

**Revision of the EU Regional Aid Guidelines
Enterprise Ireland Submission to Consultation
September 2020**

1. Introduction and Overview

The Regional Aid Guidelines (RAG) play a key role in determining the choices that EU Member States have when meeting their objectives of supporting enterprise growth. This document has been developed in response to the recent EU Commission draft *Guidelines on regional state aid*, and sets out a number of proposals for consideration, which seek to ensure that Regional Aid continues to effectively enable Member States to support economic development in areas of disadvantage.

2. Extension of existing Regional Aid Maps to 2024

The objective of Regional Aid is to promote the economic sustainable development of certain disadvantaged areas within the European Union. The Regional Aid Guidelines are being developed during a period of economic uncertainty for the EU, and globally. The public health measures necessary to respond to Covid-19 and the departure of the UK from the EU are two major economic shocks, and will negatively impact on economic growth across the EU. The UK exit will have a particularly negative impact on Member States with a high economic interdependence with the UK, such as Ireland.

In this uncertain environment, it is therefore proposed that the planned timelines for introduction of new Regional Aid Maps for Member States (i.e from 2022) which, based on historic economic data, will result in reductions of population coverage for many Member States, should be reviewed. The introduction of significantly changed Regional Aid Maps (as would be the outcome under current draft guidelines), with reduced population coverage across many Member States, would have a detrimental impact on the ability of those Member States to support much needed investment by enterprise at this time.

It is proposed that the Regional Aid Maps covering all the EU Member States, which were recently extended to the end of 2021, should be extended further to the end of 2024. The review of economic and population indicators to determine population coverage should be carried out before the end of this period, at a point where the economic impact of the current economic challenges will be more clear.

3. Proposals for Amendment to the draft Regional Aid Guidelines

As outlined above, it is proposed that, at this point in time, the current Regional Aid Maps should be extended to the end of 2024, to provide certainty and continuity of support to Member States and regions.

However, taking this into account, the additional proposals below provide specific suggestions for consideration in respect of the adopting new *Guidelines on regional state aid*.

3.1 Population Coverage Eligible for Regional Aid

Context

The RAG 2014-2020 provided for 47% population coverage in terms of regions eligible for Regional Aid. The draft guidelines propose that the same population coverage is retained in the next Regional Aid period as was the case for 2014-2020.

Issue

When applying the population coverage percentage accurately, it is important to compare like with like. The next RAG will cover the EU27, and not the EU28. The population coverage under RAG 2014-2022 for the EU27 was 49%, and not 47%. Therefore in terms of real impact for citizens in the remaining EU Member States, 47% coverage would result in a reduction of coverage, as a direct consequence of ignoring the change to the EU map arising from the UK exit from the EU, and 66 million people would no longer being part of the calculation.

Proposal

It is proposed that an increased population coverage is adopted in the next RAG, and that this rationale and conclusion should be included at Section 7 of the proposed RAG.

3.2 Safety Net for Population Coverage for Member States

Context

Under the proposed RAG guidelines, the reduction in population coverage for a number of Member States is dramatic. The RAG provisions recognise that an overly severe reduction in coverage would be detrimental to the economic landscape and therefore ensures that no Member State can suffer a reduction in population coverage of greater than 50%.

Issue

The principle of applying a floor to reductions in population coverage changes is correct. However, in the context of the severe negative economic impact (current and future) arising from the twin external shocks of Covid-19 and Brexit, a 50% reduction in population coverage for a Member State would have a very dramatic impact and significantly restrict the ability of individual Member States to effectively support economic development in disadvantaged regions over the coming years.

Proposal

It is suggested that the protection provided by the Safety Net Mechanism should be strengthened in the draft Regional Aid Guidelines. A 50% reduction in population coverage between one RAG period and the next does not provide an adequate safety net, and the % reduction at paragraph 172 should be capped at a lower amount.

3.3 Accommodating Major Structural Changes in RAG

Context

During the proposed timeframe for the upcoming RAG, sectors and regions in a number of Member States will, due to their existing levels of trade with and through the UK, be significantly negatively economically impacted as a direct result of the UK departure from the EU. Major structural changes will also occur in these sectors and regions, in response to this economic disturbance.

The draft guidelines recognise that it is appropriate to afford preferential treatment to regions bordering non-EEA members as well as areas that are undergoing major structural change.

Issue

The effects of the UK exit from the EU will be strongly felt by a number of regions in Member States throughout the period of application of the new RAG. The UK exit from the EU will have a significant negative economic impact on a number of Member States. Ireland, with high levels of trade with the UK, its geographic proximity and its dependence on the UK landbridge as a route to trading with the Single Market, will be particularly impacted.

The current proposed criteria for allocation of pre-defined 'c' regions, which is largely based on historic data, do not reflect the economic shock and levels of disadvantage that will occur in Member States arising from this change in trading relationships.

Proposal

The Regional Aid Guidelines recognise that there are certain regions that, as a consequence of their fulfilling certain pre-established conditions, are eligible for regional aid ('pre-defined c regions').

It is proposed that Paragraph 166 of the draft guidelines, which outlines criteria for pre-defined c regions, should be expanded to accommodate regions and Member States that will suffer a significant negative economic impact

and will face major structural change arising from the UK departure from the EU. This extension of criteria will enable affected Member States to provide much needed support for enterprise investment and employment, to restore competitiveness and to repair the economic damage that has been incurred by these regions.

3.4 Review of Restrictions for Large Company Supports Including Provision of Regional Aid Supports for Small Mid-Cap and Mid-Cap Enterprises

Context

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, a number of issues have arisen over the past 7 years in the treatment of large enterprises under the RAG.

Issues

- **Equal treatment of all large companies:** 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. Smaller large companies can have a significant positive impact for a region, whilst not necessarily being so large that they distort EU competition.
- **Definitions:** Confusion has arisen in relation to the definition of certain terms that are not explicitly defined under RAG 2014, such as “new establishment” and “transparent forms of aid”. This ambiguity has caused uncertainty about how to correctly implement aid.

Proposal

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 employees¹) are also allowed preferable Regional Aid by inserting the 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”.

In addition, it is proposed that updated definitions of “new establishment” and “transparent forms of aid” should be included in the definitions section of RAG 2022-2027.

3.5 Green Deal and Digital Strategy – Process innovation and NACE Code classification

Context

The Green Deal and Digital Strategy are important strategic initiatives. Given the resources available to them, it is likely that large companies possess the greater potential to drive change in these areas.

Issue

Constraints on aid to large firms in ‘c’ areas, and the proposed exclusion of process innovation (Paragraph 50 of draft guidelines), could make achieving Green Deal and Digitalisation objectives more difficult.

Expansion projects by large companies have the potential of providing sustainable employment in areas of low employment but not at the same time amounting to an abuse of State aid. For instance, within certain sectors, NACE codes are widely defined and not up to date in terms of new technologies (particularly in relation to sectors

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](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014XC0122(04)&from=EN)

relevant to the Green Deal and Digital Agenda), with the result that genuine new activities nevertheless fail to meet the conditions for new activities.

Proposal

It is proposed that the process innovation rule for large companies should not be removed from paragraph 50 of RAG 2022-2027 for scenarios where enterprises are making investments in pursuit of Green Deal or Digitalisation objectives.

A review of NACE code classifications should be undertaken to prevent the exclusion from support innovative investments in new areas, currently being deemed to be an expansion of existing activities.

3.6 Recognise and Support Remote-Working in Regions

Context

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.

Issue

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.

Proposal

Enterprise Ireland 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 level of aid intensity applicable to the region(s) where the remote working is taking place.