

COMMISSION OF THE EUROPEAN COMMUNITIES

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LIST OF DEROGATIONS FROM THE CEILINGS SPECIFIED
IN THE PRINCIPLES OF COORDINATION
OF GENERAL REGIONAL AID SYSTEMS

Communication of the Commission to the Council

COM(79) 21 final.

List of derogations from the ceilings specified in the
Principles of Coordination of General Regional Aid Systems

(Communication of the Commission to the Council)

Introduction

In the communication of the Commission to the Council of 26 February 1975 (COM(75)77 final) on General Regional Aid Systems, ceilings for the intensity of aids that could be given in the regions of the Community were set out in point 3 of the Principles of Coordination. At the same time it was stated that derogations from the intensity ceilings expressed in net grant equivalent of investment could be accepted by the Commission provided that the necessary justification was communicated in advance in accordance with the procedure provided for at article 93 of the Treaty establishing the European Economic Community. The Commission undertook to supply the Council with a list of any derogations.

Six such derogations have been made by the Commission up to 31 December 1978.

The list given below will describe these derogations and give briefly the reasons for their being granted.

List of the derogations

1. By letter of 20 May 1975 (S/75/025435) the Commission informed the United Kingdom of its decision not to oppose the application of the aid scheme operated by the Highlands and Islands Development Board (HIDB). The ceiling for the area assisted by the HIDB was 30% net grant equivalent of investment. The scheme operated by the HIDB is that additional aid can be given on top of the Regional Development Grant available in Development Areas in the form of special grants, interest relief grants, loans etc. Where these supplementary aids are given, further Selective Financial Assistance from other sources is not available. The special grant plus loan cannot exceed £ 200.000 (300.000 ECU) for any one investment. The special grant cannot exceed 20% of fixed investment except in cases where this results in grant of less than £ 20.000 (30.000 ECU) in which case the grant can reach 50% of fixed investment.

In making the decision to give a derogation, the Commission took into account several factors. The socio-economic situation of the region assisted by the HIDB was characterized by a decline over a long period of total population and an economic overdependence on the primary and tertiary sectors. The region had a very low proportion of industrial employment. Furthermore the aid granted by the HIDB was small in absolute terms and limited to relatively small-scale projects. However, because this area would benefit favourably from the effects of the exploitation of oil fields in the North Sea, the Commission felt it should be informed of the aid policy pursued with regard to the development of the region. This was to be provided for by an annual report.

2. By a letter of 19 April 1978 (SG(78)4793) the Commission agreed to further changes to the aid scheme operated by the HIDB. These changes meant that the total amount of special grant and loan could go up to £ 400.000 (600.000 EUA) and the special grant itself to £ 30.000 (45.000 EUA). The soft loan (or interest relief grant equivalent) could now be up to 3 years interest free instead of 2 years as formerly, with the remaining 4 years at 3% points reduction remaining unchanged. These changes meant that the threshold maximum for small investments remained almost unchanged at 78% nge but the aid for medium-sized projects was increased appreciably.

On reexamining the socio-economic situation, it was shown that unemployment was still high with large sectoral variations and the economy was still overdependent on primary and tertiary sectors (mostly agriculture and tourism) with manufacturing only 16% of the total employment. However, even though the region was still amongst one of the worst of the 30% zones in the Community, it had improved relatively in relation to both Scotland and the UK. Nevertheless this was not a uniform position throughout the region since the relative improvement was seen most in the areas benefiting from North Sea oil activity.

Because of this relative improvement and the development potential of North Sea oil, it was decided to fix the ceiling at the maximum intensity available of 78% for small projects and to ask for prior notification of projects of more than 600.000 EUA investment where the 30% ceiling would be broken. This notification should contain the appropriate socio-economic justification and the annual report should continue to be provided.

3. By letter of 28 July 1976 (SG/76/D/8063) the Commission informed Italy of its decision not to oppose the application of changes to the aid scheme in Sicily. The changes for industries in the sulphur mining areas concerned an additional/^{subsidy} amounting to 20% of those investment grants already accorded in the context of the special legislation applied to the whole of the Mezzogiorno. In addition a premium amounting to Lit. 200.000 a year for each regular job occupied was to be granted over three years.

The increase in intensity for the then measurable aids had the effect of increasing the maximum attainable by measurable aid from 90%¹⁾ to 99%¹⁾, with the condition, however, that in order to obtain this subsidy an entrepreneur must have as his own capital at least 30% of the fixed investment.

1) This maximum could only be reached when all the following conditions were fulfilled: the creation of an enterprise and, in any case, for investment less than 1.500 m lire (1,5 m EUA); location in a zone of depopulation; the equipment and machinery bought from producers in the Mezzogiorno; soft loan given on working capital which amounts to 30% of fixed investment. This is based on the joint application of national aid laws and those of the region of Sicily. These conditions have subsequently been changed by the new aid system applicable in the Mezzogiorno which provides notably for a reduction in the maximum intensity available for regional aids in Italy.

In making the decision to give a derogation (subject to certain conditions)^{from}/the Community ceiling established by the 1975 principles of coordination for this region¹⁾, the Commission took into account several factors. The socio-economic situation, in terms of income per head, outward migration, the change in population over time, unemployment and proportion of the population in active employment, was much worse in Sicily than both the rest of Italy and the Community. These indicators, where available, also showed the socio-economic position in the sulphur mining area to be even worse than the rest of Sicily. In addition the sulphur mining sector was experiencing considerable difficulties and had lost employment in the past. Finally, this additional aid was limited to small and medium-sized enterprises.

It should be noted, however, that up to 31 December 1978, these supplementary measures for Sicily had not been put into application (information supplied by the Italian administration).

4. By letter of 10 June 1977 (SG(77)D/6325) the Commission informed the United Kingdom of its decision not to oppose the application of changes proposed in respect of the areas of the United Kingdom that were to be upgraded from Intermediate Areas to Development Areas (the Shotton travel to work area, the Hull travel to work area and the Grimsby Employment Exchange)²⁾. These areas were formerly covered by a ceiling of intensity of 20%, but the aids available in Development Areas can exceed 20% but respect the ceiling of 30% (values expressed in net grant equivalent).

In making the decision to give a derogation and increase the ceiling to 30% in these areas, the Commission took into account that the

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¹⁾ These principles fixed the ceilings for the Mezzogiorno at the maximum intensity of measurable aids (principally grants and soft loans) available from regional aids in application on 1 January 1975 (COM(75)77 final, point 3).

²⁾ It should be noted that at the same time certain areas were downgraded from Development Areas to Intermediate Areas.

unemployment rate in the regions concerned had risen above the level of other Intermediate Areas and was comparable to that of other Development Areas. Furthermore the situation was aggravated by the likelihood of future redundancies in these areas. In deciding not to oppose the application of the changes, the Commission made the reserve that the appraisal of these aids would be put in the framework of the full examination of the United Kingdom aid scheme under Article 93(1) EEC.

5. By letter of 3 October 1977 (SG(77)D/10101) the Commission informed the United Kingdom of its decision not to oppose the application of changes to the aid scheme in Northern Ireland. These changes concerned an increase in capital grants, an increase in intensity of subsidized loans, more favourable terms for renting government factories and an increase in a grant related to job creation. The increase in intensity for the then measurable aids had the effect of increasing the maximum attainable by measurable aids from 45% to 53% net grant equivalent.

In making this decision to give a derogation and raise the ceiling to 53% for measurable aids - subject to the reserve that the appraisal of these aids would be put in the framework of the full examination of the United Kingdom aid scheme under Article 93(1) EEC - the Commission took into account that a brief analysis of the socio-economic situation in terms of unemployment and value added per head of population showed Northern Ireland to be in a comparable position to Ireland and the Mezzogiorno. In these two regions the ceiling of measurable aids was above that for Northern Ireland, and even with the increase in Northern Ireland the intensity for measurable aids would still be lower than that in Ireland and the Mezzogiorno.

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6. By letter of 18 March 1978 (SG(78)D/3552) the Commission informed the Irish Government of its decision not to oppose the implementation of proposals to classify, for a period of one year, the City of Limerick and some surrounding areas as "designated areas", the areas concerned having had until then the status of non-designated regions. The Industrial Development Act 1969 divides Ireland into two categories of aid zones - designated and non-designated regions. In the former, enterprises could benefit from capital aids with a maximum intensity of 56% and 36% in net grant equivalent for new enterprises and reconversion of existing enterprises respectively. By means of other laws the enterprises in the designated regions also benefit from two additional forms of aid: a supplementary depreciation allowance of 20% for all plant and machinery and a reduction for 10 years of 2/3rds in taxes payable to local authorities on new industrial buildings. In the non-designated regions the intensity of the above mentioned capital aids were respectively 37% and 21% in net grant equivalent - the supplementary depreciation and reduction in local taxes are not available in these regions.

The proposed classification therefore would have the effect of increasing the rate of regional aid in the zones in question, thus exceeding the ceilings fixed by the principles of coordination of regional aids in 1975¹⁾. The Commission decided to give a derogation from the ceiling subject to the general decision it will have to make under Article 93(1) EEC on the Irish regional aid system. In reaching its decision the Commission took into account of the fact that unemployment in the region was at the level of 18% compared with a Community average of 4,3%.

1) These principles fixed the ceilings for measurable aids in Ireland at the level of their maximum intensity in each region at 1 January 1975 (COM(75)77 final, point 3).