

# EUROPEAN COMMISSION Impact Assessment Board

Brussels, D(2013)

## **Opinion**

**Title** 

DG COMP - Guidelines on regional state aid for 2014-2020 (draft version of 2 April 2013)\*

#### (A) Context

The conditions under which Member States may grant regional investment aid without obtaining prior authorisation by the Commission are laid down in the General block exemption regulation (GBER). Regional State aid measures falling outside the scope of the GBER remain subject to the obligation of prior notification to the Commission that will assess the effects of regional aid measures on competition and trade on the basis of Regional Aid Guidelines (RAG). Aid can be granted to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment, including the outermost regions (indicated as 'a' areas in the text); and to facilitate the development of certain economic areas where such aid does not adversely affect trading conditions to an extent contrary to the common interest ('c' areas). The RAG are mainly based on formal requirements; in-depth analysis is conducted only for large investment projects. GBER and RAG both expire at the end of 2013. This initiative proposes to revise the RAG to establish an improved framework for State aid control for the next programming period, while ensuring consistency with other EU policies. The objective is to ensure that regional state aid granted in assisted areas contributes to their economic development and make sure that any negative effects of distortions of trade and competition do not exceed the likely benefits.

#### (B) Overall opinion: NEGATIVE

The report needs to be significantly improved in a number of respects. First, the problem section should clearly identify on the basis of concrete evidence what the key problems are with the functioning of the current Guidelines. For instance it should explain why scrutiny is currently not focusing on the most distortive forms of aid, and look more closely at investment incentives including business clustering opportunities or the availability of a highly qualified workforce. Second, it should state more clearly how the key objectives of the initiative are linked to other relevant policies (review of the GBER, revision proposals for other State Aid Guidelines, structural funds). Third, the report should better explain the content of the different options presented and better assess impacts by quantifying where possible the costs and benefits of the proposed options on regions, businesses (especially SMEs), sectoral competitiveness, employment and environment. It should also assess the likelihood that businesses will relocate to non-EU countries.

Note that this opinion concerns a draft impact assessment report which may differ from the one adopted

Finally, the report should set out clearer arrangements for future monitoring and evaluation of the revised Guidelines.

Given the nature of these concerns, the IAB requests DG COMP to submit a revised version of the IA report on which it will issue a new opinion.

### (C) Main recommendations for improvements

- (1) Strengthen the evidence base and problem definition. The report should base its problem analysis more on concrete evidence on the functioning of the current Guidelines, instead of more theoretical economic considerations. It should look for factual evidence on the critical factors for investment decisions (which may also include issues such as business clustering opportunities or the availability of a highly qualified workforce) and avoid excessive reliance on stated stakeholder views. In terms of the deficiencies of the current system, the report should explain why - for example - scrutiny under current rules does not appear to focus on the most serious distortions. It should provide a clearer indication of the actual 'incentive' effect, by investigating whether investment in particular cases would still have taken place without aid. In the broader problem description the report should ensure that critical statements are still up-to-date, for example with regard to diminishing economic disparities between poorer and wealthier regions, where the picture has significantly changed as a consequence of the current economic crisis; this should be addressed in the analysis on the basis of relevant data, including the most recent (un)employment and income indicators. The report should clearly describe what the current practice is with regard to regional state aid in different Member States, especially concerning aid granted to large enterprises. It should explain whether this aid is concentrated in some Member States or whether it is distributed more evenly, and analyse whether there is evidence for reallocation of investments towards those Member States that are less affected by budgetary constraints. The problem definition section itself should be restructured, and distinguish more clearly between important problems and minor ones. The former should be supported by clear evidence and illustrated with concrete (anonymised) cases. All the elements in the problem definition that are relevant for further analysis have to be presented in a clear and visible form (e.g. a summary box or table at the end of the section), and subsequently followed up in the discussion of objectives and options ('intervention logic'). For instance, the report should discuss whether there is sufficient evidence for the suggested link between efficiency of aid and the option to allow state aid to large enterprises only for greenfield investments in 'c' areas.
- (2) Explain links with other relevant policies. The report should clearly discuss the links between this initiative and the GBER, and assess the expected impacts of the combined proposals. It should also more clearly explain in cases of overlap which impacts will be assessed in the current impact assessment and which under other specific (sectoral) state aid guidelines. It should more clearly discuss the interaction of these different Guidelines and assess in greater depth the possible implications, especially for forum shopping. The report should also analyse how the possible changes in the RAG relate to EU funding instruments. In this context it should also explain what can be done to avoid duplications of checks under State aid and Cohesion policy rules.
- (3) Be more concrete about the content of the options and their costs and benefits. The report should more clearly explain the content of the different options presented and provide a clear and more balanced assessment of all relevant economic, social and environmental impacts. The issue of forum shopping should be further analysed,

especially in the light of possible environmental effects and overall policy coherence. It should attempt to give a more quantitative indication of the consequences that the different options are expected to have on particular regions and groups of aid beneficiaries, using sufficiently recent data to take into account the effects of the economic crisis. This should be preferably done on the basis of argued estimates of expected impacts based on historical data (combined with industrial and demographic structure elements), while acknowledging the uncertainties and inaccuracies that are inevitable in such estimations. The assessment of impacts on employment and on businesses, including SMEs, should be based on more solid evidence than merely stakeholders' opinions. The report should better analyse the expected impacts on the competitiveness of relevant sectors, provide the rationale and corresponding analysis for the exclusion of some sectors, and assess the likelihood that businesses will relocate to non-EU countries. Where the options may entail a significant increase in administrative burden this will have to be quantified. Finally, the report should better integrate the views of stakeholders on the design of the options and the analysis of impacts.

(4) Strengthen the link between the comparison of options and the analysis of impacts. The report should explain clearly how the '0', '+' and '-' in the summary table (p. 39) relate to the previous analysis of costs and benefits. It should give a clearer indication of all expected economic, social and — where relevant — environmental effects of the preferred option package. The report should clarify the overall impact on the reduction in administrative burden and discuss the consistency with other areas of EU policies for Option 2. Overall the references to particular impacts (especially administrative burdens) should be checked for consistency.

Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated in the final version of the impact assessment report

#### (D) Procedure and presentation

The report should propose appropriate monitoring indicators against which the successful implementation of the planned rules can be assessed in the future and set out clear arrangements for ex post evaluation. An annex including key definitions and terms should be added. The 'executive summary sheet' should include a justification for the lack of quantification when discussing the benefits of the preferred option.

(E) IAB scrutiny process	
Reference number	2012/COMP/003
External expertise used	No
Date of IAB meeting	24 April 2013