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CONSULTATION – GUIDELINES ON REGIONAL STATE AID FOR 2022-2027

1 Introduction

The County Councils of Nordland, and Troms and Finnmark welcome the opportunity to submit our comments to the European Commission on the review of the regional aid guidelines for 2014-2020. The two counties constitute the northernmost regions of Norway. Norway is not part of the EU, but as an EEA country we are affected by the state aid regulations in more or less the same way as any EU Member. Due to the characteristics of our two counties the region is particularly affected by the regional aid guidelines.

2 Sparsely populated areas

North Norway is very sparsely populated with only 4,3 inhabitants per km².¹ The last 25 years, there have been a population migration from north to south, and where Northern Norway has had a birth deficit in all municipalities. Mainly three cities have population growth (Tromsø, Bodø and Alta), though under the national average growth. This population growth mainly comes from foreign immigration. However, this increase has been declining in recent years and projections show that this will also be an ongoing trend the coming decades.²

The counties of North Norway therefore, strongly, underline the necessity of a continuation of the guidelines' approval to grant both investment aid and operating aid in such areas. These tools are necessary in order to prevent and reduce depopulation in the very sparsely populated areas in the outermost regions of Europe. To combat depopulation, stability and continuation of aid measures are necessary, and we wish the present guidelines will be continued on these fields. To have a critical mass of people, with the right competence, is necessary in order to utilize the natural resources that the northernmost regions of Europe contains. Resources like minerals, natural gas, renewable energy, seafood and other marine resources, that the EU are in

¹ The Norwegian average inhabitants pr km² is 17,5, while the EU average is 117

² Dr. Jonas Stein: <https://nordnorskdebatt.no/article/dystre-framskrivninger-tromso> (in Norwegian)

critical need of, not least with regard to achieving the goal of the EU Green Deal. These resources will also be important with regard to fulfilling the ambitions of the new Industry Strategy.

Furthermore, the economic disturbance created by the COVID-19 outbreak, will have long-lasting effects also in sparsely populated, remote areas. The County Councils of Northern Norway are acknowledging that the Commission may consider compatible with the internal market on the basis of Article 107(3)(b) TFEU aid schemes that consist in temporary deferrals of taxes or of social security contributions which apply to undertakings that are particularly affected by the COVID-19 outbreak (Temporary Framework).

The County Councils of Northern Norway is of the firm view that a legal basis for operating aid within the Regional Aid Guidelines is necessary in order to prevent depopulation in the most sparsely populated regions by stimulating employment.

3. Northern Norway as part of the Northern Sparsely Populated Areas (NSPA), and the OECD Territorial Review of 2017.

In 2014 the NSPA network³ took initiative to prepare the OECD Territorial Review for the NSPA. The report was published in 2017, in connection with the Arctic Stakeholders Forum process that was initiated by the Commission after the EU Arctic Policy decision in 2016. The process aimed to engage the Arctic regions to come up with prioritized measures that could help fulfil the goals of the policy.

The OECD report has high relevance with regard to the question of regional state aid to these Arctic regions. In the OECD *Assessment and Recommendations*,⁴ they focused on the following:

The NSPA forms part of Europe's gateway to the Arctic and Russia and faces particular development challenges because of its particular geographic features and location.

The economic and geopolitical importance of the NSPA regions to the EU and member countries have been increasing due to a changing climate, access to hydrocarbon and mineral resources, and shifts in relations with the Russian Federation (hereafter Russia') and other Arctic countries. A changing climate is placing new pressures on ecosystems and traditional ways of life and opening up new opportunities for resource extraction. The NSPA is Europe's gateway to the Arctic and northern Russia, and is important for energy security, food production and technological innovation, which is increasing its geopolitical importance to member countries. This importance is recognised by the EU and the national governments of Finland, Norway and Sweden. The EU, Finland, Norway and Sweden have each released Arctic policies in recent years, which set out commitments for the sustainable development of the northern regions. As an existing (albeit weak) institution the NSPA is an important stakeholder in helping to achieve these strategic policy objectives.

The NSPA regions are different to other regions in Europe because of the harsh climate, strong natural resource endowment, and long distances between settlements and from

³ Covering the 7 northernmost regions of Finland, the 4 northernmost regions of Sweden, together with the two Arctic regions of Norway

⁴ The OECD Territorial Review: Northern Sparsely Populated Areas, 2017p. 17 – 19: <https://www.oecd.org/gov/oecd-territorial-reviews-the-northern-sparsely-populated-areas-9789264268234-en.htm>

markets. The particular geography of the NSPA, combined with the small population, makes the region particularly dependent on the export of raw and semiprocessed natural resources. Large scale resource extraction and industrial processing associated with mining, forestry, oil and gas, fishing and aquaculture, and agriculture are important to the economic base of these regions.

There is significant diversity in economic and social outcomes within these regions. Economic and population growth is increasingly concentrating in a smaller number of larger LLMs somewhat offsetting the broader impacts of population ageing and decline. Further incentivising this process and better linking smaller communities through broadband will help address the demographic challenge. Firms in the NSPA are mainly small and the most common specialisation for small firms is in natural resources whilst for large establishments it is as public sector service providers. Large private sector firms are declining in absolute numbers and as a share of all firms. In some parts of the NSPA there is a fairly strong rate of new firm formation, but in other parts there seems to be a lack of entrepreneurial behaviour by local people. Related to this is a very high rate of employment in the public sector especially in some of the smaller municipalities that are not part of a larger LLM.

4 Some general comments on proposed amendments of the 2014 – 2020 RAG

On this background, the proposed update of the guidelines, based on the results of the Fitness Check, are briefly commented below:

1. The County Councils of Northern Norway support a general simplification of the structure and clarification of the definitions and terminology by aligning them to the General Block Exemption Regulation (GBER), in addition to an update on the sections of evaluation and transparency to allow consistency across State aid rules.

The importance of the RAG for Northern Norway is highly emphasized. The guidelines have a major impact on the opportunity for value creation in Northern Norway. Both regional investment aid and operating aid are extremely important public instruments for preventing and reducing population decline in these areas. Regional operating support in the form of a reduced regionally differentiated social employer contributions scheme (RDSSC) for the most sparsely populated regions has proven to be particularly effective and targeted in this respect. This is confirmed by the Samfunnsøkonomisk Analyse's 2018 mid-term analysis of the RDSSC⁵.

2. With the 2013 review in mind, it must be avoided that several sectors are exempted from the scheme. The counties therefore encourage the Commission to include transport and energy sectors, that were exempted from the scope of the Guidelines. After pressure from various stakeholders, the sectors were reintroduced in 2017 through the GBER. Furthermore, such rapid and unexpected changes in operational framework are very disruptive and should be avoided in the future.

In the revised draft guidelines, the Commission propose to remove the possibility to grant aid under RAG to broadband and research infrastructure. The reasoning by the

⁵ Report 26-2018 <http://www.samfunnsokonomisk-analyse.no/nye-prosjekter/2018/10/17/evaluering-av-ordningen-med-differensiert-arbeidsgiveravgift>

Commission is that it is not aware of any actual use of those provisions, and that these sectors therefore should be governed by specific guidelines. The counties will strongly emphasize that Norway over years have granted aid to these sectors under the RAG, in the form of RDSSC. The exclusion of these sectors will cause distortion of competition for these sectors compared to other sectors in the geographical area, that are eligible for aid under the scheme. It is particular important to avoid sector exclusion in order to ensure an efficient, horizontal and targeted scheme. Sector exclusions or limitations reduce the efficiency of general aid schemes and increase implementing and compliance costs. General regional aid schemes should therefore in principle be as horizontal as possible. However, we recommend that any sector exclusions or limitations to horizontal (operating) aid schemes are restricted to the absolute minimum.

3. The counties also welcome an update of the regional aid coverage, a-areas and predefined c-areas. The update will be based on the current methodology and most recent statistics on GDP and unemployment, which is in line with the procedure in the last period. However, the definitions of regions should undergo a more thorough evaluation. The various aid schemes' geographical extent and support level, should be seen in a larger county-based setting, and not being based on local-regional considerations. Smaller cities are often necessary growth engines in our regions, but are highly dependent on supply of workforce and resources from the nearby areas, and are to a large extent dependent on the same aid schemes to be able grow. The guidelines on regional aid maps should therefore be clearer with regard to geographical and population levels. While the overall population development in certain NUTS 2 regions in Norway is positive, the population either declines or stand still in areas in the same region. Therefore, in the long run, the criteria need to be adapted in order to target the areas in need of regional state aid and to ensure equal treatment of areas facing similar difficulties, to achieve the goal of reducing or preventing depopulation in very sparsely populated areas. While the indicators and method regarding population density indeed opens up for regional state aid in sparsely populated areas, they are not flexible enough to target areas that have the greatest need for regional state aid in very sparsely populated areas. This pertains in particular to operating aid.
4. The counties of North Norway also welcome that the maximum aid intensities have been increased to support the European Green Deal and Digital Strategy objectives by enabling additional incentives for private investments, in addition that the five criteria of paragraph 168 of the current RAG have been maintained with a slight simplification for Just Transition Areas.

5 Investment aid

5.1 Introduction

The counties of Northern Norway will highly recommend that the challenges sparsely populated areas are facing still will be taken into account, and that these areas still will be eligible for aid.

The definition in paragraph 166 (b) which reads "*Sparsely populated areas: NUTS 2 regions with less than 8 inhabitants per km² or NUTS 3 regions with less than 12,5 inhabitants per*

km² (based on Eurostat data on population density for 2010)", is therefore strongly supported.

5.2 Aid ceilings

The counties note that the prevailing RAG contain some reductions, introduced in the last revision of 2013, in the aid intensity in so-called "c"- areas.

Today, according to paragraph 184, the maximum ceiling for regional investment aid to small enterprises is 20 %, 10 % with regard to medium-sized enterprises, while large enterprises is not eligible for aid in the northernmost areas. A higher aid ceiling might encourage private investors to take a higher investment risk. The counties therefore would like to stress the importance of allowing higher aid intensities, than contained in the existing RAG, in areas threatened by depopulation. The counties would therefore highly appreciate if the Commission would reconsider allowing aid ceilings for "c"-areas on level with the 2007-2014 RAG.

The lack of investment capital is stressed in the Arctic Investment Platform (AIP) report of December 2018.⁶ The report, that is not covering all possible investment sectors, emphasise four main types of investment gaps; Expansion Financing, From Pilot to Demonstration Support, Large-Scale Demonstration and Structural investment. The final report of the AIP feasibility study clearly underlines these investment gaps.⁷ The main findings are:

- *The feasibility study confirmed key needs of NSPA SMEs having the ambition to scale up their business. SMEs face in that context key barriers such as lack of credit history, project complexity or market risks. With a recurring notion of pre-commercial risk, companies tend to mostly seek corporate and venture capital investors.*
- *The feasibility study highlights the existence of information asymmetries hampering the access of SMEs to financing that could effectively address their needs. These asymmetries contribute to the overall fragmentation as well as to the difficulties of investors seeking co-investors or an access to investment cases (considered too far when located in the NSPA).*
- *A consolidated and visible deal flow allowing for a structured matching of demand and supply is needed.*

5.3 Large undertakings

According to the 2013 revision of the RAG, large undertakings no longer became eligible for aid. The northernmost counties of Norway recommend the Commission to reintroduce the former aid rule for larger undertakings. The former rules gave all enterprises an incentive to invest in sparsely populated areas, and thereby to stimulate economic development in these areas. As large enterprises may act as an engine for further development in remote parts of Europe with long distances to the market, and such enterprises should be given an incentive to invest in sparsely populated areas.

⁶ The AIP-initiative was taken by the NSPA after the Arctic Stakeholder's Forum process in 2017, and is organised as a Interreg-project. Se: https://arcticsmartness.eu/wp-content/uploads/AIP-Feasibility-Study_web.pdf, chapter 3

⁷ https://arcticsmartness.eu/wp-content/uploads/AIP-Final-Report_web.pdf, p. 14

Many enterprises wanting to invest in the northernmost areas of Europe may be part of a larger group of companies located other places in Europe. Thus, the definition of an undertaking in State aid law, and in particular the Commission definition of SMEs, may hinder such enterprises to benefit from investment aid, as these may be defined as large undertakings.

Rules that prevent large undertakings from benefitting from investment aid may therefore reduce the number of investments in our areas.

The counties would therefore appreciate if the Commission would reconsider whether it again should be possible to grant aid to large undertakings in “c”- areas, not least with regard to investments needs in connection with Green Deal initiatives.

6 Operating aid

6.1 Introduction

Most Arctic areas, including the northern parts of Norway, suffer from problems relating to a low degree of industrial diversification, in addition to challenges caused by remoteness, long internal and external travel distances and harsh weather conditions.

These challenges are not of temporary nature and apply in particular with regard to a sufficient population and work force. Maintaining a skilled work force is essential in order to exploit natural resources, which is needed for the future growth of Europe. For this reason, traditional investment aid alone may not always be the most adequate instrument to address the specific problems of these areas. Moreover, as investment aid favours capital before labour, the effects of the former aid on population development, may not be as targeted as for example operating aid directly related to employment costs.

In 1975 Norway introduced the regionally differentiated employer social contribution scheme (RDSSC), as a measure to prevent and reduce depopulation in the remote and sparsely populated areas of Norway. The standard employer contribution rate is 14.1 % (of gross wages). Meanwhile, lower rates apply to five geographical zones, with the lowest rates in the less populated areas. In the OECD review the differentiated employer contribution is characterized as a powerful incentive in the less populated areas of the country. The review states that: *In many respects, the regionally differentiated social contributions are a good way of supporting rural communities. The system is “horizontal” in that it applies to all forms of business activity (save some selected sectors). In this sense it is better than, say, agricultural support, as it does not prejudice what economic activities are appropriate for the rural areas. And, furthermore, the mechanism favours businesses where wage bill forms a large proportion of costs, which ties in more closely with the objective of preserving local population than do say, investment incentives.*

With regard to the RDSSC’s potential distortive effect on the internal market, the mid-term analysis by Samfunnsøkonomisk Analyse concludes that there is little evidence of the RDSSC having a distortive impact on competition and trade to an extent contrary to the intent of the EEA agreement. The evaluation highly recommended a continuation of the scheme, since the scheme enhance beneficiaries’ competitiveness domestically, which is the intention of the scheme.

Based on the above-mentioned perspectives the county councils underline our support to the prevailing guidelines on operating aid that contains specific rules for operating aid in very sparsely populated areas.

7 Concluding remarks

The regional aid guidelines strike a good balance between the need for aid and the impact on competition. The main features of the present rules are maintained for the period 2022-2027. For the northernmost, very sparsely populated areas of Europe, it is important that the present rules on operating aid are continued. Aid alone cannot necessarily prevent depopulation, but as part of an overall European, Nordic and Norwegian policy for the North, aid can contribute to create the right environment for growth in these areas.

In the comments above, some proposed adjustments have been made to clarify certain rules, and to ensure that the rules are as targeted as possible to combat the challenges sparsely populated areas are facing.

The county councils would highly appreciate if the Commission could take the proposals into consideration.