



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

Rationale of the Regional aid Guidelines

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



Case study: Jaguar Land Rover in Nitra

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



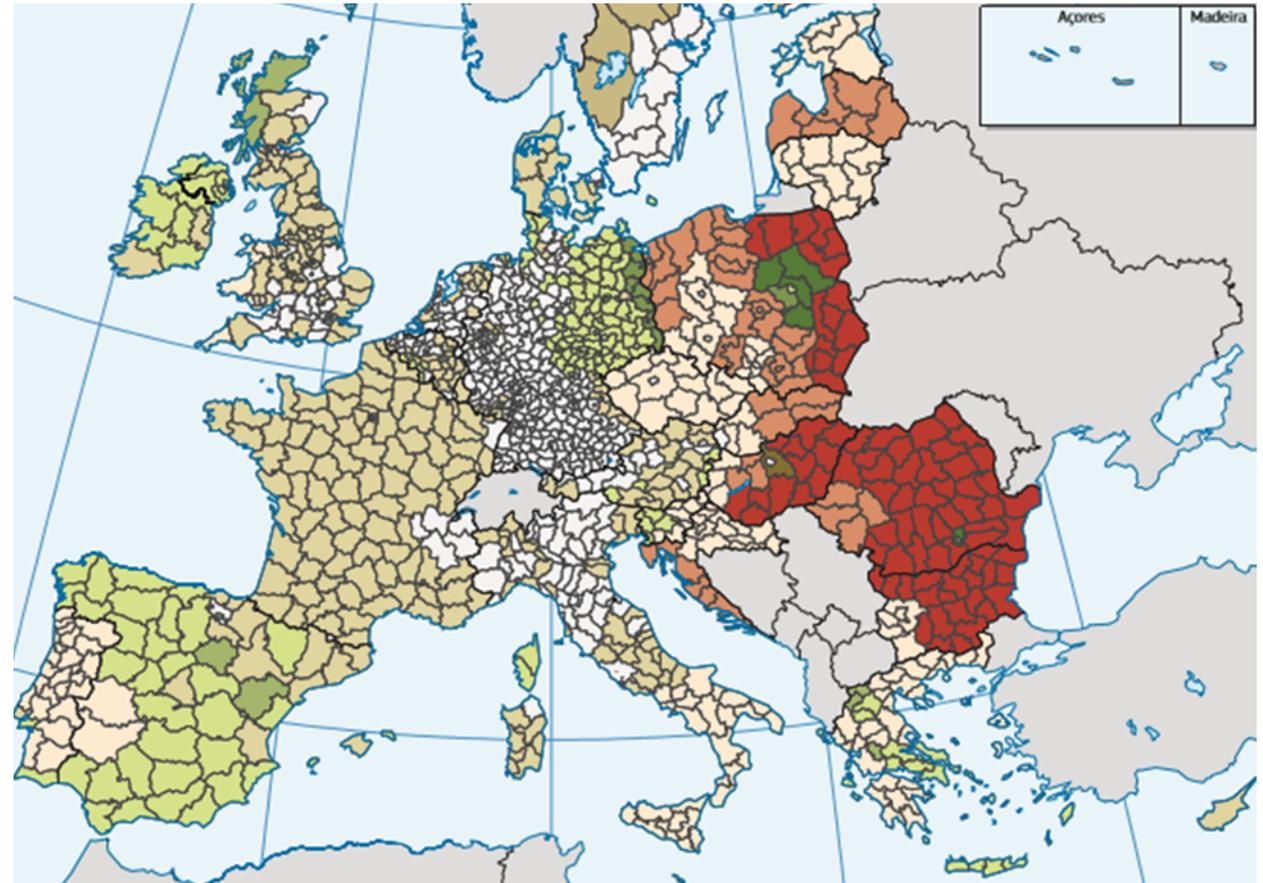
Regional aid maps

Regional aid is most effective when it goes to regions that need it most

Regional state aid, 2018-2020

Eligible regions and maximum aid intensity

Art 107.3.a	Art 107.3.a Outermost regions	Art 107.3.c total	Art 107.3.c partial	
25%	35%	10%	10%	
35%	45%	15%	15%	
50%	55%	20%	35%	
70%		35%		



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

Minimum coverage
by EU country

Safety net

Seven year period
with mid-term review

New map out in 2021

Types of region	Current coverage
'a' areas	25.8%
- GDP/cap < 75%	24.9%
- Outermost regions	0.9%
'c' areas	21.8%
- Former 'a' areas	6.9%
- Sparsely populated	0.6%
- Other 'free' 'c' areas	14.3%
Total 'a' + 'c'	47.6%

Maximum aid intensities

The Regional aid map caps investment aid that can be granted in each region

Assisted area (% EU GDP/head)	Large firms	Medium-sized firms	Small firms
'a' areas (<45%)	50%	60%	70%
'a' areas (45%-60%)	35%	45%	55%
'a' areas (60%-75%)	25%	35%	45%
Former 'a' areas (until end '17)	15%	25%	35%
Sparsely populated areas, external border areas	15%	25%	35%
Other 'c' areas	10%	20%	30%

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



When to notify regional aid?

Big on big, small on small:
notification thresholds

Commitment not to relocate for
two years after investment

For certain type of
investments/sectors

Maximum aid intensity in the region	Notification threshold
10%	€7.5 M
25%	€18.8 M
45%	€33.8 M

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.

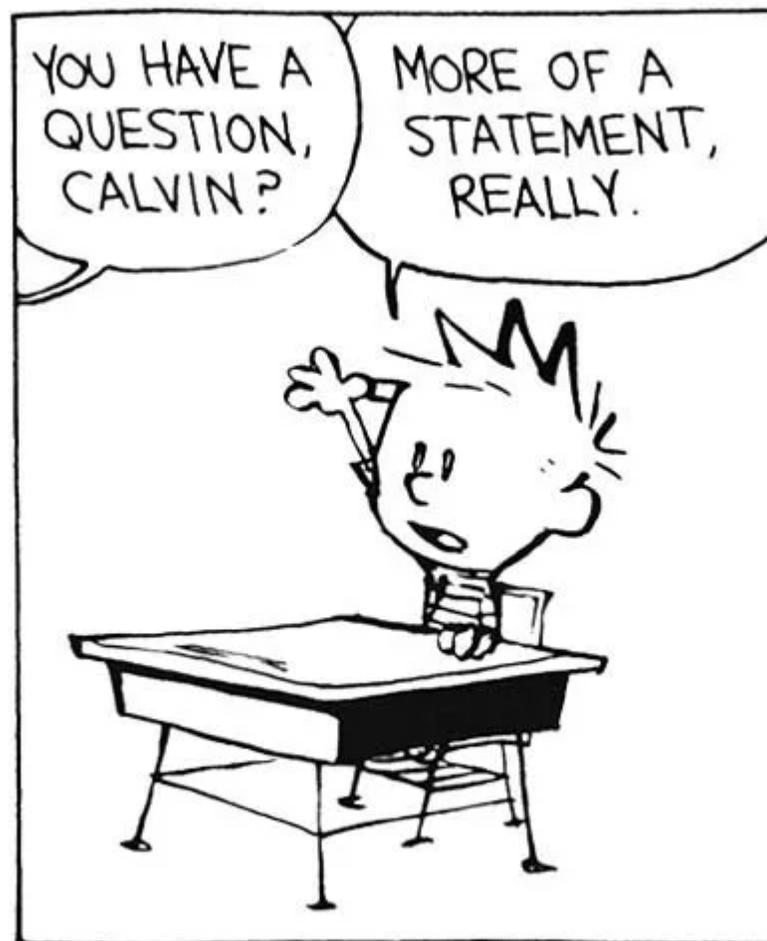
LEs in 'c' areas:

- Setting up of a new establishment;
- Diversification of activity of establishment, if new activity is not same as or similar to activity previously per-formed in the establishment;

WHY?

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

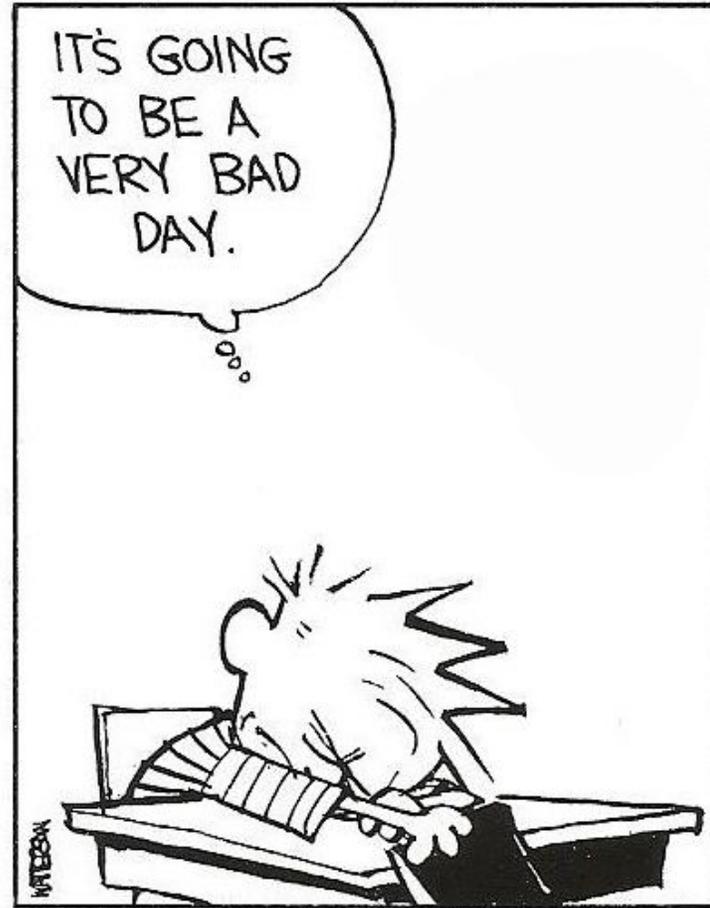
No relocation

No stealing from other regions

No overcapacity



More questions?



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