Review of Regional Aid Guidelines – Open Consultation

The Department of Business, Enterprise & Innovation (DBEI), Ireland, plays a key role in implementing the Government's policies of stimulating the productive capacity of the economy and creating an environment which supports job creation and maintenance. The Department also has a remit to promote fair competition in the marketplace, protect consumers and safeguard workers. Through its Agencies and Offices, the Department's remit covers a wide range of activity including;

- Facilitating the start-up and growth of indigenous enterprises,
- Attracting foreign direct investment,
- Growing and deepening export opportunities,
- Improving competitiveness and productivity,
- Promoting innovation and growth through investment in research and development,
- Promoting fair competition for businesses and consumers,
- Ensuring fit for purpose, modern company law,
- Safeguarding workers' rights including their entitlement to occupational safety and health,
- Supporting and facilitating a positive industrial relations environment,
- Making evidence based policy, informed by research, analysis and robust evaluation,
- Identifying the future skills needs of enterprise,
- Providing appropriate and independent regulatory and enforcement capability, and
- Representing Ireland's interests in relevant EU fora, including the Competitiveness Council (incorporating Internal Market, Industry and Research), and the General Affairs Council (meeting in its Trade formation) and relevant WTO, ILO, OECD and World Intellectual Property Organisation (WIPO) fora.

DBEI Submission on the draft Regional Aid Guidelines 2022 - 2027

1. While we recognise the importance of the review of the Regional aid guidelines, it is also important that we acknowledge that this process of review began before COVID-19 ever existed and no-one could have imagined the impacts of the current crisis on our own economy and that of the EU economy as a whole. We therefore consider, in the context of the current COVID-19 crisis, that the proposal to adjust the current allocated population coverage of Member States would be very detrimental, given that in the majority of cases, the Commission proposes that the population coverage be reduced. We would instead propose that the Regional Aid Maps of MS, which were recently extended to the end of 2021, be extended further to the end of 2024 with a review carried out before the end of this period to assess the population coverage at a point where more accurate information will be available to the Commission.

Currently all counties in Ireland are designated for Regional Aid, with the exception of Dublin City and County, Cork City and County and the Mid-East (Kildare, Meath and Wicklow). Outside of Dublin and the main centres, Ireland has a rural dispersed population. According to the Irish Central Statistics Office (CSO) in 2016 the average population density in urban areas was 2,008 persons per km compared to 27 persons per km in rural areas. Moreover, 44% of the total urban population was located in Dublin. The Commission Country Report [1] 2020 points to the fact that regional disparities in Ireland are among the highest in the EU and increasing. It states that productivity growth, attractive and sustainable business environments and disposable income follow a similar pattern of geographic distribution that contrasts the Dublin and Cork regions with the rest of the country.

In Dublin, the labour force participation rate was 66.45% in Q4 2019, higher than the state average (62.7%). Every region had a lower rate than Dublin, and six had a lower rate than the state average. The Mid-West Region of Ireland had the lowest participation rate in Q4 2019 at 58.2%.

The regions also have a lower rate of third level qualifications. In 2019, almost three in five (57%) persons aged 25 – 64 in Dublin had a third level qualification. By contrast, this level of attainment is lower in six of the eight regions than the state average (47%). The region with the lowest rate was the Midlands, with just over a third (36%) holding a third level qualification.

Disposable income per person is lower outside Dublin. Dublin has the highest average disposable income per person (c €23,000) in comparison with the state average of €20,714. In contrast, the Border region with €17,051 was lowest among the eight regions at approximately 18% below the State average.

It is also clear that the main economic impacts of COVID-19 from a sectoral perspective will be regionally distributed due to the regionally distributed nature of employment and economic activity, for example, in more heavily affected sectors such as retail, hospitality, culture/creative, and tourism. The longer-term economic impacts of the pandemic are likely to be felt more in regions outside of Dublin and the main centres.

The economic disruption (the extent and severity as yet uncertain) of Brexit is also a key concern. The effects regionally, and particularly in the local economies within the Border region, suggest that this is not an appropriate time to reduce Ireland's population coverage within the RAGs.

Therefore the issues recognised by the Commission in the 2020 Commission Country Report are being exacerbated by the current crises. The Temporary Framework is due to end on 31st December 2020 and Ireland is a strong proponent of the extension of this Framework into 2021 with an agreed plan to phase out the flexibilities currently being availed by enterprises across the EU. However, we will then find ourselves in a situation where enterprises will no longer have the benefits of the Framework flexibilities and, for most MS at the end of 2021, far more limited availability of Regional Aid both under the Guidelines and under the GBER. We are also facing the impacts of Brexit which will be felt strongly by many MS, in particular, Ireland and the combination of all these factors will have a

[1] COMMISSION STAFF WORKING DOCUMENT Country Report Ireland 2020 Accompanying the document COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN CENTRAL BANK AND THE EUROGROUP 2020 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011 {COM(2020) 150 final}

significant negative effect on our economies. Regional aid currently allows us to support disadvantaged rural areas and underpin their sustainable development. The aid administered is critical for development and investment interventions and is key to job creation in these areas. It is all the more important in the current climate in terms of mitigation of the negative impacts on economic activity and a disruption in trading as a result of the COVID crisis. This is exacerbated in Ireland due to the simultaneous impact of Brexit.

In addition, the draft guidelines propose a population coverage for Ireland of 25.64% which is a substantial drop from the current allocation of 51.28%. The calculation used, based on 2016 - 2018 statistics, does not reflect the emergent impacts of COVID-19 and Brexit. In order to develop population coverage that is fit for purpose, the impacts of COVID-19 and Brexit need to be taken into account. Economic statistics to understand the regional impact of COVID-19 and Brexit are not yet available and until they are, we consider that it is inopportune to consider reallocating population coverage for Regional Aid.

We are therefore recommending that the population coverage should not be changed and propose that the existing regional aid maps for MS be extended for a further 3 years while EU regional economies recover and gain resilience.

2. Ireland is also concerned that the calculation being used to measure the economic performance of the regions in not a true reflection of income or economic activity and have resulted in the distortive effect of our population coverage being reduced by 50%. It has been well documented that GDP does not provide an accurate picture of the Irish economy. Since 2015 a major divergence has been recorded in Ireland between GDP and actual trends in living standards in Ireland. The Irish Central Statistics Office (CSO) has therefore developed a robust methodology to address this through the Modified Gross National Income (GNI*). GNI* is a much fairer reflection of the real economy in Ireland, particularly the living standards of people in predominantly rural regions. The CSO calculates that GNI* is approximately 61% to 64% of GDP.

   We therefore consider that the only accurate measure for Ireland is GNI* and this should be the measure used when allocating population coverage for Ireland.

3. The total EU28 population covered in Assisted Areas under 2014-2020 Regional Aid Guidelines was 241.35 million (47% of 513.5 million), of which, 18 million people (27.05% of 66.65 million) were residents of assisted areas in the UK. Section 7.1 of the draft RAGs sets the overall total population coverage for both "a" and "c" areas across the EU as a whole at 47%, which is the same as in the previous guidelines. This equates to 210.4 million citizens (47% of 447.7 million) living in assisted areas. When corrected for the 18 million UK citizens who will no longer be EU citizens, this leaves a net loss of 12.95 million EU citizens across 27 MS. Paragraph 155 of the draft Guidelines says that the Commission considers this level still appropriate, but in the context of the current crisis, it should be considered that the total population coverage be increased from 47% to compensate this loss.

We would like to raise the issue in relation to the 47% total population coverage and why this has remained unchanged despite the loss of 15% of the EU population. We seek clarification from the Commission as to how they have addressed this in their overall calculations and why it considers this differential not to be of consequence. We would estimate that this differential is approximately 2% and that the overall EU population coverage should be increased accordingly to 49%

4. From 1 January 2021, the UK will be a Third Country. Ireland is the only Member State that shares a land border with the UK.

   Section 7.3.2.3 of the Draft RAGs provides the criteria for designating a non-predefined “C” area. Criterion in paragraph 175(d) provides that NUTS 3 Regions with a land border with a country outside the EEA or EFTA can be designated as a non-predefined “C” area and are therefore eligible for additional aid intensity provided for in paragraph 181(a) of the Draft RAGs.

   We fully support the increase in the permitted aid intensity for NUTS 3 regions that share a land border with a non-EEA or EFTA country from 15% to the 20% as set out in the paragraph 181 of the Draft RAGs and will operate on the basis that those Nuts 3 regions that share a land border with the UK can be designed a non-predefined “C” area and therefore are eligible for enhanced aid.

5. When allocating maximum aid intensities, the proposed RAG provides for treating small and medium undertakings favourably in comparison to large undertakings and we acknowledge that this is in order to recognise the advantages large enterprises have over SMEs. However, a number of issues have arisen over the last 7 years in the treatment of large enterprises under the RAG.

   Treating enterprises with 250 employees the same as those with 10,000 employees fails to recognise the relative disadvantage that smaller “large” enterprises face when compared to truly large corporations. Smaller large companies (i.e. up to 1000 employees) can have a significant positive impact for a region while not necessarily being so large as to distort EU competition.

   In addition, expansion project by large companies have the potential to provide sustainable employment in areas of low employment but not at the same time amounting to abuse of State aid. For example, NACE codes are widely defined and not up to date in terms of new technologies (particularly in relation to the Green Deal and Digital Agenda) with the result that genuine activities nevertheless fail to meet the conditions for new activities as stipulated under the RAGs.

   We would propose that small mid-cap undertakings (up to 499 employees) and medium sized mid-caps (up to 999 employees) are allowed preferential regional aid up by 7.5% for small mid-caps and 5% for medium midcaps.

6. Brexit will have a significant negative impact on the EU economy and in particular, the Irish economy. The UK exits the transition period at the end of 2020, marking the end of frictionless trade between the EU and UK. Without the UK, the size of the EU market, one of the key attractors of FDI to the EU, is reduced significantly.

   The size and profile of the UK domestic market means it will remain attractive to FDI. UK success in attracting FDI will be influenced by the incentives and supports the UK put in place to attract foreign investors. It is vital that EU companies are not placed at a disadvantage compared to UK peers.

   Limiting aid to large companies for an initial investment in favour of new economic activity acts as a disadvantage for EU MS when competing for internationally mobile investment.

   We therefore propose that aid to large companies for expansion of economic activity be allowable under the new draft guidelines.

7. Limited aid to large companies for an initial investment in favour of new economic activity does not support market or product diversification and the NACE Rev 2 codes are significantly outdated, particularly in services.

   We propose that an initial investment in favour of economic activity "different to the main economic activity" of the establishment i.e. support allowed for an activity that accounts for less than 51% of value add.

8. The Green Deal and Digital Strategy are important strategic initiatives for EU MS. Given the resources available to them, it is likely that large companies possess the greater potential to drive change in these areas. Constraints on aid to large firms in "c" areas and the proposed exclusion of process innovation (Paragraph 50 of the draft guidelines), could make achieving Green Deal and Digitalisation objectives more difficult.

   We therefore propose that the process innovation rule for large companies is not removed from Para 50 for scenarios where enterprises are making investments in pursuit of Green Deal or Digitalisation objectives.

9. The pandemic has accelerated emerging trends that will re-shape business models, such as remote working and technology adoption. The guidelines remain silent on remote working / teleworking and the use of shared office space.

   We would propose that the inclusion of supports for new ways of working within the regional aid guidelines be explored.