International Lessons for Interstate Progress

Day 2: Regional aid
Previously on *Interstate Progress*

EU Treaty: Government support of any kind may not be selective or distort competition in the single market.

State aid is prohibited, except in pursuit of EU public-policy objectives and when subsidies are granted competitively.

EU countries must notify and wait for the European Commission’s clearance or concerns. Exceptions apply.

European Commission’s guidance help EU countries fix market failures and invest on common policies.

Good aid: No waste of taxpayers’ money, incentive effect, no harm to competition.

General Block Exemption Regulations and the ‘big on big, small on small’ principle.
Regional aid
EU governments can subsidise investment in less developed regions. The aid must:

- Have an incentive effect
- Be kept to the minimum necessary to attract investment
- Not have undue negative effects
- Stay within regional aid ceilings
4 October 2018: The European Commission allowed Slovakia to give €125 million in subsidies to Jaguar Land Rover.

Jaguar Land Rover would invest €1.4 billion to build a factory in Nitra, a poor region of Slovakia that qualified for regional aid.

The new factory would create about 3,000 direct jobs.
Regional aid maps

Regional aid is most effective when it goes to regions that need it most.
How regional aid maps are drawn

‘a’ areas: Standards of living
- GDP lower than 75% of EU average
- Outermost Regions

‘c’ areas: Wider range of criteria
- Socioeconomic, geographical and structural problems at national level
- Former ‘a’ areas
- Sparsely populated areas
- Other problem regions proposed by EU countries (‘free c’ areas)
## Regional aid maps

<table>
<thead>
<tr>
<th>Types of region</th>
<th>Current coverage</th>
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</thead>
<tbody>
<tr>
<td>‘a’ areas</td>
<td>25.8%</td>
</tr>
<tr>
<td>- GDP/cap &lt; 75%</td>
<td>24.9%</td>
</tr>
<tr>
<td>- Outermost regions</td>
<td>0.9%</td>
</tr>
<tr>
<td>‘c’ areas</td>
<td>21.8%</td>
</tr>
<tr>
<td>- Former ‘a’ areas</td>
<td>6.9%</td>
</tr>
<tr>
<td>- Sparsely populated</td>
<td>0.6%</td>
</tr>
<tr>
<td>- Other ‘free’ ‘c’ areas</td>
<td>14.3%</td>
</tr>
<tr>
<td><strong>Total ‘a’ + ‘c’</strong></td>
<td><strong>47.6%</strong></td>
</tr>
</tbody>
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Minimum coverage by EU country

Safety net

Seven year period with mid-term review

New map out in 2021
The Regional aid map caps investment aid that can be granted in each region.

<table>
<thead>
<tr>
<th>Assisted area (% EU GDP/head)</th>
<th>Large firms</th>
<th>Medium-sized firms</th>
<th>Small firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>'a' areas (&lt;45%)</td>
<td>50%</td>
<td>60%</td>
<td>70%</td>
</tr>
<tr>
<td>'a' areas (45%-60%)</td>
<td>35%</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>'a' areas (60%-75%)</td>
<td>25%</td>
<td>35%</td>
<td>45%</td>
</tr>
<tr>
<td>Former 'a' areas (until end '17)</td>
<td>15%</td>
<td>25%</td>
<td>35%</td>
</tr>
<tr>
<td>Sparsely populated areas, external border areas</td>
<td>15%</td>
<td>25%</td>
<td>35%</td>
</tr>
<tr>
<td>Other 'c' areas</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
</tr>
</tbody>
</table>
Scaling down mechanism

Maximum aid amount = $R \times (50 + 0.50B + 0.34C)$

$B = \text{Eligible costs between } €50 \text{ and } €100 \text{ million}$

$C = \text{Eligible costs over } €100 \text{ million}$
The mechanism in the Jaguar case

Nitra, ‘a’ area = 25%

Eligible costs = €1.4 billion

Maximum aid amount = 25% * (50 + 0.50*50 + 0.34*1300) = €129 million
Big on big, small on small: notification thresholds

Commitment not to relocate for two years after investment

For certain type of investments/sectors

<table>
<thead>
<tr>
<th>Maximum aid intensity in the region</th>
<th>Notification threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>€7.5 M</td>
</tr>
<tr>
<td>25%</td>
<td>€18.8 M</td>
</tr>
<tr>
<td>45%</td>
<td>€33.8 M</td>
</tr>
</tbody>
</table>
Eligibility of projects and beneficiaries

Investment in tangible and intangible assets related to:

**In 'a' regions & SME in 'c' areas:**
- Setting up of a new establishment;
- Diversification of output of establishment into products not previously produced in the establishment;
- Extension of the capacity of an existing establishment;
- Fundamental change in the production process.

**LEs in 'c' areas:**
- Setting up of a new establishment;
- Diversification of activity of establishment, if new activity is not same as or similar to activity previously performed in the establishment;

Acquisition of assets linked to establishment that has closed or would have closed
No replacement investment!
Any questions?
Assessing subsidies: Common principles

The aid actually contributes to a region’s economic development
It is necessary
Granting the aid is the best thing to do after exploring the alternatives
The amount is the minimum necessary
The aid has no undue negative effects
Transparency & evaluation
Incentive effect in the Jaguar case

Counterfactual: What would have happened without the aid?

- The Commission's investigation confirmed that Jaguar Land Rover considered several locations in Europe and outside back in 2015
- Conclusion: Without the aid the factory wouldn’t have been built in Nitra
Proportionality

The double ceiling principle
No undue negative effects

No relocation
No stealing from other regions
No overcapacity
More questions?

IT'S GOING TO BE A VERY BAD DAY.
Appendix: Regional Guidelines v General Block Exemption Regulation

- Bulk of regional aid granted under General Block Exemption Regulation

- Aid amounts up to notification thresholds with less demanding analysis

- But make sure that potentially problematic cases - such as relocations - are notified