 programmes).

*How much would your **projects** (all of them combined) save if your programme would have a one-size fits all solution to all State aid issues?*

Programmes estimate that each beneficiary has to invest between 2 to 5 person days in the beginning of the project (delivery of documentation for State aid assessment). During project implementation, substantial resources continue to be needed, for example, for project beneficiaries dealing with aid to third parties (e.g. training of undertakings).

A conservative estimate focusing only on resources needed in the beginning of the cooperation project (2 to 5 person days) and assuming about 25.000 unique project beneficiaries in Interreg (few of which will end up being State aid relevant) and daily employment costs of EUR 200, results in a total saving potential of **EUR 10 million to EUR 25 million EUR** (= 2 to 5 person days * 25.000 projects * EUR 200).

Any other potential savings (e.g First Level Control, Certifying Authority)?

In many programmes controllers are involved in State aid monitoring (Among the programmes that responded to the questionnaire, 50% provided estimates for FLC). Controllers monitor if deviations from the original work plan could be State aid relevant. They also verify certain documents such as *de minimis* declarations in case of aid to third parties.

Programmes estimate that 2 to 3 FTE per year are needed to deal with State aid relevant projects on the side of the controllers over the course of 6 years (2015 to 2020). Assuming that only 50% of the programmes involve controllers in State aid monitoring (39,5 programmes), and yearly employment costs of EUR 60.000 per controller, the total potential savings can be estimated at **EUR 28,4 million to EUR 42,7 million** (= 2 to 3 FTE * EUR 60.000 * 6 years * 39,5 programmes).

There would of course be savings for other authorities as well, such as members of the Monitoring Committees, Audit Authorities and Certifying Authorities. To estimate these saving further investigations would be needed.

Total quantifiable savings

Based on the figures mentioned above, Interreg programmes will spend between EUR 72 million to EUR 103 million on dealing with State aid in the current Structural funds period. Actual numbers will be even higher as the total quantifiable costs of compliance would also need to include IPA CBC (and potentially ENI) programmes as well as resources needed on the side of authorities not covered by the estimate (Monitoring Committees, Audit Authorities and Certifying Authorities).

Potential savings arising from the simplification and adaptation of Article 20 to Interreg reality will thus be in the magnitude of at least EUR 100 million.

Intangible costs of compliance with current State aid rules

In addition to the monetised costs of dealing with State aid outlined above, cooperation programmes also incur ‘intangible costs’ related to compliance with State aid rules that cannot easily be expressed in euros. Interact therefore asked programmes to provide information on the advantages expected from further simplification of the State aid regulatory framework for cooperation. Answers by the programmes are summarised below.

Any additional advantages that cannot easily be expressed in monetary terms such as for example better projects, fairer approach to all project beneficiaries, better reputation on European cooperation, etc?

Programmes are convinced that simplification of the GBER (one-size-fits-all) would have substantial 'intangible' benefits for cooperation programmes and projects. The most important ones are listed below:

If a one-size-fits-all solution for State aid in Interreg would be realised:

- Programmes would **gain much needed legal certainty** in the application of State aid rules in a cooperation context, especially during project preparation and assessment. As a consequence, programmes would significantly reduce the error risk related to State aid and potential irregularities and also eliminate related administrative burden.
- Programmes could **attract a much wider variety of beneficiaries**, including those that currently cannot participate in cooperation if co-financed only 50%. This applies mostly to NGOs, non-profit organisations, social enterprises, and enterprises in the primary sector of the economy such as agriculture or aquaculture.
- Programmes could **provide the same grant rate to all beneficiaries**. In a cooperation context fairness towards all beneficiaries is of central importance. Currently it is very hard to communicate why – in a cooperation context - certain beneficiaries are discriminated against based on economic sector, size or project activity.
- Programmes would be allowed to **better concentrate on delivery and good results and fund more relevant projects of higher quality.** Many good projects are currently discouraged from applying to Interreg, due to the complexity and inappropriateness of the rules. Interreg programmes are also clearly disadvantaged in relation to programmes such as Horizon 2020, which do not need to adjust maximum co-financing rates to aid ceilings.
- Programmes would be able to **better achieve programme objectives** as it would be easier to attract suitable project beneficiaries and re-direct newly freed programme and project resources towards quality of project results. If projects in primary sectors of the economy (e.g. fishery, aquaculture, agricultural production) would be covered under Art. 20, programme interventions of crucial importance for territorial cohesion such as 'blue growth' would significantly benefit.
- Programmes could also **better focus on achieving the target set by the EU2020 strategy.** Currently in many programmes the majority of the State aid issues are related to projects within the "Innovation" priority axis. Many projects try to minimize the market relevance of their project activities because they are afraid of the consequences this might have in terms of State aid.
- **Programmes, projects and the European Union as whole would benefit from an improved reputation of European cooperation**. Simplified State aid rules

would be clearly noticeable for all types of project beneficiaries as well as programme management and national controllers. Finding a one-size-fits-all solution for State aid in Interreg would be a strong signal of simplification and reduction of administrative burden.

We highly appreciate your time and consideration.

Best Wishes,

INTERACT Programme