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Ireland's response to review of Regional Aid Guidelines

October 2020

Review of Regional Aid Guidelines

1. Executive Summary

Ireland, like all MS, is facing the extraordinary impacts of the COVID-19 pandemic both on the health and welfare of its citizens and on its economy. At the same time that it strives to address the economic shock brought about by the pandemic, Ireland is being uniquely and significantly impacted by Brexit. We have set out below the impacts of these duel economic shocks on our small island and the regional disparities that already exist in Ireland which will be only exacerbated by the current difficulties. It is for this reason that we have clearly articulated our position that this is not the time to change the Regional Aid Maps of MS which, as proposed, will disadvantage the majority of MS at a time when we are all still dealing with the unfolding challenges of COVID-19 and Brexit.

We have taken on board the Commission's position that one size does not fit in addressing the concerns expressed by MS at the Multilateral Meeting on the Revised Regional Aid Guidelines on the 8th October 2020 and have therefore proposed clear, fair and workable solutions to the issues raised.

We have also set out in our submission the distortive effects of the methodology used to calculate population coverage for MS like Ireland who have a clear rural/urban divide in terms of economic activity, labour force participation, disposable income etc with the main cities of Dublin and Cork clearly in contrast to the rest of the country. Again, we have set out a proposed solution that could be applied for MS that would provide a fairer reflection of the position on the ground.

Finally, and notwithstanding our position set out above that the Regional Aid Maps for Member States should remain unchanged for the foreseeable future, we have provided some general observations on the proposed revised Guidelines.

2. Ireland's updated submission

At the Multilateral meeting on the Review of Regional Aid Guidelines Ireland set out its position in relation to the current review of the Guidelines. Key to this is that issue of timing. While we continue to recognise the importance of the review of the Regional aid guidelines this review process 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 listened to the views of colleagues in other MS who expressed clear concerns in relation to the change in population coverage for their own MS and the impacts of this. We therefore maintain our position that in the context of the current COVID-19 crisis and, with Brexit looming, that the proposal to adjust the current allocated population coverage of Member States would be very detrimental. We know that the impacts of Brexit will be felt the most in Ireland. However, the EU as a whole will be impacted when we have, as our closest neighbour, a Third country which has indicated its intention to operate a much lighter subsidy regime than that in place in the EU. This will have significant impact on the competitiveness of not just Ireland but all MS, some to a greater degree than others.

Governments across the EU are trying to make sure their health systems will cope and as a result, are having to make difficult decisions. They have already adopted fiscal policy measures to increase the capacity of their health systems and provide relief to the citizens and sectors particularly impacted.

In April the IMF published its "Biannual update for the global outlook" where it stated that it expected a recession in 2020 with the global economy expected to contract by 3%. It went on to suggest that if the pandemic could be brought under control in the coming months, we would experience a strong rebound in 2021. However, the pandemic has not been brought under control and 6 months later we are all now experiencing a second wave of the virus and restrictions are being reinstated. In its October forecasts, the IMF revised its 2020 forecast for the global economy down to -4.4%. Businesses who are already vulnerable following the first period of lockdown from March to June are now facing their second closure just 4 months later. In September the Governor of the Irish Central Bank advised that a no deal Brexit could knock 1 – 2 percentage points off the growth rate of the Irish economy next year. He added that the reintroduction of strict lockdown measures and continued spread of the virus would result in the Irish economy shrinking by 14% this year. On 21st October 2020 Ireland entered its highest level of restrictions in response to the pandemic. This will run for a period of at least 6 weeks and the economic impacts of this will be sizable. This situation is not unique to Ireland. Other MS are imposing severe restrictions in order to protect the health of their citizens but at a substantial cost to their economies.

This is why Ireland is strongly recommending 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.

While clearly this would benefit the majority of MS, we are aware that as part of the proposal under review, a small number of MS will see their population coverage increase and we do not wish to see any MS disadvantaged by our proposal. Appendix 1 sets out the percentage change per MS in the proposed 2021-2027 RAGs. It shows that 16 MS will be disadvantaged at this most challenging time, 5 MS remain unchanged and 6 MS are seeing an increase in their coverage, although for 2 of these MS this is only a minimal advantage. We would therefore suggest that a possible solution to this would be to factor in the "Brexit impact" (i.e. the loss of population numbers of the UK will bring about a 2% differential that would bring the aggregate

EU population coverage up to 49%). This could be reallocated to those MS who would lose out to a proposed increase this time around if our recommendation is accepted.

Other MS have raised their concerns about the methodology for calculating the population coverage and how this does not reflect the position on the ground. Ireland would agree with this and considers that this needs to be addressed in general. However, we would see this as another reason for not changing the existing Maps as the methodology is clearly not reflective of the current position and another more accurate solution needs to be found. We accept the Commission's position that there is not a perfect fit for all but MS should not be disadvantaged because the current methodology does not work.

The proposed reduction to Ireland's population coverage diverges from the objectives of Regional policy which seeks to attain a regional balance by diverting a fair share of national economic growth to the less prosperous regions. The purpose of revising the Regional Aid Guidelines is to have Guidelines that are fit for purpose until 2027. In order to achieve this, accurate and timely statistics are needed to objectively analyse the economic realities in EU regions. Using 2016 – 2018 GDP figures ignores the impact of the COVID-19 pandemic and Brexit which are economic shocks that will shape the regional economy throughout the next decade. To reduce Ireland's population coverage on the basis of distortive data would be harmful to these affected regions, would create greater inequality between regions and would be contrary to the objectives of regional and cohesion policy.

Ireland is one of the most globalised economics in the world with a large share of foreign owned firms. These firms are concentrated geographically mainly in Dublin and Cork (non-assisted regions). However, the presence of these firms distorts the reality of the situation. In 2016 the GNI/GDP ratio for Ireland was 82.6 while the average for the EU was 99.6. Modified Gross National Income (GNI*) reflects more accurately the income standards of Irish citizens.

Member State are looking to address a severe economic shock as a result of COVID-19 and for some MS, Ireland in particular, the additional economic impact of Brexit. The solution proposed above could be driven within the concept of an additional safety net feature. This was applied under the 2014-2020 guidelines for MS severely impacted by the Financial crisis who were subject to enhanced or post-programme surveillance. This concept could be applied here for MS who are being severely impacted by the COVID-19 crisis. In such instances (and we would expect that these criteria, particularly the latter, would apply to all MS), the total population coverage for these MS would not be reduced compared to the period 2014 -2020. Furthermore, Ireland, due to its intrinsic economic links with the UK and with ongoing shared economic interests in Northern Ireland is being even more severely impacted and this should form part of the criteria for this additional safety net.

3. Regional Disparity continues to exist in Ireland

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.

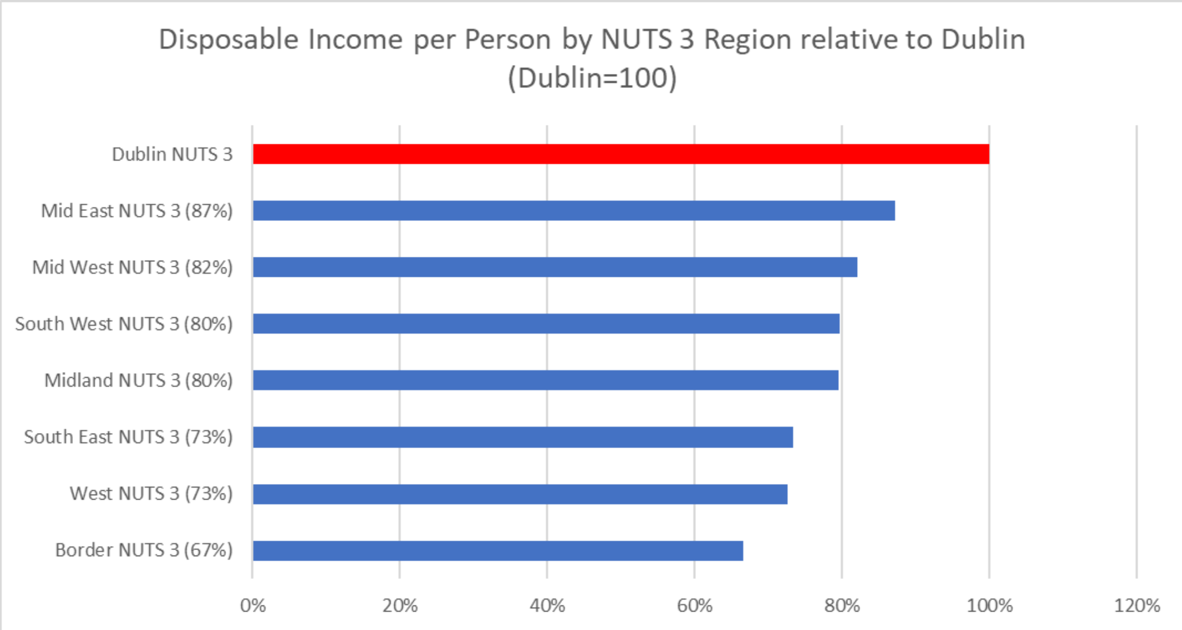
In Dublin, the labour force participation rate was 66.45% in Q4 2019, higher than the state average (62.7%). Every region had a lower rate than Dublin, and six had a lower rate than the state average. The Mid-West Region of Ireland had the lowest participation rate in Q4 2019 at 58.2%.

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 also lower outside Dublin which has the highest average disposable income per person (c €23,000). In contrast, the Border region is the lowest among the eight regions at €17,051 which is approximately 33% below the Dublin Region.

Chart 1:

[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}



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 30th June 2021. While it may be extended beyond this date, and there is no way of anticipating this until much closer to the end of this deadline, we are aware of the temporary nature of such supports. At some point in the next 12 months 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 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.

4. General Observations on Revised Regional Aid Guidelines

Notwithstanding our position set out above that the Regional Aid Maps for Member States should remain unchanged for the foreseeable future, we wish to provide some general observations on the proposed revised Guidelines.

a. Population Coverage

Ireland supports the position taken by DE, FR, ES, MT and FI that retaining the proposed 47% aggregate coverage does not adequately compensate for the Brexit effect. 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 2014-2020 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 49% to compensate this loss.

b. Calculation Methodology

IE also shares the concerns expressed by other MS in relation to the calculation methodology being used to measure the economic performance of the regions and that this is not a true reflection of income or economic activity. This distortive effect of GDP as an indicator for Ireland has resulted in Ireland's 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 Irish economy, particularly the living standards of people in predominantly rural regions. The CSO calculates that GNI* is approximately 61% to 64% of GDP.

GDP being an unsuitable indicator shows the importance of consideration of other measures of economic performance for Ireland, and highlights domestic economic challenges that could not possibly be addressed with only 25.64% population coverage and could be exacerbated by the sharp reduction from 51.28%.

During the Multilateral meeting, the Commission pointed out that different methodologies would suit some MS more than others, and while this is acknowledged, it is clearly evident that using GDP disproportionately impacts Ireland. The widely acknowledged strength of GDP is for international and time series comparison. However, other methods of adjustment are already applied to GDP, to correct for population and inflation. In 2016 the GNI/GDP ratio was 82.6 for Ireland while the average for the EU was 99.6. The gap between GNI and GDP in Ireland reflects the inadequacy of GDP for international comparison of the Irish economy.

An average of GDP and GNI for all MS used instead of GDP alone which would provide a fairer reflection and internationally applicable methodology. This would not make a material difference to other MS and would represent a fairer reflection of the Irish economy.

Ireland therefore proposes that the average of GDP and GNI is a possible alternative method to measure the economic activity that could be applied fairly to all MS.

We have provided more detailed analysis of this in Appendix 2 below

c. Just Transition Areas

The Just Transition element of the EU Green Deal acknowledges that specific vulnerabilities exist for people living and working in regions that rely on fossil fuels for employment. The Green Deal objectives cannot be delivered without significant disruption to markets, sectors and most importantly regions. The Green Deal acknowledges that action is required by all sectors of the economy.

The Regional Aid Guidelines do not go far enough to equip Member States with the tools needed to deliver a just and inclusive transition. This is most notable with regard to Regional Aid Maps and Population Coverage. The proposed revision in the draft Guidelines that provides for the designation of a Just Transition Area as a non-predefined "c" area is forcing Member States to make an impossible choice. MS are being forced to choose between supporting Green Deal and Just Transition objectives and designating areas that are facing major structural economic challenges such as industrial decline, unemployment, depopulation, and a paucity of infrastructure.

This impossible binary choice can be easily avoided by the Commission by providing that the populations of Just Transition Areas are counted separately and distinctly from the overall population coverage for MS. By counting this separately, it would avoid the need for MS to choose between supporting areas in need of support, and important Green Deal goals.

d. Regions bordering non-EEA countries

The draft guidelines recognise that it is appropriate to afford preferential treatment to regions bordering non-EEA countries as well as areas that are undergoing a major structural change. Ireland will, at the end of the year, be sharing a land border with a non-EEA country and will therefore be in a position to avail of this preferential treatment. However, a further factor for consideration is that Brexit will have a particularly negative impact on those Irish regions bordering the UK, specifically the Northern and Western Regions

We have looked at Eurostat calculations for Ireland broken down into the regions and by our calculations, the Northern and Western Regions (i.e. those bordering on Northern Ireland) based on 2016-2018 stats is 75.3 based on the EU average which is borderline an “a” region. However, this grows to 76.3 when calculated based on the EU 27. In effect, by taking out the UK from these calculations, this pushes the region out of the “a” category. Therefore, ironically, the region in the EU most impacted by Brexit is being further disadvantaged because of Brexit.

e. Aid for Large Enterprises

Support for Mid-Caps

When allocating maximum aid intensities, the proposed RAG provides for treating small and medium sized undertakings favourably in comparison to large undertakings. This is in order to recognise the advantages that large enterprises have over SMEs.

However, treating enterprises with 250 employees the same as those with 10,000 employees fails to recognise the relative disadvantage that relatively small enterprises that are categorised as large enterprises face when compared to truly large multi-national corporations.

In some instances, smaller large companies can have a significant positive impact for a region in a way that companies with fewer than 250 employees cannot – for instance a certain modest scale may be necessary for the commercial viability of certain manufacturing and distribution companies which are significant to the economic viability of a region. An example of this would be food processing companies which need to be close to local primary agricultural producers but at the same time require a workforce of over 249 individuals in order to cover the scale and scope required for a robust business model.

Smaller large companies typically do not impact intra-community trade to any significant extent and therefore do not pose any danger of distorting EU competition.

As well as supporting existing modest large companies, it is important to continue to support medium-sized companies after they progress to becoming large companies, as these enterprises are typically focused on growth areas and present the greatest opportunity to reach significant scale and to provide sustainable jobs and economic viability in the future.

It is proposed that a review is carried out of the appropriateness of restrictions on the support for expansions of large companies. In particular, it is proposed that small mid-cap undertakings (those with up to 499 employees) and mid-cap undertakings (those with to 1,500 employees[1]) are also allowed preferable Regional Aid by inserting the following at the end of paragraph 184:

> "or by up to 7.5 percentage points for small mid-cap sized enterprises or by 5 percentage points for mid-cap sized enterprises".

Large companies are a significant driver of regional employment and will be key to economic recovery

Ireland has successfully attracted large companies to regional locations despite the tendency of companies to be drawn towards the talent and market proximity offered by larger urban centres. Over the 2014 – 2019 regional aid period, two-thirds of initial investments in favour of new economic activity supported with regional investment aid were by large companies investing in a region for the first time. Covid-19 will negatively impact on this flow of regional investment in the forthcoming RAGs period.

UNCTAD forecast FDI flows globally will decline by up to 40% in 2020 and by a further 5%-10% in 2021. This will limit the flow of investments from first time investors to regional locations. As a result, regional locations will be heavily reliant on the growth potential of existing companies in the region to support economic recovery.

The operating environment for existing regionally based large companies in the forthcoming RAGs period is likely to be characterised by trends including corporate restructuring, sectoral consolidation, rapid technological disruption, more fragmented markets, heightened levels of protectionism and supply chain reconfiguration. Identifying and supporting new sources of growth and resilience will be crucial to Ireland's regions to replace inevitable losses as companies reduce costs, pursue efficiencies and supply chain resilience in a challenging and changing global environment.

The NACE codes are too restrictive

Limiting aid to existing large companies in a region to initial investment in favour of new economic activity, as defined by NACE, reduces the toolkit open to a country to support economic recovery and growth in that region. The NACE code definition of diversification is too restrctive, for example, a single NACE code covers all activities of a sector as complex and as broad as medical devices. This prevents member states incentivising large companies to embrace the green and digital transition, to invest in technologies of the future (AI, automation, robotics) and to seek new customers in new sectors or new international markets.

[1] Guidelines on State aid to promote risk finance investment https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014XC0122(04)&from=EN

NACE codes do not take account of a company servicing

1) New international markets
2) New customers
3) New sectors

To invest in new business processes

4) Green
5) Digital

Or in new and emerging sectors and technologies

6) AI, Robotics etc

The failure of the proposed Regional Aid Guidelines to re-define diversification is a missed opportunity for the EU to support business transformation, productivity improvement, the green transition and growth in large employers in our most disadvantaged regions. Waiting for reform of horizontal aid under the General Block Exemption Regulation to address this will miss the window for companies to *build it back better*. This has the potential to widen gaps in economic prosperity, employment opportunity and productivity between regions across Europe.

The Green Deal and Digitalisation

The Green Deal and Digitalisation are important strategic initiatives for 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, could make achieving Green Deal and Digitalisation objectives more difficult.

The UK is a significant competitor for Ireland and the EU for mobile investment

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.

An analysis of investment projects lost by Ireland shows that the UK is Ireland's biggest competitor in Europe for mobile investment projects. Where projects were lost due to incentives, the most cited location projects were lost to was Belfast; a large urban centre categorised as a pre-defined c area in the 2012- 2019 RAGs. Other locations commonly cited are Australia and the United States; locations which are subject to the WTO subsidy regime that the UK proposes to operate under from 1st January 2021.

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 European companies are not placed at a disadvantage compared to UK peers.

f. Safety Net

The principal of applying a floor to reductions in population coverage changes is important. However, in the context of the severe and negative impact (current and future) arising from the twin external shocks of COVID-19 and Brexit which can be expected to be felt for some time to come, we consider that the protection provided by the Safety Net Mechanism should be strengthened and that the % reduction at paragraph 172 should be capped at a lower amount.

g. Recognise and Support Working

The Covid-19 outbreak has accelerated the trend towards remote working by employees. Where employers accommodate remote working, they are providing employees with greater choice in respect of their conditions of employment, as well as removing barriers to employees working in more remote and less populated regions.

Regional Aid applies preferential treatment to certain regions by allowing additional aid intensity for investment projects by enterprises in certain regions. This follows the traditional model whereby employees live close to their employer’s establishment. Throughout the period of the RAG 2022-2027, an increasing number of employers in non-assisted areas will engage staff who carry out their work, live their lives and spend their earnings in assisted areas. This activity should be encouraged as it is aligned to the priorities of Regional Aid.

IE proposes that the RAG is adapted to permit Regional Aid amounts on the basis of where employees are based, as well as the traditional basis of the employer’s location. This could be achieved by recognising that a project’s location can be in a region/regions other than where the undertaking’s establishment is located. For instance, where an employer can satisfactorily demonstrate that over 70% of their employees for a particular project are working remotely for at least 85% of their working time, the maximum level of aid intensity that applies to that project ought to be the level of aid intensity applicable to the region(s) where the remote working is taking place.

Appendix 1 – Percentage Change per MS

Table 1

Member State	2014-2021 %	2022-2027 %	Differential
Belgium	29.95	24.30	-5.65
Bulgaria	100	100	Unchanged
Czech Republic	88.10	87.76	-0.35
Denmark	7.97	7.5	-0.47
Germany	25.85	16.73	-9.12
Estonia	100	100	Unchanged
Ireland	51.28	25.64	-25.64
Greece	100	81.21	-18.79
Spain	68.66	64.12	-4.54
France	24.17	30.06	5.90
Croatia	100	100	Unchanged
Italy	34.07	41.33	5.81
Cyprus	50	46.20	-3.80
Latvia	100	100	Unchanged
Lithuania	100	100	Unchanged
Luxembourg	8	7.5	-0.50
Hungary	76.71	82.09	5.38
Malta	100	50	-50.00
Netherlands	7.5	8.39	0.89
Austria	25.87	20.94	-4.93
Poland	100	92.84	-7.16
Portugal	85.02	70.09	-14.93
Romania	100	89.26	-10.74

Slovenia	100	62.42	-37.58
Slovakia	88.48	87.97	-0.51
Finland	26.03	26.63	0.60
Sweden	12.26	20.94	8.68

Appendix 2

Impacts of current calculation methodology on Ireland

GDP as unsuitable measure indicator for Ireland[2]

Irish economic data has long been distorted by the effects of globalisation. Unlike many developed economies, gross national product (GNP) for Ireland is substantially lower than gross domestic product (GDP) as a result of activities by foreign companies that lead to large net factor income flowing back to the rest of the world. As a result, GDP is not a reliable measure of the economic performance as it is in many other countries.

Alternative indicators of activity, income and savings

Efforts to address many of these challenges have been ongoing in recent years. The CSO has been implementing various changes to the presentation of national accounts data, in response to end-user suggestions and the findings of the Economic Statistics Review Group.

Modified gross national income (GNI*) is regarded as a more relevant nominal indicator. As such, the use of GNI* has become more prevalent as a denominator for assessing trends in debt and deficit ratios, for example, which are understated when scaled by GDP or GNP. A top-down adjusted measure, GNI* subtracts certain items from gross national income. These adjustments are the factor income of re-domiciled firms (as Irish residents will not benefit from any resulting profit flows), and depreciation on each of research and development (R&D) service imports, trade in intellectual property (IP) and aircraft leasing (as the Irish employment does not depend on the savings required to replace these capital assets). At present, it is only available annually and as a current-prices series. Further planned developments include its publication as a constant-prices series, and to publish quarterly GNI* updates.

Alternative indicators of domestic demand

Domestic demand has previously been a relevant aggregate for assessing economic growth as explained by personal consumption, government consumption and gross domestic fixed capital formation. However, increased purchases of aircraft (outright or for leasing purposes), and onshoring of intellectual property assets by large foreign-owned multinational firms (depreciation on which are included as investment in the form of intangibles) have limited the relevance of headline domestic demand in recent years. The CSO has reported *Total Domestic Demand* at Current prices for 2019 at €308,780 million. While still imperfect, this is certainly a

[2] Irish Fiscal Advisory Council,

better reflection than GDP, which was reported at €356,051 million[3]. As Domestic Demand reports on component parts of the overall GDP calculation, it is suitable for international comparison.

Regional Domestic Demand could be calculated and used to determine population coverage. This would remove some of the effects of globalisation and therefore more accurately reflect the economic reality for regions. This is a possible alternative method to measure the economic activity that could be applied fairly to all MS.

The CSO have begun publishing a quarterly ***modified domestic demand*** series, in both constant and current prices, which excludes aircraft for leasing and R&D-related IP imports. The Irish Fiscal Advisory Council consider that the constant-prices series performs reasonably well in terms of mirroring annual employment growth, and the Department of Finance has been using modified domestic demand as its preferred measure of core activity for the domestic economy.

Table 2: GDP, GNP, GNI and GNI*, at Current market prices, in EUR Million

Description	2017	2018	2019
Gross domestic product at current market prices (EUR Million)	**300,387**	**326,986**	**356,051**
Gross national product at current market prices	**238,135**	**256,322**	**274,330**
Gross national income at current market prices (GNI)	**239,207**	**257,455**	**275,463**
Modified gross national income at current market prices EUR Million (GNI*)	**186,217**	**198,702**	**213,708**
GNI* as a % of GDP	61.99%	60.77%	60.02%

Source: CSO, National Income and Expenditure Tables 1995-2019,[4]

[3] CSO Quarterly National Accounts

During the Multilateral meeting, the Commission pointed out that different methodologies would suit some MS more than others, and while this is acknowledged, it is clearly evident that using GDP disproportionately impacts Ireland. The widely acknowledged strength of GDP is for international and time series comparison. However, other methods of adjustment are already applied to GDP, to correct for population and inflation. In 2016 the GNI/GDP ratio was 82.6 for Ireland while the average for the EU was 99.6. The gap between GNI and GDP in Ireland reflects the inadequacy of GDP for international comparison of the Irish economy.

Using an average of GDP and GNI for all MS instead of GDP alone provides both a fairer reflection and an internationally applicable methodology. For example, using 2017 values, **Irish GDP per capita was €61362, GNI per capita was €48867.**

Domestic Regional Disparities

The importance of Domestic Disparities was raised by some MS during the Multilateral Meeting, in the context that stark domestic regional disparities were contrary to the objectives of cohesion policy. This point is very relevant for Ireland as the **Disposable Income per person** in the Dublin Region is estimated at **€25,497** while the citizens in the border Region have a disposable income of €**16,993**. This equates to 66% of the disposable income in Dublin. By calculating population coverage on EU27 averages, means the averages are skewed by outliers, and domestic regional disparities are neglected.

The disparity is even more starkly illustrated when using Regional GDP (PPS per inhabitant) by NUTS 2 regions:

Table 3: Regional GDP (PPS per inhabitant) by NUTS 2 regions. (Euro per person)

	2016	2017	2018
Northern and Western	23,400	22,200	22,300
Southern	60,800	66,100	69,200
Eastern and Midland	55,300	58,200	64,600

Source: Eurostat Data code TGS00005

This table shows that in 2018, the GDP PPS per capita in the Northern and Western Region was only €22,300. 32% of the value for the Southern Region and 35% of the value in the Eastern and Midland.

GDP PPS per capita for the Northern and Western Region NUTS 2 Region, is shown by Eurostat to be 76% of the EU27 average[5]. It is therefore only marginally outside the criteria for designation as an "A" assisted area. When the well documented issues with GDP as an indicator for Ireland are taken into consideration, it is clear that the actual standards of living in the region are well below the EU27 average.

Ireland supports the proposal of other MS that regional figures for GDP and unemployment are compared to national averages instead of EU27 averages.

Table 4: Regional Disposable Income

Region	Disposable Income per Person (€)	Relative to Dublin
Dublin NUTS 3	**25,497**	**100%**
Mid East NUTS 3 (87%)	**22,247**	**87%**
Mid West NUTS 3 (82%)	**20,947**	**82%**
South West NUTS 3 (80%)	**20,340**	**80%**
Midland NUTS 3 (80%)	**20,287**	**80%**
South East NUTS 3 (73%)	**18,735**	**73%**
West NUTS 3 (73%)	**18,517**	**73%**
Border NUTS 3 (67%)	**16,993**	**67%**

Source: CSO County Incomes and Regional GDP, Table 1a

[5] Regional gross domestic product (PPS per inhabitant in % of the EU27 (from 2020) average) by NUTS 2 regions. Eurostat table TGS00006

Further examples of Regional Disparities in Ireland

Tertiary Educational attainment

Table 6: Tertiary educational attainment, percentage of age group 25-64 by NUTS 2 regions

TIME	2016	2017	2018	2019
Northern and Western	39.9	41.5	41.2	42.5
Southern	40.9	42.6	42.5	43.2
Eastern and Midland	49.6	50.7	51.7	51.5

Source: Eurostat table: [TGS00109]