

CPMR contribution to the European Commission's consultation on the review of the Regional Aid Guidelines (RAG) 2014-2020

Main messages

- Aid intensity ceilings for both 'a' and 'c' areas should be revised upwards compared to 2014-2020 in the light of the long-term effects of the crisis.
- The calculation of the aid intensity ceilings should be based on Net Grant Equivalent (NGE), as per the periods prior to 14-20. The proposed use of the Gross Grant Equivalent (GGE) would de facto lower the ceilings and penalise Member States with higher taxation rates.
- The guidelines 20212-2027 should include a mechanism whereby Member States can designate areas for short periods, outside the national quota, in response to specific serious situations, such as unusual event with a major economic impact.
- The guidelines should establish a sub-category of pre-defined 'c' areas for the islands with differentiated and favourable aid intensity ceilings. The concept of 'Island areas' should include island regions listed either as NUTS II or III areas, and small islands included within mainland NUTS II or NUTS III areas. Island areas should be included in the list of areas benefiting from operating aid to offset some of the transport costs.
- To promote the priorities of the European green new deal a higher aid intensity should be set for the "green" investments in assisted areas (e.g. a 10% "bonus").
- A new intermediate category of enterprises between SMEs and large companies should be introduced based on the definition of mid-cap companies.



1. Introduction

The context in which the review of the regional aid guidelines takes place is in many respects unprecedented. The European Union is facing the worst economic downturn on record due to the Covid-19, with an asymmetric impact across its territories. Exceptional measures have been put in place to tackle the crisis, including a temporary relaxation of state aid rules (Temporary Framework).

Reverting too hastily to the regular state aid framework would hamper the pace of the recovery given the protracted uncertainty over the pandemic. At the same time, the crisis has confirmed the need to envision a **more flexible approach to state aid rules** in the long term in view of making them more responsive to the emergence of new challenges. **The review of the regional aid guidelines should take into full account these two aspects.**

It must also sharpen the territorial focus, in particular by acknowledging the peculiar situation of islands in accordance to art. 174 TFEU. The draft guidelines published by the European Commission marks a partial step in the right direction, namely by taking into consideration the climate and digital priorities and by raising the maximum aid intensities compared to the previous periods. However, several improvements would still be needed.

Over the next few years the Recovery Plan and MFF will generate staggering volumes of public investments across Europe, mostly in the form of grants. The regional aid framework should be revised in a such a way that it helps maximise, rather than hinder, the impact of these investments. This holds particularly true for areas that haven't exploited the current loosening of state aid rules because of a reduced fiscal capacity. These areas should continue to benefit from an advantageous state aid framework once the money of the recovery plan and MFF will be deployed.

2. Aid intensities

2.1 Higher aid intensity for 'a' areas

In the draft guidelines for 2021-2027 the maximum aid intensities are generally proposed to be increased across the board, which is a positive sign considering that the ceilings had being constantly lowered since 2000-2006. Yet an adequate response to the crisis would require further adjustments upwards.

Aid intensity in "a" areas should be set at 50% across the three sub-categories (i.e.: ≤50%, 55-65%, ≥65%) or should be brought to at least 40% for the areas with a GDP between 65% and 75%.

A common threshold for all the three sub-categories, or a higher threshold for the upper sub-category of 'a' area, is more than justified. A significant number of less developed regions **have been heavily affected in the past by the reduction of ceilings combined with the statistical effects of the enlargement.** On top of this, economic evidence shows that these regions would experience a much slower recovery than well-off regions.

2.2 Higher aid intensity for 'c' areas



The fallout of the crisis is being felt to varying degrees across all EU territories, not only the more disadvantaged. In the light of this, **the higher ceiling for non pre-defined 'c' areas below 100% of GDP set out in the draft guidelines (15% versus 10% in the previous period) is a welcome step.**

This would be consistent with the evidences gathered in the Commission in the 7th Cohesion Report as well as recent economic literature, according to which many relatively wealthy areas are seeing a constant decline in their GDP due to the combined effect of the technological changes and globalization Art. 107(3)(c) TFEU should be exploited to a greater extent to impede this “development trap” turns into new territorial disparities.

2.3 Reverting to Net Grant Equivalent (GGE)

The draft guidelines for 2021-2027 confirms the employment of the Gross Grant Equivalent (GGE) criterion, instead of Net Grant Equivalent (NGE) as it was the case before 2014-2020, for the calculation of the ceilings for the maximum aid intensity.

As indicated in CPMR past documents, the introduction of the GGE reduces the scope of application of the regional aid guidelines. **The inclusion of tax charged on grants in the calculation of ceilings would de facto reduce, often significantly, the overall aid intensity. Moreover, it penalises Member States with a higher taxation rate on SMEs.**

2.4 Temporary 'c' areas in response to serious situations

The fixing of a map for seven years impedes the use of regional aid as a means of rapid response to structural changes or unpredicted events in a region. To counter this problem, the draft guidelines propose a mid-term review in 2024 and allow Member States to establish a reserve of national population coverage which could be allocated to a specific area when the need arose.

However, the reserve should remain within the population coverage ceiling for that Member State. This gives **Member States a very narrow scope for intervention, if any, in the face of unpredicted events affecting a specific area.**

The **regional aid guidelines for 2021-2027 should include a provision under which the Commission can authorize Member States to designate areas for short periods, outside the national quota, in response to specific serious situations, such as events with a major economic impact (e.g. a major natural disaster, Brexit).**

3. A specific recognition to insular areas

The draft guidelines very rightly maintain a special consideration for the specific situation of the Outermost regions and of the areas with a low-population density, **but neglects the issue of islands.** Irrespective of their level of development, insular areas suffer from a number of handicaps making the social and economic development more difficult to achieve. These difficulties are explicitly acknowledged by the Treaty (Art. 174 TFEU) giving a strong legal footing to a special treatment for these areas.

In the light of the above, the regional aid guidelines for 2021-2027 should establish a sub-category of pre-defined 'c' areas for the islands with differentiated and favourable aid intensity ceilings. This new category would have a very marginal effect on national quotas given that the population of islands (including Malta and Cyprus) is below 3.5% and many areas are already placed under the 'a'



category. **The concept of ‘island areas’ should include island regions listed either as NUTS II or III areas, and ideally also small islands included within mainland NUTS II or NUTS III areas.**

Creating a specific category for islands would also build on – and ensure a greater alignment with – the General block exemption Regulation (GBER), which envisages a specific category for “remote regions”, albeit limited to passenger transport and covering not only the insular regions.

There is robust evidence for giving a special treatment to insular regions under the regional aid guidelines. Many island in Europe suffer from a wide set of unfavourable development conditions intimately connected with the island dimension. This is highlighted for example by the Regional Competitiveness Index (RCI) published by European Commission. For instance, according to the index from 2019, Mediterranean islands has lower values for all the variables related to an attractive and sustainable environment for businesses and citizens as opposed to European average figures. Comparing RCI and GDP as a parameter to assess the socio-economic status of a region, islands regions have a much lower position in the RCI than in the ranking based on GDP.

On top of higher aid intensities, island areas under the new category should be included in the list of areas benefiting from operating aid to offset some of the transport costs.

4. Other issues

4.1 A new Intermediate category of enterprises (mid-caps)

The draft guidelines reiterate the exclusion of large enterprises from the scope of art 107(3)(a) and (c), except for a limited number of cases. The Commission’s argument on the relative inefficiency of aid to large companies must be **tempered by an appreciation of the driving effect that such firms have on a region’s economic fabric, especially within a vulnerable region.**

Therefore, a more flexible and nuanced approach is preferable. For instance, the definition of what is a “large company” should reflect the crucial difference between, say, a firm with 251 employees with historical roots in the region and a multinational with much greater capacity in terms of access. Under the current definition, an enterprise employing, for example, 250 workers, is treated in the same way as an enterprise employing 50 000 workers.

The creation of an intermediate category between SMES and large companies should be envisaged based on the definition of mid-cap companies as it is referred to by the European Investment Bank or the Commission itself in the framework of European funding programmes. The specific category would cover companies with 250 to 1,500-3,000 employees. For those intermediate enterprises, the aid intensities would be more favorable and limitation to new economic activities applied to large enterprises would not be valid.

4.2 Undertakings in difficulty

The impact of the Covid-19 crisis on several firms will be long-lasting. In line with the temporary framework, the Commission could envisage to drop the exclusion of undertakings in difficulty, limited to those in difficulty as a result of the crisis, from the scope of Regional Aid Guidelines at least until 2022.

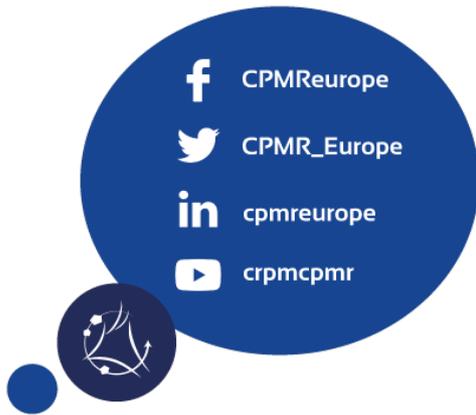


4.3 Contribution to the Green Deal

The draft guidelines put the green deal as a new common objective of the regional aid alongside the chief goal of reducing regional disparities. This entails that regional aid schemes/individual investments should stem from strategies that are consistent with the green deal priorities and should not cover certain categories that are environmentally harmful. **The Commission could take this further by setting a higher aid intensity for green investments in assisted areas: the aid intensity may be increased by up to 10% percentage points.**

4.4 ...and the unemployment?

The identification of 'a' areas has been historically based on the GDP per capita. Yet 107(3)(c) TFEU refers also to areas where there is serious underemployment. A fresh reflection could be launched in the future as to whether the unemployment could be realistically used as a criteria for designing 'a' areas and to which extent.



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