

WLGA Briefing

The new Regional Aid Guidelines and the extended SME block exemption: some clarification

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Due to the fact that the new Regional Aid Guidelines (RAG) are now in place and the SME block exemption has been extended (until June 2008) there is a discrepancy between the bonuses allowed under the schemes. This arises because the SME bonuses within the extended SME Block Exemption Regulation are different to the bonuses allowed for SMEs in the new RAG.

Example

In the new RAG, rather than different SME bonus levels depending on whether its 87 (3) (a) and 87 (3) (c) areas, there are different bonuses depending on whether a firm is small or medium-sized. Under the current Investment Grant in Wales, small and medium-sized enterprises in 87 (3) (a) areas can receive 50% funding, in line with previous RAG. Under the new RAG, small enterprises in 87 (3) (a) areas can receive 50% but medium-sized enterprises can only receive 40%. However, under the SME block exemption, medium-sized enterprises in 87 (3) (a) areas can receive 45%.

Commission clarification

The DTI asked for the Commission to clarify the situation, and DG Competition has confirmed that there will be a dual system in place, thus Member States have a choice of legal basis for their schemes.

The Commission acknowledges that because the review of the exemption regulation has taken longer than expected, the existing SME regulation has been extended, which was not foreseen when the new RAG were adopted.

In addition, the new RAG represent a changed approach to SME bonuses - with higher bonuses given to small companies than medium-sized ones. On the other hand the SME regulation grants the same bonus to all SMEs, depending on the area in which they are located.

For the time being the two systems coexist. If you choose the RAG as the legal basis, then the scheme can apply until 2013. If you chose the SME regulation, the scheme will of course necessarily expire in 2008, and have to be amended in line with any new regulation.

However, the Commission does **not recommend** splitting scheme between the 2 regulations, but to operate a scheme under one regulation only. They are advising Member States that they should choose one or the other and not "cherry-pick" parts of each

regulation. For example the Commission would not encourage Member States to use the SME regulation as a legal basis for medium-sized enterprises, and the RAG for small-sized enterprises in order to maximise aid intensities.

Nevertheless, it seems that there is nothing stopping this "cherry picking" system, in order to make best use of the allowable intensity levels taking place!

Please consider the above issues in determining the rates applicable to your individual schemes.