

Donegal County Council submission to the European Commission on draft revised EU guidelines on Regional State aid (the “Regional Aid Guidelines”)

1.0 Introduction

The European Commission has invited submissions from interested parties on draft revised EU guidelines on Regional State Aid (the “Regional Aid Guidelines”). The deadline for receipt of submissions is 30 September 2020.

The Regional Aid Guidelines aim to promote the economic development of disadvantaged regions in the EU, while ensuring a level playing field between Member States. Regional aid is an important instrument used by Member States to enhance regional development.

In addition to promoting regional development, these draft revised Guidelines also aims to support the twin transition to a green and digital economy.

The Regional Aid Guidelines allow each Member State to provide enhanced rates of State Aid in the least economically developed areas of the country. County Donegal currently enjoys eligibility for Regional State Aid and this submission aims to further highlight the county’s distinct need in terms of Regional State Aid.

2.0 Current Regional Aid Guidelines under revision

The current Regional Aid Guidelines are under revision in the context of the Commission's “[fitness check](#)” of the [2012 State aid modernisation package](#), which aims to evaluate if the current rules are still fit for purpose. The draft revised Guidelines take into account the preliminary results of the fitness check exercise. These preliminary results have found that the current Regional Aid Guidelines have worked well in principle. At the same time, the Commission is proposing a number of targeted adjustments to simplify and reflect experience gained from the application of the current rules.

Furthermore, the draft revised Guidelines reflect new policy priorities related to the [European Green Deal](#) and the European [Industrial](#) and [Digital](#) Strategy. For example, given the large investment needs for the twin transition, and to enable regions to bounce back from the economic effects of the coronavirus outbreak, the Commission is proposing to increase maximum aid intensities by enabling additional incentives for private investments in the most disadvantaged regions, while ensuring a level playing field between Member States.

The Commission is also proposing additional procedural simplifications for State aid to [Just Transition Areas](#) that Member States are in the process of defining.

As part of its ongoing review of State aid rules, the Commission continues to reflect on additional measures in State aid enforcement that can contribute to the achievement of the Green Deal objectives, which must be based on clear and objective criteria. As part of today's consultation on the draft revised Regional Aid Guidelines, the Commission is also inviting stakeholders for views on this issue.

As regards the economic disturbance created by the COVID-19 outbreak, the Commission has put in place more targeted instruments. Acknowledging that the shock caused by the pandemic might have more long-lasting effects on certain regions and that it is too early to predict the impact of the COVID-19 crisis in the mid- and long- term and which regions will be particularly affected the Commission plans a mid-term review of the regional aid maps in 2024, which will take into account statistics of the years 2020 to 2022.

For more information on the Draft Regional Aid Guidelines:

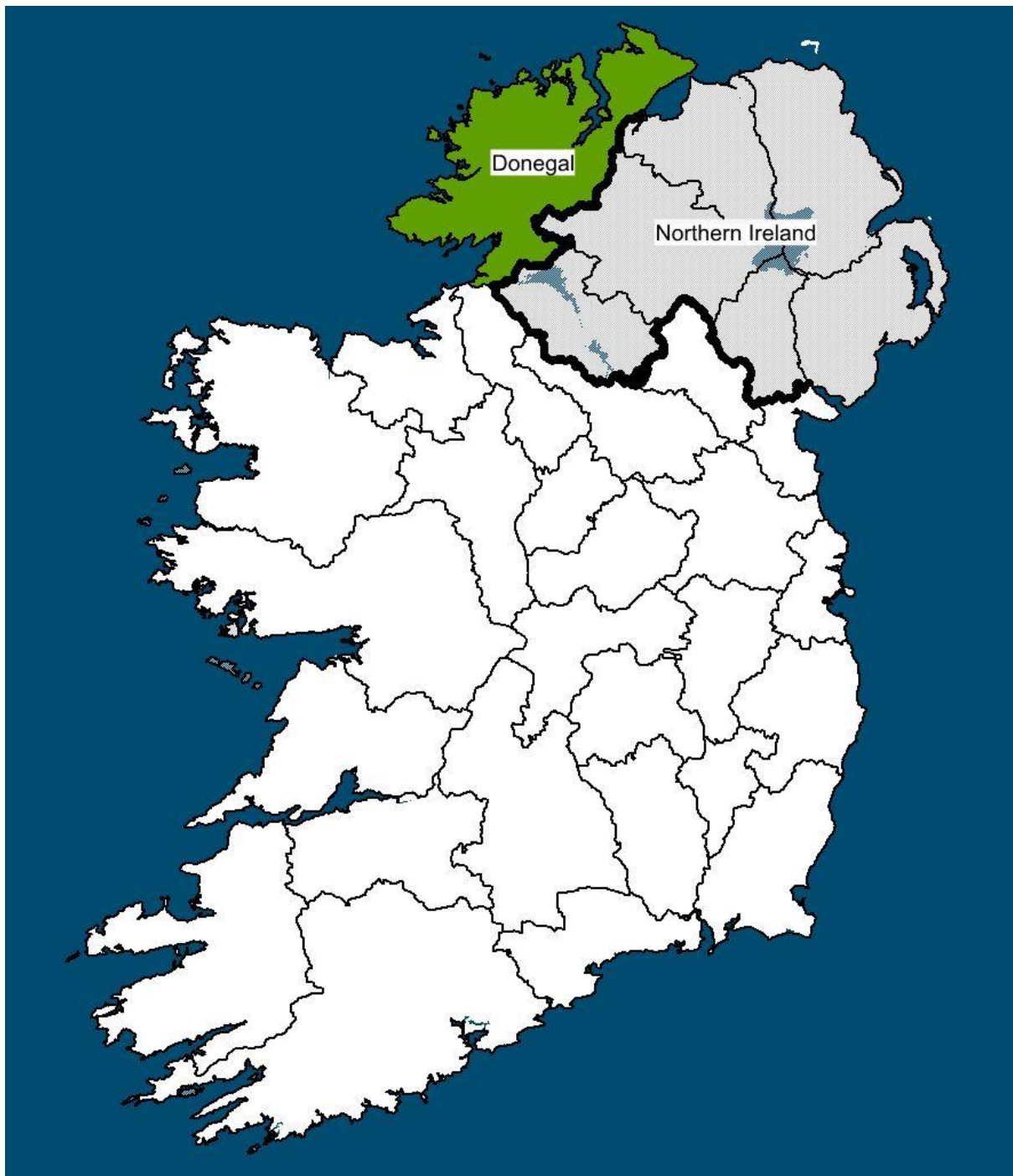
https://ec.europa.eu/competition/consultations/2020_rag/rag_en.pdf

Explanatory note accompanying the proposal for the revision of the Regional Aid Guidelines:

https://ec.europa.eu/competition/consultations/2020_rag/rag_explanatory_note_en.pdf

3.0 Submission from Donegal County Council

Donegal County Council is the responsible local government body for County Donegal , a region in the North West of the island of Ireland, within the Republic of Ireland but largely surrounded by its natural economic and social hinterland which lies within Northern Ireland, a part of the United Kingdom.



Donegal County Council welcomes the EU's continuing endeavours to support economic development in disadvantaged regions of the Union, while ensuring a level playing field between Member States.

Donegal County Council also supports the EU Commissions policies for the European Green Deal which aims to make Europe the world's first carbon-neutral continent by 2050 and the European

Digital Strategy which aims to make the digital transformation work for people and businesses, while helping to achieve its targets of a climate-neutral Europe.

Despite the challenges Donegal County Council is steadfast in our commitment to achieving a strong, sustainable and inclusive society with a competitive and innovative economy and prosperous communities. Transitioning to a low carbon climate resilient society is central to our ambitions as is our desire to maximise the opportunities presented by digital transformation both from a societal and economic perspective.

3.1 Impact of Brexit

Donegal County Council requests that, in the selection of regions eligible for aid, consideration be given in the revised Regional Aid Guidelines to the impact of Brexit on regions such as the Border Region, including County Donegal, on the island of Ireland.

The decision by the UK to leave the European Union is arguably likely to have more impact on Donegal than on any other region having regard to location, geography and the embedded nature of the cross-border economy and communities.

Located in the North West of Ireland, County Donegal is the 4th largest county in the Republic of Ireland with a land mass of 4,861sq kms or 6.9% of the total area of the State. The county is magnificently bounded by the Atlantic Ocean on the south west, west and north and shares its borders with Counties Derry, Tyrone, Fermanagh in Northern Ireland and Leitrim in the Republic of Ireland. Donegal shares 93% of its entire land boundary with Northern Ireland.

Donegal's economy lags behind the rest of the island of Ireland and has experienced a widening of this lag in recent times. Peripherality and poor enabling infrastructure exacerbate the issue. These challenges will only be compounded by the changes that Brexit will bring, no matter in which form it is implemented.

Regionally isolated on the periphery of Europe and the Island of Ireland, the North-West region and in particular Donegal has long struggled with economic underperformance. Since the Global Financial Crash, with increasing agglomeration around Ireland's East Coast and the Dublin-Belfast economic corridor, the region has experienced a slower recovery than other parts of the Island of Ireland.

3.2 Economic Performance Indicators

There are a range of economic issues which impact the region with a number of indicators on its economic performance presented in the table below.

Indicator	Donegal County Council	State Average
Population	159,192 (2016)	4,761,865 (2016)
Rural Population	73%	37%
Dependency Ratio	60.5%	52.7%
Unemployment ¹	18%	12.9%
Economically Inactive ²	43%	39%
Semi & Unskilled ³	17%	14%
Professional & Managerial	30%	36%
Active Enterprises ⁴	8,135 (2018)	270,344 (2018)

In summary, key issues in the North-West are:

- **Unemployment** - Donegal has a much higher unemployment level than the state average.
- **Rural Population** - 73% of the people living in Donegal live in rural areas compared to 37% in the state.
- **Economic Activity** –Donegal has 43% of its residents over the age of 15 years classified as economically inactive, higher than the ROI average of 39%.
- **Skills** - Donegal had a lower percentage of its population falling into Professional & Managerial social classes (30% v 36%) and a higher percentage falling into Semi and Unskilled categories (17% v 14%).

Research⁵ has highlighted that while the Republic of Ireland has seen the fastest rate of growth in the EU in recent years, it is also generally accepted that County Donegal has not performed to the

¹ The Unemployment rate is measured on Principal Economic Status and is calculated as the sum of persons unemployed or first time job seekers as a percentage of the labourforce . Census 2016, provides the only comparable measure of unemployment between the State and Donegal.

² Economically Inactive or not participating in the labourforce

³ Census, 2016 Population by Census Year, Sex, Age Group and Social Class in Donegal and the State

⁴ Business economy excluding activities of holding companies (B to N, -642), Business Demography, CSO

⁵ EY-DKM – Brexit Watch (April 2019)

same level, lagging severely behind Dublin. For example, almost half of employment has been created in Dublin and income levels in the Border, Midland and West is 26% lower than Dublin and in Donegal the income differential is even more stark, with income levels at 77% of national average and 65% of that of Dublin.

There are fears that Brexit may worsen these regional imbalances with the repercussions being acutely felt in some regions more than others. Sectors such as Food and Beverage, Accommodation and Tourism Services, Fisheries and Agriculture, which are extremely exposed, are also the same sectors that drive growth in regions outside of the Greater Dublin Area. Recent research by Ernst Young concludes that a no-deal Brexit is likely to widen current regional inequalities in Ireland, with the North West including County Donegal being particularly affected.

3.3 North West City Region

While many areas make claims to their uniqueness in the context of Brexit, research commissioned by Donegal County Council and the adjoining Local government body in Northern Ireland, Derry City and Strabane District Council⁶, provides a robust evidence base which unambiguously demonstrates the extreme sensitivity of this North West City Region to any changes in trading arrangements whether by the imposition of tariffs, quotas or restrictions on services or labour mobility.

This natural and longstanding 'economic entity' which has operated as a unique co-dependent economic hinterland for generations has, in more recent years, benefitted significantly from cross-border collaborations including in the spheres of education, health, environment and research and development, through economies of scale, reduced duplication and improved co-ordination rather than back to back development.

As one of the few city regions within Europe that will now see an EU/ non-EU international frontier cut across it, it is clear that Donegal and the North West City Region will be more adversely impacted by Brexit and why special consideration needs to be given to mitigating against these impacts. The impact of this on the Peace process, underpinned by the Good Friday agreement, is also unclear but it is accepted that the evolving Brexit process is likely to have a negative impact on the existing stability of the wider region.

⁶ *Initial Analysis of the Challenges and Opportunities of Brexit for the Derry City & Strabane and Donegal County Council Areas - The North West City Region*, DCSDC and Donegal County Council, Feb 2017.

Uncertainty with regards to the future of Brexit on the region impacts negatively upon consumer confidence, consumer spending and ultimately quality of life at the level of citizens, Similarly, within a business environment it undermines business sentiment, and in turn investment and wealth generation which affects those living within this region. It also impacts on the ability of local government to raise revenue and thus provide improved services.

Brexit has dominated the socio, economic and political discourse for several years, to the detriment of core competitiveness issues such as lagging productivity performance, emerging skills shortages and weakening consumer sentiment. How Brexit unfolds will have an important bearing on the island's economic fortunes. The Border region is an area that is obviously particularly exposed to the impacts of Brexit. In a 2017 paper, Ulster University prepared an assessment of the initial challenges from Brexit for the North West City Region. These challenges (figure 1) remain relevant, with no clarity on how they will be managed after whichever Brexit scenario emerges.

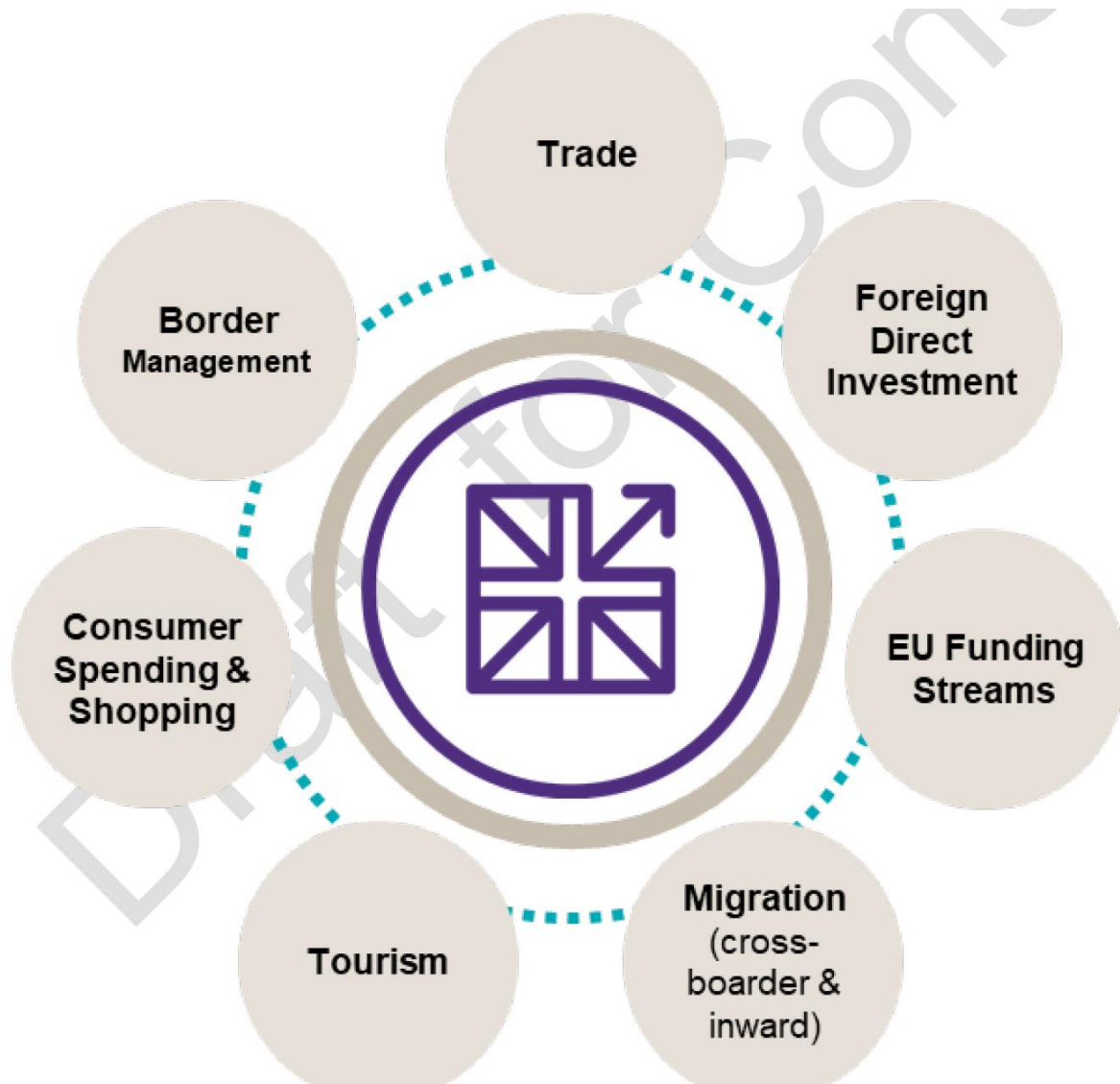


Fig 1: Brexit Challenges for the North West City Region

A recent report from the Economic and Social Research Institute (ERSI)⁷ highlights that the potential impact of Brexit on the Republic of Ireland economy could be more severe than previously predicted. Given the deep integration of the UK with the EU, with Ireland a major trading partner, the likely impacts on the Irish economy have always been considered to be large - negatively impacting firms, households, the labour market and the public finances.

⁷ ESRI: *Ireland and Brexit: modelling the impact of deal and no-deal scenarios (2019)*

3.4 Conclusion

Brexit and its impact on Donegal and the North West City Region is front of mind for many. This along with a range of other long-established issues and deficits including economic inactivity, peripherality, skills and talent issues and a lack of inward investment, etc. will result in exacerbating the disadvantages already being experienced by the region.

While we recognise that that many of the existing deficits have not been caused by Brexit, there is a risk that Brexit will shine a bright spotlight on those weaknesses and vulnerabilities leaving the region further behind other parts of the island of Ireland and the EU, negatively impacting its performance.

It is on this basis that Donegal County Council requests that, in the selection of regions eligible for aid, consideration be given in the revised Regional Aid Guidelines to the impact of Brexit on regions such as the Border Region, including County Donegal, on the island of Ireland.