

# WLGA Briefing

## EU Regional Aid Guidelines for 2007-2013: Draft Communication from the European Commission



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### Introduction

The European Commission has adopted new Regional Aid Guidelines for 2007-2013 on 21 December 2005. The Guidelines set out the rules for allowing state aid which promotes the development of poorer regions, covering aid such as direct investment grants and tax reductions for companies. The Guidelines specify rules for the selection of regions which are eligible for regional aid, and define the maximum permitted levels.

### Context

In response to European Council calls for a reduction in overall levels of State Aid, the overall population coverage of eligible regions for Regional Aid in the future will be limited to 42% of the population of the current EU25 (compared to 52.2% under the 2000-2006 Guidelines). This means significant reductions in coverage in some of the 'old' Member States although an additional safety-net will ensure that no Member State loses more than 50% of the population covered during the 2000-2006 period.

### Demarcation of regions

#### Article 87(3)(a)

This covers the least developed regions and allows the highest levels of aid available in the EU. Currently, Objective 1 regions like West Wales and the Valleys are eligible. In the future, this designation will be given to two types of regions:

- those with a GDP of less than 75% of the EU25 average
- those with a GDP which exceeds 75% of the EU25 average purely because of the statistical effect of enlargement (the so-called "statistical effect" regions). This designation will be subject to a review in 2010.

#### Article 87(3)(c)

This article allows regions to offer aid at a lower threshold. Defining the eligibility for this type of aid will follow a two-step process. First, the Commission will set a maximum

population coverage for each Member State and decide the criteria upon which regions can be considered for designation. Second, the Member States will propose a map of eligible areas within the allowed population ceiling.

*Determination of eligible population coverage*

The allocation of national population coverage will be based on the following criteria:

- the current Objective 1 regions whose GDP has risen above 75% of the EU 15 average(the so-called "economic development" regions)
- regions with low population density
- an objective criteria which takes account of GDP and unemployment levels
- a safety-net which ensures no Member State loses more than 50% of its current coverage.

The implications of this criteria for the UK is outlined in the table below:

<b>United Kingdom</b>	Regions	% of EU-25 per capita GDP	Aid intensity	% Pop. covered
Article 87(3)(a)	Cornwall & Isles of Scilly	70.16	30%	
	West Wales and the Valleys	73.98	30%	
				4.0%
Statistical effect	Highlands and Islands	77.71	30%=>20%	0.6%
Economic development 87(3)(c)	Merseyside	83.62	15%	6.8%
	South Yorkshire	86.98	or 10%	
	Northern Ireland	91.35	30%=>15%	
Article 87(3)(c)			15% or 10%	12.5%
Total population coverage				23.9%

*Selection of eligible regions*

The eligibility criteria for Article 87(3)(c) designation by Member States includes the following:

- (a) the "economic development" regions.
- (b) the low population density regions (less than 12.5 persons perr km<sup>2</sup> e.g. northern Scandinavia).
- (c) regions which form contingent zones with a minimum population of at least 100,000 which are located within either NUTS II or NUTS III regions which have either a GDP

per inhabitant of less than EU25 average, or which have an unemployment rate which is higher than 115% of the national average.

- (d) NUTS III regions with less than 100,000 population which have either a GDP per capita of less than the EU25 average or which have an unemployment rate which is higher than 115% of the national average.
- (e) Islands and other regions categorised by similar geographical isolation which have either a GDP per capita of less than the EU25 average, or which have an unemployment rate which is higher than 115% of the national average.
- (f) In duly justified cases, Member States may also designate other regions which form contiguous zones with a minimum population of at least 50,000 which are undergoing major structural change, or are in serious relative decline, when compared with other comparable regions.
- (g) NUTS III regions or parts thereof adjacent to a region which is eligible for support under Article 87(3)(a) as well as NUTS III regions or parts thereof which share a land border, or a sea border of less than 30 kilometres with a country which is not a Member States of the European Economic Area or EFTA.
- (h) In duly justified cases, Member States may also designate other regions which form contiguous zones with a minimum population of at least 50,000 which are undergoing major structural change, or are in serious relative decline, when compared with other comparable regions.

In addition, in order to allow Member States greater flexibility to target very localised regional disparities, below NUTS III level, Member States may also designate other small areas which do not meet the conditions described above provided that have a minimum population of 20,000. This will include evidence based on recognised economic indicators such as GDP per capita, employment or unemployment levels, local productivity or skills indicators.

## **Form of aid and ceilings**

### **Form of aid**

Regional investment aid is aid awarded for an initial investment project.

*Initial investment* means an investment in fixed capital relating to:

- the setting-up of a new establishment;
- the extension of an existing establishment;
- diversification of the output of an establishment into completely new product markets;
- a fundamental change in the overall production process of an existing establishment.

Replacement investment that does not meet any of these conditions is excluded.

Aid ceilings

Under Article 87(3)(a) the very poorest regions will be allowed to offer higher levels of aid:

- 30% GGE (gross grant equivalent) for regions with less than 75% of average EU-25 per capita GDP, and until 1 January 2010 statistical effect regions.
- 40% GGE for regions with less than 60% of average EU-25 per capita GDP;
- 50% GGE for regions with less than 45% of average EU-25 per capita GDP;

The statistical effect regions which become Article 87(3)(c) areas from 1 January 2010 will be eligible for an aid intensity of 20%. For other Article 87(3)(c) regions, the ceilings on regional aid will be 15% GGE.

As currently, the ceilings for aid awarded to small and medium sized enterprises would be increased by 20% GGE for aid granted to small enterprises and by 10% for aid granted to medium sized enterprises. There will be additional transparency requirements on large investment projects (above €50 million).

Operating aid remains possible only in very exceptional and individually justified cases in 87(3)(a) areas.

## **Aid for newly created small enterprises**

A new form of enterprise aid for small firms (< 50 employees) will be introduced:

**Art. 87(3)(a) regions:** aid schemes up to €2 million for small enterprises which may not exceed 35% of eligible expenses incurred in the first three years after the creation of the enterprise, and 25% in the two years thereafter.

**Art. 87(3)(c) regions:** aid schemes up to €1 million for small enterprises which may not exceed 25% of eligible expenses incurred in the first three years after the creation of the enterprise, and 15% in the two years thereafter.

This will be granted in addition to regional investment aid and will go significantly beyond that allowed under the de minimus rules, but be tightly restricted to small enterprises. The eligible expenses cover a range of costs related to the establishment and expansion costs of a business. This proposal reflects an attempt by the Commission to pick up on previous unsuccessful ideas for allowing small-scale aid which does not distort trade.

## **Implications for Wales**

- West Wales and the Valleys will qualify for Article 87(3)(a) for the duration of 2007-2013.

## **Next Steps**

The UK Government has up to 21 March to propose a regional aid map for the period 2007-2013. These proposals will then have to be agreed by the Commission.