COMMISSION OF THE EUROPEAN COMMUNITIES

studies

Regional incentives in the European Community

— A comparative study

REGIONAL POLICY SERIES — 1979

15

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— A comparative study

A report by the International Institute of Management,
Wissenschaftszentrum, Berlin
to
the Federal German Ministry for Economics,
the Land of Hesse
and
the European Economic Community

COLLECTION STUDIES
Regional Policy series no. 15
Brussels, July 1979

This publication is also available in

DA ISBN 92-825-1213-4
DE ISBN 92-825-1214-2
FR ISBN 92-825-1216-9
IT ISBN 92-825-1217-7
NL ISBN 92-825-1218-5

A bibliographical slip can be found at the end of this volume.

This study was undertaken at the initiative of the Government of the Federal Republic of Germany and was carried out by the International Institute of Management, Wissenschaftszentrum, Berlin. It was jointly financed by the Federal Ministry for Economics, the Ministry for Economics and Technology of Land Hesse and the Commission of the European Communities within the framework of Article 266 of the general budget of the Commission ("Regional studies at the request of the Member States").

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Printed in Luxembourg/Belgium

The Federal Ministry for Economics, Bonn, 1979
The Ministry for Economics and Technology of Land Hesse, Wiesbaden, 1979

ISBN 92-825-1215-0

Catalogue number: CB-NS-79-015-EN-C

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PREFACE

In October 1975 a team under my leadership was set up at the International Institute of Management of the Wissenschaftszentrum Berlin to study regional incentives in the countries of the European Community (EC). The project was financed by the EC, the Federal German Ministry of Economics in Bonn, Land Hessen and the Wissenschaftszentrum. The objective of the work was the compilation of a comprehensive, detailed and up-to-date survey of regional incentives in the EC countries and the development of methodologies for an inter-country comparison of the value of these incentives, as well as drawing out the possible policy implication of the findings - for the EC and for regional incentive policy in general in the member countries.

At the International Institute of Management Berlin the team involved in the work was Ullrich Casper (Germany), Chris Hull (France), Silvio Ronzani (Italy) and Douglas Yuill (the United Kingdom). The other EC countries were covered by "consultants" - Lotty Boersma in the Netherlands, James Eustace in Ireland, Jean-Paul Schmit in Luxembourg, Gert Strande-Sørensen in Denmark and Paul van Rompuy and Rik Donckels in Belgium. An additional active member of the team was Ken Smith of the University of Glasgow who, throughout the project, was our advisor on valuation methodologies and systems.

This report represents one output of the work of the team. In addition, the team compiled bibliographies on regional problems and policies in the EC counties, and also produced major background studies of the regional incentives in the member countries.

The bibliographies were compiled because of our view that although our remit was to study regional incentives, it was vital for an understanding of these that they be set in the context of regional problems and policies generally in the various countries. The bibliographies were a component of this context. For each country, therefore, structured bibliographies were prepared - structured according to a standard list of heads. Among these heads were: bibliographical material; major historical surveys or references; the regional problem: unemployment, activity rates, migration, income per head, social indicators; industrial structure and regional growth; major problem area industries; major area studies; the locational requirements and experiences of manufacturing and of services; the goals and objectives of regional policy; the delineation of intervention areas; financial incentives; disincentives and controls; the results and worthwhileness of regional policy; continuing official statistical sources on regional problems and policies; the administration of regional policy; European regional policy. Three of these bibliographies (the Federal Republic of Germany, the United Kingdom and Italy) have already been published in the International Institute of Management publication series and others will follow over the next few months.

Just as the bibliographies were essential background material for this report, so too were the background studies of the regional incentives - which were submitted to our sponsors in late 1976 and early 1977. These papers were very detailed (involving in total some 3,000 pages or so). The information within them was structured according to a standard list of features which we felt to be key for an understanding of the incentives. The features examined were in fact the same as those covered in this report - legal basis, administration, eligible activities, activity discrimination, spatial, project-type and size discrimination, eligible items of expenditure, eligible forms of expenditure, further conditions, actual awards, tax treatment, timing and phasing of award, topping up, addability, clawback, turndown, cost, jobs associated, investment associated, anticipated duration, change provisions, miscellaneous. These background working papers probably represent the most comprehensive survey of regional incentives in the EC countries that has ever been made.

The condensing of working papers and assimilation of other context material into this final report was not an easy task. It had been agreed with our sponsors that the final report had to be short (200 pages or so). The task seemed at times to be one of trying to get a quart into a pint pot! Obviously, it meant that we had to limit ourselves to the most salient points of the incentive schemes, and we also had to adopt a format which would be cryptic but at the same time readable. Moreover, because our prime objective was comparison we had to present information on the various schemes in a standard and comparable manner. The main difference between this report and other work in the field of regional incentives is in fact that it is specifically comparative - both in the examination of incentive features and in the estimation of incentive values. Somebody once said that all that international research in the social sciences could do was "to tell a good story". We have tried to go beyond this by imposing a strong structure on our presentation. Given the difficulties of comparability and the effort needed to standardise and secure comparable information, we wished at times that we had curbed our ambitions and limited ourselves to story telling.

For all the team, work on this study has been exciting, even if at times frustrating. One particular problem of international research in this area is the changeability of policy. Even over our two years of study there have been major changes in the incentive policies of a number of countries, and many minor changes in others. Drafts which had been carefully prepared and edited, had, at short notice, to be revised, and sometimes, totally rewritten. Yet another problem, and one which is largely peculiar to international comparative studies, was the need to revise and align as the information picture built up. Sometimes the alignment was upwards as information from one country indicated to us new scope for the work in other countries. More often, however, it was downwards as information shortcomings were discovered in particular countries. Really comparative international research in the social sciences must to some extent involve an adjustment to the "lowest common denominator". This is a fact of life which only those who have actively worked in the field of comparative studies can appreciate.

The changeability of policy and the continuing need for re-alignment meant that this study went through more drafts than any other study with which I have been involved. The fact that these had to be written by people for whom English is a second language is one testament to the involvement of my team in this work.

I have, indeed, been fortunate in the team which worked on this study. The effort and time involved in securing information, drafting and redrafting reports can only be described as massive. I must say that I have been enormously impressed by the hard work, ingenuity, patience and tolerance which have been demonstrated by the team over the past two years. For my part, I am delighted that although this report has been completed the team will, by and large, remain in existence and continue to work in the area of regional policy.

We have also been fortunate in a number of other ways over the past two years. In member countries administrators and others involved in regional policy have been most cooperative. Without their help, and often their encouragement, the compilation of this report would not have been possible. In many cases not only did they provide information but also commented on various drafts, even though understanding that final decisions and interpretations inevitably had to rest with us. We are also grateful to our sponsors, not only for their financial support but also for their understanding and encouragement. They too have commented on various drafts and, where possible, helped with the provision of information. The International Institute of Management in Berlin has provided funds for the work and also an environment which is both stimulating and encouraging. We are, in consequence, grateful to all of our colleagues in the Institute, but in particular would like to thank Professor Fritz W. Scharpf for his continuing help and guidance. This project on regional incentives was "twinned" with another project at the International Institute of Management - one on regional disincentives, directed by Reinhart Wettmann. Cooperation between the two teams has been very good and in many instances time and resources were saved by the exchange of information. Our thanks go too, therefore, to the members of the disincentives team. Redrafting was, as I have said, a continuing feature of the project. We were particularly fortunate, therefore, in having secretaries who faced up to this task with such good will, and retyped papers at extraordinary speed. In particular we would want to mention Linda Plewa who served as the full-time secretary to the project, and also Alexandra Harmsworth and Lorraine Crayton who were actively involved in the final typing. Most valuable technical assistance for the team was provided by Michael Brösamle. Finally, but certainly not least, we are grateful to Andrea Cendali-Pignatelli of the University of Naples for providing information on sub-national aid systems in Italy, and in particular on the incentive schemes in the autonomous regions of Sicily and Sardinia.

The help which we have received from sponsors and individual countries has been such that we could perhaps avoid taking the usual responsibility for errors of fact or judgement which remain in

this report. But this would be a break with tradition, at least! It is, however, because of the cooperation which we have received from so many quarters that we feel less uneasy than usual about taking such responsibility.

Kevin Allen
International Institute of Management, Berlin
October 1977.

This report was submitted to sponsors in English in October 1977 and in German in February 1978. It was accepted by the sponsoring bodies in Germany in May 1978. The report was discussed with the Services of the European Commission in Spring 1978 and Addendum 1 (on the sensitivity of our effective value calculations to changes in assumptions) was submitted in June 1978. The report was then distributed to members of the Regional Policy Committee and was discussed with that Committee at meetings in October 1978 and February 1979. Member states were given the opportunity of pointing out errors of fact and most took advantage of this opportunity. In total fewer than twenty errors and ambiguities were pointed out. In April 1979 the text was revised to take account of these points. The text was not however updated, and so the reference date of the report remains at late summer 1977.

Kevin Allen
Centre for the Study of Public Policy, University of Strathclyde.
May 1979.

INTRODUCTION

All countries of the European Community (EC) have regional problems - areas which are economically and socially deprived. The normal indicators of economic deprivation are unemployment, activity rates, migration and income per head. Relative to the rest of the country unemployment is high, activity rates and income per head are low. These regions also often suffer from heavy outward migration; frequently adding to the problems of the "pressured" regions.

For political, social and economic reasons, all the EC countries have implemented regional policy measures aimed at resolving their regional problems. These policies are of long standing, going back to the 1930's in some countries, and differ considerably between countries. Given that the nature and intensity of the regional problem is not the same in each country inter-country differences in the form of policy are not surprising. The fact that regional policies are normally adjuncts to, or spatial modifications of, national policies is a further reason for inter-country differences.

Some countries have made the development of infrastructure the key element of policy while others have emphasised state industry. Some have seen growth area policy (and associated settlement restructuring) as the pre-requisite of regional development while others have laid stress on disincentives in the non-problem areas. But there is one element of regional policy which is common to all countries - financial and fiscal incentives aimed at encouraging industrial movement to, or expansion in, the problem regions, or at least compensating for the extra costs of movement and/or operations in these regions.

There is a formidable list of such regional incentives in Europe, including: loans on favourable conditions; grants on capital; employment premia; social security concessions; training aids; tax and investment allowance concessions; factory rent concessions; contributions towards share capital; subsidies on public utility charges; operating and settling-in subsidies.

Expenditure on such regional incentives has risen markedly over the post-war period. In the EC countries as a whole (and limiting the calculations to the major regional incentives) some 1,150 million U.S. dollars worth of investment grants were approved or paid out in 1975 (a year of low expenditure in many countries) and some 5,270 million dollars of subsidised loans. The Italian social security concession, the Irish export profits tax relief and the French local business tax concession added a further 1,220 million dollars to the bill. These sums, as we have said, are limited to the major regional incentives in the EC countries and they exclude a variety of fiscal concessions where cost data is not available - the special depreciation allowances in the Netherlands, France, Ireland, Belgium and the Federal Republic of Germany, and the tax concessions in Luxembourg and Italy.

In total then, non-repayable regional incentives amounting to some 2,370 million dollars and soft loans of a further 5,270 million dollars were approved or paid out in 1975, together with a number of major, but unquantifiable, fiscal concessions. By any standards, expenditure on regional incentives in the EC countries is high. This report is concerned with regional incentives.

The report is in two parts. Part I is a survey of the key features and values of the major regional incentives in the individual EC countries. It is both country specific and largely descriptive, in contrast to Part II which is comparative and analytical - involving a comparison of the incentive features and values between countries and drawing out what we see as being the policy implications for individual member countries and for the EC.

PART I

FEATURES AND VALUES

This part of the report has two objectives - to provide a comparative survey of the key features of the major regional incentives in each of the EC countries; and to estimate for each country the value of these incentives, both individually and as packages. The features and valuations are covered in individual country sections, each of which falls into four distinct parts. The first is a short introductory overview of the regional incentive system - describing the key incentives and their relative importance within the regional incentive package as well as providing background information on other, minor, regional incentives. Maps of the assisted areas are also presented, as are indications of the importance of these areas in relation to the national area and population. Finally, the introductory overviews have been used to comment on any particular feature of the country or its regional incentives which need an explanation if the incentives are to be fully understood. The second part of the country sections is made up of what we call synopsis tables. These provide information on a standard list of 24 key features for each major regional incentive. The third part of the country sections is an introduction to the valuations. It notes the incentives covered (usually the same as in the synopsis tables), the normal incentive combinations received by investors, and any other information needed to guide the reader through the valuation tables. The final part of each country section is the valuation itself, with tables of effective values and accompanying explanatory notes.

Before moving on to the country sections we want, by way of introduction, to note briefly the incentives which are covered in the various countries, the features which are examined with respect to each incentive and the methods which are used to value these incentives.

THE INCENTIVES COVERED

There are a very great number of regional incentives in operation in the EC countries - certainly more than 50, even excluding local and other sub-national incentives. This report is concerned primarily with the most important of these incentives (in expenditure terms), and with national, not sub-national, regional incentives; though some of the minor incentives are briefly discussed in the introductions to each country section. In total, 27 regional incentives are covered accounting for at least 85 percent of regional incentive expenditure in the EC countries. In order to give an overview of these incentives, and their prime characteristics, it is worthwhile going through each of the incentives individually; albeit briefly and even though much of this information is repeated in the 'basic details' sections of the synopsis tables. The areas referred to can be found in the maps accompanying the country sections.

BELGIUM

There are two major incentives in Belgium - an interest subsidy and a capital grant (which can partly or wholly replace the interest subsidy). We concentrate on these two aids but consider, too, the most important of a variety of fiscal concessions, an accelerated depreciation allowance.

The interest subsidy is a discretionary, project-related concession on loans offered through 'approved credit institutions' such as banks and public financial organisations. The maximum regional subsidy is 5 percentage points (6 percentage points for advanced technology projects and 'progress contracts', 7 percentage points under special cyclical conditions) on up to 75 percent of investment, over a maximum 5 years; compared to standard national maxima of 4 percentage points (5 percentage points for advanced technology), 66 percent and 4 years (6 years under special cyclical conditions) respectively. Repayment is annual on a straight-line basis with a maximum repayment holiday (available only in respect of the regional subsidy) of 2 years. No interest free period is available.

The capital grant is also discretionary and project-related. It can, partly or totally, replace interest subsidies in those cases where the aided investment is at least 50 percent internally financed. The level of grant is calculated by summing the undiscounted annual interest subsidies which would have been due had the 'own finance' been in the form of a 10 year interest-subsidised loan, repaid annually on a straight-line basis, with neither principal repayment holidays nor interest free periods.

The accelerated depreciation allowance is a discretionary, project-related fiscal concession on the cost price of plant, equipment and industrial buildings. If an accelerated depreciation allowance is awarded the straight-line rate (depreciation is normally linear over 20 years for industrial buildings and 10 years for plant) is doubled for a fixed three consecutive years. Accelerated depreciation is normally only awarded to projects already receiving a capital grant or interest subsidy, and indeed is best viewed as a form of topping up of these incentives. It is payable only in the Belgian Development Zones.

DENMARK

Denmark has three major regional incentives - a company soft loan, an investment grant and a municipality soft loan.

The company soft loan is a discretionary, project-related incentive (available in the General and Special Development Regions) of up to 20 years duration for buildings and up to 10 years for plant. Repayment is six-monthly on a straight-line basis. The maximum repayment holiday is five years (in practice, two years). No interest free period is available. A maximum of 90 percent of eligible project costs (i.e. project fixed capital costs minus the maximum mortgage credit loan - normally about 60 percent of project fixed capital costs - and any investment grant awarded) can be covered. The current interest rate is 7.5 percent. Using the EC reference rate (discussed in detail in the valuation section) as the market rate, the current concession is 2.75 percentage points.

The investment grant is a discretionary, project-related incentive available only in the Special Development Regions. The grant may not exceed 25 percent of eligible project fixed capital costs less the difference between the nominal value and the market price of the mortgage deeds issued in respect of the project by the mortgage-credit institution which is part-financing the project.

The municipality soft loan is available to municipalities in the General and Special Development Regions to allow them to build, for specified clients, industrial buildings which are then normally rented but which can be bought. Loan repayment is six-monthly on a straight-line basis over a standard 25 years (although the legal maximum is 30 years). The current interest rate is 7 percent. Using the EC reference rate as the market rate, the current concession is 3.25 percentage points. There are no repayment holidays and no interest free periods. The loans cover a standard 75 percent of building costs but municipalities are obliged to subsidise the remaining 25 percent on the same terms when calculating the appropriate rental or selling price. Annual rent is therefore 4 percent (i.e. 1/25th) of total costs plus 7 percent of the outstanding loan plus general running expenses. The leaseholder can buy the building at any time during the course of the lease at total costs (less subsidy) minus any rental instalments paid.

FRANCE

The main regional incentive in France is the regional development grant. The other two major incentives are a local business tax concession and a special depreciation allowance.

The regional development grant is project-related, is limited basically to setting up and extension projects, and is awarded primarily to manufacturing industry. It has largely automatic eligibility conditions and rates of award even though these vary both spatially and by project type. The designated areas are divided into three zones and awards are calculated as the lower of X percent of eligible investment and FF Y per job created, ranging from 25 percent/FF 25,000 for setting up in the maximum rate zone to 12 percent/FF 12,000 for extension in the minimum rate zone.

The local business tax concession is a project-related concession on the local business tax. The concession is limited to a maximum of up to five years and 100 percent of tax liability. It may be on either or both the département or commune levy. The typical concession is the maximum concession on both levies. The concession goes predominantly to setting up and extension projects in mobile manufacturing industry.

In the case of extension projects, the award is limited to the net new investment. Eligibility is largely automatic within a matrix of conditions. The areas in which the concession applies are the award zones eligible for the regional development grant plus a substantial part of the rest of the national territory, excluding the Paris basin.

The special depreciation allowance, available basically in Corsica and in West and South-Western France in those areas where the regional development grant is payable, is a fixed 25 percent first-year depreciation allowance on new buildings. The concession is project-related, for setting up and extension projects. Although certain tertiary projects qualify - which is equally true of the other two French incentives - awards go predominantly to mobile manufacturing industry. Eligibility is largely automatic within a matrix of conditions. The allowance is additional to linear depreciation - 20 years is the typical fiscal life for industrial buildings.

GERMANY

An investment allowance, an investment grant, ERP regional soft loans and a special depreciation allowance are the four main regional incentives in the Federal Republic of Germany. They are available throughout the designated problem areas - the so called GA areas (Gemeinschaftsaufgabengebiete) - with the exception of the special depreciation allowance which is available only in the Zonenrandgebiet (ZRG).

The investment allowance is the cornerstone of the German regional incentive system. It is a fairly automatic project-related capital grant of a fixed 7.5 percent of eligible investment. In contrast, the investment grant is a discretionary project-related capital grant with rates of up to 25 percent of eligible investment depending on a matrix of location and project type criteria.

The ERP regional soft loans are project-related and largely automatic. Their duration is up to 15 years for buildings and up to 10 years for plant, according to the life time of the asset. Repayment is six-monthly on a straight-line basis. A repayment holiday of between 18 and 24 months, depending on the starting date of the loan, is available. No interest free period can be obtained. The current interest rate is 6 percent (5 percent in the ZRG). Using the EC reference rate as the market rate, the current concession is 2 percentage points (3 percentage points in the ZRG). The loans cover up to two-thirds of investment with the actual proportion being determined by set formula on the basis of project size.

The special depreciation allowance is, as we have said, only available in the ZRG. It is an item-related concession involving a high initial depreciation allowance of up to 50 percent of eligible costs for plant and machinery and up to 30 percent for buildings. The concession can, in exceptional cases, be used prior to acquisition of the asset as a tax free reserve. Although in principle the decision whether or not to award, and the rate of award, are discretionary, in practice little discretion is exercised. The allowance can only be used on condition that it does not give rise to losses or exacerbate an existing loss situation. Otherwise, the timing of use is, within a five year limit, at the discretion of the beneficiary.

IRELAND

Ireland has three major regional incentives - capital grants awarded by the Industrial Development Agency (IDA) export profits tax relief and an investment allowance.

The capital grants are discretionary and project-related. In law the grant structure has two tiers - a basic grant not exceeding 40 percent of eligible fixed investment in designated areas (25 percent elsewhere), plus an extra maximum 20 percent grant which may be offered to projects satisfying "additional criteria". In practice the position is more complex, the maximum administrative percentages for the two main IDA grant schemes being (for Designated Areas, Non-designated Areas and Dublin respectively) 50 : 35 : 25 for setting-up projects and major extensions, and 35 : 25 : 25 for re-equipment projects.

The export profits tax relief is a non-discretionary fiscal incentive operated nationwide for companies which export manufactured goods - the incentive being total relief on taxable profits attributable to such exports, payable until 1990.

The investment allowance is a non-discretionary, item related fiscal concession. The allowance, a fixed 20 percent of capital expenditure on new plant and machinery, is available to set against taxable profits in the Designated Areas only. It is awarded on top of the national capital allowance scheme (of, amongst other things, free depreciation for plant and machinery) and thus permits a total of 120 percent of the cost of new plant and machinery to be claimed for tax purposes in the Designated Areas.

ITALY

A capital grant, a soft loan scheme, a social security concession and tax concessions are the major Italian regional incentives.

The capital grant, payable only in the Mezzogiorno, is project-related with standard fixed rates determined by project size. The first L 2 mrd. of eligible investment is subsidised at 40 percent, the next L 5 mrd. at 30 percent, the next L 8 mrd. at 20 percent and all further eligible investment, at 15 percent. Projects in "priority sectors" or "priority areas" get an increase of the standard rate of grant by one fifth; priority sector and location by two fifths.

The national soft loan scheme involves largely automatic, project-related, soft loans containing a strong spatial element. A distinction is drawn between (1) the Mezzogiorno, (2) the insufficiently developed zones of Central Italy, (3) the insufficiently developed zones of Northern Italy, and (4) the rest of Italy. The loans cover a fixed 40 percent of eligible investment in (1), 60 percent in (2) and (3) and 50 percent in (4). The maximum loan duration is 10 years (except for setting up projects in (1) where it is 15 years). Repayment holidays, related to the loan drawing down period, are available for up to 3 years on 10 year loans and up to 5 years on 15 year loans. No interest free period is available. The interest concession is a fixed 70 percent of a "reference rate" (basically the market rate) in (1), 60 percent in (2) and (3) and 40 percent in (4). Loan repayment is six-monthly, with equal (interest plus principal repayment) instalments spread over the period of the loan.

The social security concession is a highly automatic, non-project related incentive (available only in the Mezzogiorno) on employer social security liabilities payable to INPS (National Social Security Institute). For additional labour hired between 1.7.76 and 31.12.80 the full social security liabilities (amounting to some 27 percent of wage costs, including overtime) are paid by the state until 1986. In addition there are "historical" concessions, running out in 1980, with currently three different rates according to hiring dates and employment levels: at least 8.5 percent (of wages and salaries, excluding overtime) for all employees, if not qualifying for higher concessions; 18.5 percent for the net increase of employment between 1.10.68 and 31.12.70, and for those individual employees taken on before 1.10.68 and currently still with the firm; 28.5 percent for the net increase of employment between 1.1.71 and 1.7.76. The wide coverage of the incentive and the scale of the concessions mean that large sums of money are involved - some L 1,112 mrd.in 1975, nearly three times as much as was involved with grants.

Finally there are project-related tax concessions relating to the two main Italian profits taxes - ILOR and IRPEG (14.7 and 25 percent of profits respectively). The concession takes three forms: a. A full ILOR exemption on project profits for 10 years after profits first arise. The concession applies to projects in the Mezzogiorno and in the aided areas of Central and Northern Italy. Outside the Mezzogiorno it is limited to small and medium sized firms. b. A full ILOR exemption on up to 70 percent of profits earned in Italy and reinvested in industrial projects in the Mezzogiorno. c. A 50 percent reduction of IRPEG on profits, for 10 years after profits first arise, where a company is newly founded in the Mezzogiorno and has both a legal and fiscal base there.

LUXEMBOURG

There are two major incentives in Luxembourg - a capital grant and a tax concession.

The capital grant is discretionary and project-related. The maximum award is 15 percent of eligible investment. The grant is payable throughout the Grand Duchy.

The tax concession is a discretionary fiscal incentive for new enterprises and production lines, and is a fixed 25 percent relief from taxable profits of the new enterprise/production line for a period of eight years. The benefit is lost in those years when losses are made. It is also lost when the applicant company makes losses since the incentive cannot exceed 25 percent of the profits of the applicant company. The incentive is available through the country. Awards are rare and normally go to projects in receipt of a capital grant.

NETHERLANDS

The main regional incentive in the Netherlands is the investment premium. In addition, however, there is an accelerated depreciation allowance available throughout the Netherlands outside the Randstad.

The investment premium is a project-related capital grant payable in the designated development areas. The standard award is a fixed 25 percent of eligible fixed capital costs up to a maximum of Fl 4 million; except in a few specified municipalities where it is a fixed 15 percent up to a maximum of Fl 2.4 million. For large projects an additional discretionary award can be made for eligible fixed capital costs beyond Fl 16 million. The maximum additional award is 25 percent of the extra investment (except in the few specified municipalities noted above where it is 15 percent). A little-used alternative to the 25 percent premium (but not the 15 percent grant) is a "mixed premium", which is based on job creation as well as investment expenditure.

As already noted the accelerated depreciation allowance has a spatial coverage beyond the grant aided areas. It applies to the whole of the Netherlands except the Randstad. It is an automatic, item-related fiscal concessicn on the price of industrial and commercial buildings. Half of the cost price (up to a maximum 25 percent in any one year) can be depreciated arbitararily above the normal rate of depreciation, while the other half is depreciated normally. If accelerated depreciation is not used in any one year then in that year normal depreciation applies. In subsequent years the concession is available in respect of half the non-depreciated part of the cost price.

UNITED KINGDOM

In the United Kingdom the regional incentive package is composed of three main incentives - regional development grants, selective financial assistance soft loans and, as an alternative to these loans, interest relief grants.

The regional development grant is an automatic, item-related grant payable on specified types of fixed capital investment in the British designated problem regions. A fixed 22 percent of approved capital expenditure is obtainable in the Special Development Areas, with 20 percent being the fixed award in the other problem regions. Both plant/machinery and buildings/works expenditure is eligible in the Special Development and Development Areas. However, in the Intermediate Areas only buildings/works expenditure qualifies for assistance.

Selective financial assistance soft loans are discretionary, project-related loans of between five and seven years duration. Repayment is six-monthly on a straight-line basis and there are maximum repayment holidays of 3 years in the Special Development Areas and 2 years in both the Development and Intermediate Areas. Interest free periods run concurrently with any repayment holiday awarded. The current interest rate is 3 percentage points below the Department of Industry's "broadly commercial" rate.

Closely related to the above soft loans (and indeed an alternative to them) are discretionary, project-related interest relief grants calculated in relation to the notional loan which would have been awarded had a soft loan offer been made. Where no interest-free period would have been awarded in conjunction with the loan, the grant is at 3 percent of the notional loan for up to 4 years. Where an interest-free period would have been awarded the grant is at what is known as the higher interest relief grant rate (generally in line with the Department of Industry's "broadly commercial" rate) before reverting to 3 percent of the notional loan for up to a further 4 years.

THE INCENTIVE FEATURES COVERED

For each of the major regional incentives information is provided in the synopsis tables on 24 key features. The tables have been designed to allow comparison of these incentive features within and between countries. It is worthwhile going through these features to explain their general coverage.

Head number 1 - Basic Details - is aimed at giving an overview of each incentive, indicating not only the nominal rate of award but also whether it is discretionary or automatic, project or item-related. Head number 2 - Legal Basis - is fairly straightforward giving the main legislative base of the incentive and, where relevant, key administrative guidelines and circulars. Under head number 3 - Administration - information is provided on where applications must be sent (indicating any intermediaries involved where this is relevant), who decides on the award, who pays out the money, and who is involved in monitoring.

The three heads so far covered are very much of an introductory nature. With head number 4 - Eligible Activities - we move on to a more central series of heads concerned with questions of eligibility and discrimination. Head number 4 itself indicates the industries, sectors, and functions which are eligible for the incentives as well as specifying those which are not. As with many other heads in the synopsis tables an attempt is made to distinguish between theory and practice - trying to specify which activities are, in fact, the main beneficiaries. Head number 5 - Activity Discrimination - is very much related to the previous head in that it attempts to show where there is any specified discrimination between eligible activities in terms of the decision whether or not to award, and the rate of award. When no such specification exists we have tried to indicate whether the form of the incentive - discretionary or automatic, with fixed or "up to" rates - would or would not give scope for such discrimination. Only rarely have we been able to comment on the extent to which such scope has been used.

While heads number 4 and 5 are concerned separately with eligibility and discrimination by activity, the following three heads consider eligibility and discrimination together in relation to area, project type, and size respectively. Thus, head number 6 - Spatial Discrimination - not only specifies those areas which are eligible for the incentive but also notes any intra-problem area differences in terms of rates or conditions of award. Head number 7 - Project Type Discrimination - covers similar issues for a list of standard project types (setting up, extension, rationalisation, reorganisation, modernisation, transfer, takeover, and replacement) while head number 8 - Size Discrimination - indicates whether there are any limits - upper or lower - to project or firm eligibility, and whether size can affect the rate of award.

Beyond the introductory first three heads, the other heads so far discussed have one common feature, they are concerned with eligibility in one form or another. This is also true of heads number 9 and 10 which cover - Eligible Items - and - Eligible Forms of Expenditure - respectively. The first provides information on eligible items of expenditure (i.e. those items eligible for the incentives) not only in respect of the standard project cost items like land, buildings, plant and equipment, vehicles and working capital; but also in respect of a group of other items whose treatment often differs between countries - short life and small value assets, second hand assets, and replaced assets. In contrast, the head - Eligible Forms of Expenditure - looks at whether assets purchased through phased payments, hire purchase or leasing are eligible.

The final head dealing with the issue of eligibility, head number 11 - Further Conditions - is a "catch all" in that it notes conditions of eligibility or award which are not related to activity, space, project type or size. In particular it details any job, investment or viability conditions.

Head number 12 - Actual Awards - tries to do two things within the limits of the information available (and the point does need to be made that information was often lacking for this feature) - to identify average as opposed to nominal rates of award and to show the scale of the incentive, using a variety of measures to indicate this, including number of cases aided, total awards, and average awards per case. Annual data have been provided where possible. One point which must be stressed in respect of this head is that the notes concerning the basis of the information require careful attention. In some countries, and for some incentives, the figures relate to actual expenditure, while for others they are estimates on the basis of approved awards. This, on occasion, makes it very difficult to relate these figures to associated investment and associated jobs (covered in heads number 20 and 21 respectively).

The head Actual Awards represents the start of a move away from nominal rates of award towards what we later call effective values. Head number 13 - Tax Treatment - is a further step in this direction (though other heads have also been relevant in this context and especially the heads concerned with eligible items and eligible forms of expenditure). It surveys the extent to which incentives are taxed - either directly in that they are counted as income and pass immediately into taxable profits; or indirectly in that they result in an increase of taxable profits (as in the case of capital grants) because assets must be depreciated for tax purposes net of any grant awarded or (as with soft loans) because of reduced debt servicing charges. Timing and Phasing of award (head number 14) similarly has an effect on the real value of incentives. Under this head we indicate when the incentive is paid in relation to expenditure being incurred. In addition, this head also shows when application needs to be made (and in particular whether it needs to be made before project construction starts) and whether projects can start before a decision on the application has been reached. The normal application processing period is also specified.

Systems for Topping Up and the issue of Addability (heads number 15 and 16 respectively) are also relevant for assessing the real value of the regional incentives. The head on topping up sets out the possibilities for the authorities to make an award over and above the formal or advertised maxima; while the head on addability surveys whether or not, and to what degree, one incentive can be combined with another and, where such combination is possible, whether there are any side effects of combination such that the value of the combined incentives is less than the sum of the individual incentives.

Clawback is the title of head number 17 and it specifies under what circumstances awards can be clawed back, and the clawback systems used - for example, whether the whole or only a part can be clawed back. Where possible, some indication is given as to the importance of clawback.

Head number 18 - Turndown - is related to the clawback head in one respect and this is that while the latter covers post award "turndown", the former reflects the more conventional meaning of the term turndown. Where quantitative information was available on the reasons for turndown this has been provided - though in the vast majority of cases this was not possible. The point needs to be stressed that the figures given in this head refer solely to formal turndown. In many countries, and for many incentives, "informal turndown" (i.e. applicants withdrawing when advised informally of the likelihood of failure) assumes considerable proportions. Thus, the figures provided in this head understate the extent of turndown - although not consistently between countries or incentives.

Head number 19 is concerned with the Cost of the incentives. Annual figures have been provided where possible, although it must be said that for many, and particularly the fiscal incentives, there were often no reliable statistics available. As with our comments on head number 12 above, it is vital that the basis of these cost figures be clearly appreciated. They do in fact vary considerably between countries and incentives - some being based on awards decided and others on awards paid out.

Jobs Associated and Investment Associated are the titles of heads number 20 and 21 respectively. It should be noted that we have used the word associated rather than "created", information on the latter being very rare indeed. In fact, especially for the fiscal incentives, there is very little quantitative information, even on investment and jobs "associated". In many instances, and in particular where incentives are operated as a package, there is often no meaningful information on the jobs or investment associated with individual financial incentives. Where figures for individual incentives are provided, and where incentives can be combined, those figures should be treated with caution since it is not possible to say which jobs and investment are associated with a particular incentive. Certainly any adding of the figures for jobs and investment associated with each incentive will often result in double counting.

The heads - Anticipated Duration - and - Change Provisions - (heads number 22 and 23 respectively) are related. The first provides information on the formal specified life of the incentive (if any, since the great majority of regional incentives in the EC countries have no specified life) while the second indicates what arrangements exist in the event of incentive change and in particular whether applications in the pipeline are paid on the basis of the old or new provisions, or whether more ad hoc arrangements exist.

The final head, number 24, (Miscellaneous) has been used, as can be imagined, to cover issues or aspects of the incentives which the structure which we have adopted for the synopsis tables would not allow to be covered - but yet which we thought to be important.

These, then, are the features covered by the synopsis tables. There are, in addition several general points which we want to stress about the tables. The first is that they are largely descriptive. The comparison and analysis is left until Part II of the report. Secondly, the synopsis table approach, in spite of all its advantages of giving a structured overview of the main regional incentives in the various countries, must force a substantial element of selectivity. We have limited ourselves to those points under each head which we consider to be important. Thirdly, the format of the synopsis tables is such that they do not allow speculation. Where no clear information was available, therefore, we have not been reluctant to write "no information". In many cases, with the application of some ingenuity, we could have "compiled" relevant figures. But such figures would have required explanation and justification; and the synopsis table approach gives no scope for this. Finally, the synopsis tables are based on information available in late summer 1977.

VALUATION METHODS

Following on from the synopsis tables, for each country there is a set of country-specific valuation tables. By way of introduction to these tables there is a brief description of the incentives to be valued (generally those treated in the synopses), covering in particular the differences (if any) between maximum and average rates of award, as well as the standard incentive combinations found in each type of problem area. Features peculiar to the valuation tables are also explained. The valuation introduction, further, tries to give a broad indication of the scale of assistance in the country under consideration. This is necessary complementary information for the interpretation of the valuation tables since these are concerned, above all, with incentive intensity (i.e. the value of incentives to aided projects). Before going on to detail the stages and steps of the valuation and to set out the general assumptions made, it is worthwhile looking at the features covered in these tables and at the valuation denominators used.

FEATURES AND DENOMINATORS COVERED

The tables themselves (there are two of them) reflect the two stages of our approach to incentive valuation. The first table (Table A) traces out for each individual incentive, normally by type of problem area and normally also distinguishing between maximum and average rates of award, how the real or effective value of the incentive decreases relative to its nominal value as account is taken of three incentive features - tax treatment, payment delays and eligible items of expenditure. The table therefore has four columns, the first showing the nominal value of the incentive (usually as a percentage of eligible investment), the second the effective value after incentive tax treatment has been taken into account, the third the after-tax effective value after adjusting for delays in payment, and the fourth column the effective subsidy value after a final adjustment to take account of the eligibility or otherwise of particular items of expenditure - land, buildings, plant or working capital. This final column therefore shows the effective value of the incentive as a percentage of total initial capital costs after tax treatment, payment delays and eligible expenditure have been taken into account; or, put another way, the after tax net present value of the incentive as a percentage of total initial capital costs.

Obviously in moving from nominal to effective values, from column one to column four of Table A, various assumptions have to be made. The general considerations surrounding these assumptions will be detailed shortly. The specific assumptions made in respect of each incentive valued appear in the country-specific "Notes and Assumptions" to Table A. No valuation table should be read, and certainly no conclusions should be drawn from the figures presented, without a clear understanding of both the general and specific assumptions being made.

As already noted, Table A values each incentive individually. In contrast, the second table (Table B) is concerned with incentive packages. For the standard incentive combinations in each country (and distinguishing as before between maximum and average awards wherever possible) the table shows the effective value of award as a percentage of three distinct denominators - total initial capital costs, annual capital costs (gross profits) and value added. The first of these denominators is applied in column one of Table B. As the country-specific "Notes and Assumptions" to that table make clear it is not always the case that this column is the simple addition of the final column results of Table A. Very often incentives in combination have a joint value less than the sum of their individual components. Sometimes this is because of direct constraints like public sector contribution limits; at other times it reflects more indirect factors like, for example, the bringing of a grant more rapidly into taxable income (which obviously reduces its value after tax) whenever it is awarded in conjunction with a special depreciation allowance. The second denominator, annual capital costs (column two of Table B) is obtained by applying an annuitising factor (to be described in detail below) to the column one subsidy values. It is of interest as a denominator not only because, amongst other things, it allows a distinction to be made between incentives explicitly available on replacement investment and those which are not, but also because it makes possible the move to the third denominator presented in Table B, value added.

We now wish to elaborate on these three denominators in turn, concentrating in particular on why we believe such denominators to be relevant to the measurement of incentive value. Thereafter we set out the aims and limitations of our approach to valuation before going through the individual stages and steps of the valuation exercise in detail.

Total initial capital costs

To this denominator, as noted above, we relate the after tax discounted net present value (or "net grant equivalent") of all incentives which are, in some sense, linked to investment outlay. This measure of incentive value is most clearly of relevance in relation to investment and location decisions. It has conventionally been regarded as being of key importance at the level of individual projects (being a simple measure of ex ante regional comparative advantage in relation to initial project investment outlay) and has been widely used by the EC in their regional policy co-ordination exercises (though not covering working capital). It is also, if strictly applied, the most "transparent" of the denominators in that the number of assumptions required to value incentives is, in most cases, at a minimum - perhaps the prime reason for the EC's emphasis on this denominator as a control ceiling.

It must be stressed that when using total initial capital costs as a denominator we consider only capital-related incentives. There are certain labour-related regional incentives which could in principle be related to initial investment costs - those which are causally linked to this denominator. However to take account of these in the procedures we use would require the specification of a particular form of capital : labour relationship for valuation purposes. No reliable data is readily available for this. For this reason, labour subsidies are considered only in terms of our value added denominator. On the other hand, the point does need to be made that there is only one major regional labour subsidy in the EC countries, and covered in this report - the Italian social security concession.

Total annual capital costs

This denominator stands as a proxy for gross profits in that, as we shall show in our description of the detailed valuation steps below, the annual capital cost (ACC) figure used in the calculation of the appropriate annuitising factor is the sum of a depreciation charge and a measure of the overall cost of capital. It thus corresponds broadly to the so-called "user cost of capital" derived from the neo-classical economic theory of investment behaviour and utilised in much econometric work on the impact of investment incentives.

But why should the denominator "total annual capital costs" be of particular interest for our purposes? First, we regard it as an alternative presentation of how firms might see the incidence of subsidies (i.e. as reductions in annual factor costs). In practice, few incentives are actually received as lump sums and even those which are may not be viewed as lump sums subsequent to the decision to invest. For example, insofar as incentives are brought into financial accounts over the anticipated economic life of aided assets (and this seems common practice) they may be regarded as giving rise to constant annual reductions in those on-going capital costs which the ACC denominator proxies. In slightly different terms, the ACC of incremental investment may be regarded as an expression of one component of per unit "long run marginal cost". Viewed in this light, the annual capital cost denominator clearly relates to the potential competitive effects of incentives, to which we turn shortly.

But annual capital cost is also of interest as a denominator because it offers a means of presenting the quantitative difference between incentive systems which aid replacement investment and those which do not (although, as we make clear elsewhere in this report, there is in practice no "black and white" distinction to be made here). Further, within the annual capital cost framework, we can take account of the fact that individual assets have different economic lives and, in particular that some assets, notably land and "working capital", are not conventionally depreciable. The final attraction of the ACC procedure is that it produces a measure of incentive values in relation to gross profits and, therefore, given the available data on the relationship of gross profits to other annual factor costs, prepares the way for the aggregation of capital and labour subsidies - something which is done in respect of our last denominator, value added.

Value added

Procedurally the move to value added is a simple step in the valuation exercise, given the availability of data on the relationship of gross profits (and hence also labour costs) to value added. It is fairly conventional to find value added suggested as a denominator in the literature on effective protection (effective protection normally being measured by reference to the proportionate increase in value added per unit of output under protection) and international trade distortion.

In addition, and as already noted, a value added denominator allows the aggregation of capital and other subsidies. Moreover, it gives a measure of the overall return on factors employed and hence of the discretionary element at the disposal of firms. It is therefore a particularly interesting denominator when considering the possible impact of incentives on competitiveness.

In an attempt to move even closer to the relationship of incentives to the competitive position of firms we tried at one stage to include a further step within the valuation procedure by introducing total production costs as a denominator. The attraction of this denominator is that it offers a measure of the maximum extent to which the prices of aided output might be reduced by incentives. In the event, however, we found no internationally comparable data which was reliable enough to justify the attempt.

Having presented the main steps involved in the valuation exercise in broad outline and the rationale of our concentration on the initial capital costs, annual capital costs and value added denominators, we now want to turn to the detail of the valuation steps and associated assumptions. There are, however, four general but important points which must be made by way of introduction.

First, we have chosen to ignore the implications of inflation for the effective values of the incentives covered. Using the initial capital cost denominator, our figures therefore probably overstate the real values of the incentives and certainly exaggerate the value of those incentives awarded in absolute terms relative to those given as a percentage of factor costs. However, since delays in payment are, as we shall see, not of major importance for incentive values, the ranking of incentives and countries in respect of the initial capital costs denominator is unlikely to change by taking inflation into account unless inflation rates are both high and markedly different between countries. Using the annual capital cost/value added denominators, where the calculations are made over a long period of time, inflation could obviously have a more important impact on incentive values. On the other hand, as long as inflation rates in the long run remain similar between countries, the ranking of incentive packages (which, as we make clear below, is our prime concern) will not change, other things being equal. Of course, if inflation rates were high and differed markedly between countries, and continued over a very long period of time, then rankings could change; but in the total absence of data on long-run rates of inflation by country, and being reluctant to speculate, it is impossible to say just how they would change.

Secondly, our calculations are in terms of gross rather than net values. They do not take account of short run dislocation costs (or long run locational disadvantages, though it would seem reasonable to assume that no firm would relocate where it suffered such long run disadvantages) or incidence (the extent to which incentives are passed on to increase the reward to factors of production other than capital) - and this because information on incidence is virtually non-existent while that on dislocation costs (beyond indicating that such costs are often substantial) is generally not quantified.

Thirdly, in the interest of comparability, the assumptions made within the valuation exercise are on occasion somewhat more simplified than they would have been had the aim been to produce nine separate (and not necessarily comparable) valuations. Since, however, our prime concern is with international comparisons, we view the simplifications as being justified. More complex assumptions would not in any event have led to markedly different results. We shall later look in more detail at the assumptions made and the sensitivity of the results to these assumptions.

Finally, and closely related to the previous point, it must be heavily underlined that the main objective of the valuation is to compare the value (or regional advantage) of regional incentives and incentive packages both between countries and between problem regions in these countries. It is not to try to place absolute values upon the incentives and this for the very good reason that, although the broad ranking of incentive packages as they apply to comparable projects is generally insensitive to the assumptions which must be made as part of our valuation exercise, the absolute value of these packages for individual projects can vary markedly from project to project. Although the figures in the country-specific valuation tables could be interpreted as being of relevance for the "average" aided project and, from this (using "best guesses" of such features as price elasticity, capital output ratios, elasticity of investment in relation to cost of capital) could be used to assess the possible "average" impact on investment or trade, both the data problems and the element of speculation involved are such that, in the context of this report, we have not felt it desirable to move forward in this way. We believe that what we have to say about the values obtained is important, and did not want to undermine this by speculation in other areas. Our emphasis, therefore, reflecting the strength of our methodology, is on comparability and ranking, a point which must never be lost sight of either in the next few pages as we consider the general steps and assumptions which make up the valuation or later when we come to present and thereafter discuss the valuation results themselves.

STEPS AND ASSUMPTIONS

As already noted, the valuation results are presented for each country in the form of two tables. These tables reflect the two main stages of the valuation exercise. In Stage A (Table A) we trace out the move from nominal to effective values for each incentive individuallv. while in Staoe B (Table B) the effective values of various incentives and incentive combinations are denoted as a percentage of initial capital costs, annual capital costs and value added. We now want to consider the detailed steps and associated assumptions involved in these two stages in turn.

Stage A: Nominal to Effective Value

A preliminary decision to be made within Stage A concerns the choice of discount rate. Both theory and empirical evidence are inconclusive as regards the appropriate discount rate to use. Possible rates include the short-term banking rate, the average external loan rate, the long-term corporate debenture rate, the weighted average of the "actual" cost of capital to the firm, a very high (uncertainty-adjusted or risk-averse) rate, and a zero rate (this last for firms who do not use discounting or are more concerned with liquidity effects). Since no strong case based on empirical evidence can be made for any one of these alternatives (or indeed any other discount rate), we settled in the end for the country-specific rates used by the EC in their co-ordination work - the so-called EC reference rates (broadly equivalent to the market lending rate in each country). As a check, we did however repeat the valuation calculations for what can be considered to be extreme discount rate assumptions - rates of zero and 25 per cent. Although the absolute value of the incentives inevitably varied with the discount rate being used, the broad country rankings were not significantly different from those thrown up by using the EC reference rates.

Step 1: Identification of nominal values

For capital grants the identification of nominal rates of award as a percentage of eligible investment is obviously a straightforward step. For soft loans and interest subsidies the step is more complex. We take as their nominal value the net grant equivalent of the subsidy element of the soft loan/interest subsidy as a percentage of the loan award on which the subsidy is made. Although this sounds complicated it can, in fact, be calculated relatively easily as long as information is available on the following key features of the soft loan/interest subsidy scheme:

- the duration of the loan and (if different) of the concession
- the duration of any interest free period awarded
- the duration of any principal repayment holidays awarded
- the loan repayment system
- the level of the concession, as a percentage point reduction of the market rate.

Only this last feature involves any assumptions since the appropriate market rate has to be identified. However, since the EC reference rate is, as we have seen, broadly equivalent to the market lending rate in each country, we had less qualms about using it for this purpose than as a discount rate. On the other hand, it must be recognised that, for particular projects and firms (those operating at the margin and thus facing the high cost end of the capital market rate structure) the EC reference rate probably understates the market rate of interest and therefore the concessionary element of the subsidy. But there again, for many large firms the EC reference rate probably lies above what they normally would have to pay for capital.

We have so far considered the identification of nominal rates for grants and soft loans. For accelerated depreciation allowances and capital allowances, the nominal value of award is the net present value of the tax saving brought about by delayed payment of tax (due to receipt of an allowance) as a percentage of the value of the asset on which the allowance is made. As with interest subsidies/soft loans the calculation here is straightforward given information on the nature of the allowance, the standard national depreciation system against which the allowance is to be measured, and the effective rate of tax saved through receipt of the allowance. It should be noted that within this step account is taken of both taxation and delays in payment, thus making Steps 2 and 3 below unnecessary for the valuation of accelerated depreciation and capital allowances.

Step 2: Adjustment for taxation

Within this step we must first identify the relevant rate of tax paid by firms in respect of incentives received. Our basic assumption here is that firms consider the relevant tax rate for all managerial decisions to be the full rate of corporation tax on retained earnings (since the tax payable on distributions, where this is greater, may typically be regarded as being borne by shareholders). This rate is, of course, only applicable if the investing company bears a full tax charge on the incentive-related "profits". With the exception of Ireland and Italy, where we take account of the availability of profits tax concessions, we have based our calculations on this premise.

For capital grants there are, in general, three possible forms of tax treatment. At the one extreme they are not subject to tax since they are not considered to be part of income and hence taxable profits; while at the other they are "directly" subject to tax, passing straight into taxable profits. The middle case is where the grant enters into income and hence taxable profits only indirectly, as would occur, for example, when the value of the grant has to be deducted from the value of the subsidised assets for depreciation purposes. This middle case is obviously the most complex to deal with since, in addition to information on the timing and phasing of tax payments, the appropriate depreciation regime for the grant-aided assets must be identified, as well as the distribution of these assets into land, buildings and plant. In this regard we use the same asset mix as identified in Step 4 below.

The tax treatment of soft loans and interest subsidies is straightforward and indeed is the same for all countries. The concessionary element present within these incentives is taxed since (as a result of the concession) there are lower interest payments to set against taxable profits.

Step 3: Adjustment for delays in payment

This step takes account of delays in the payment of incentives. These delays are of two broad types - delays in the submission of claims (in a number of cases for example claim submission must await the completion of the project construction phase) and delays in the processing of claims. We take as our base date for the measurement of these delays the date of asset expenditure. The delay we are adjusting for, therefore, is the delay between asset expenditure and the receipt of a subsidy on that asset. In most cases delays are specific to the incentive system in each country. We have however made one common assumption (to which incidentally the results are not sensitive) namely, that the standard project construction period is one year (so that given uniform project expenditure the average delay before a claim can be made in those cases where project construction must be complete before claim submission is typically six months).

Step 4: Adjustment for ineligible items of expenditure

Not all project expenditure is eligible for incentive assistance. Indeed, as we shall see, working capital is only rarely subsidised while land, buildings and plant are not aided in every case. To take account of differences in the coverage of incentives (using the information in the synopsis tables) we need, first, to decide on an appropriate land : buildings : plant key for a typical project in each country and, secondly, to identify the typical relationship (if any) of fixed to working capital.

As far as the distribution of fixed asset costs is concerned we have chosen to use the keys applied in the EC's regional policy co-ordination system in the main valuations, since these are meant to represent the fixed asset breakdown of typical projects in the EC countries. These keys are:

Country	Land	Buildings	Plant
Belgium	5	40	55
Denmark	5	45	50
France	5	50	45
Germany	5	30	65
Ireland	5	50	45
Italy	5	30	65
Luxembourg	5	50	45
Netherlands	5	40	55
United Kingdom	10	20	70

It could be argued that, for the purposes of international comparison, one should in fact use the same fixed asset key in all countries. With this in mind we tested for sensitivity by applying two other keys - one land/building intensive (i.e. land 10 buildings 60 plant 30) and the other plant intensive (i.e. land 5 buildings 25 plant 70) - uniformly to all incentive packages to see what the impact of this would be on the ranking of the various packages. In terms of ranking the results were not significantly different from those found using the EC co-ordination keys - not particularly surprising since, as we shall see in the synopsis tables (and also in Part II of this report), eligible items of expenditure do not differ markedly between incentives and specified discrimination between eligible items is rare.

As far as the relationship of working capital to fixed capital is concerned, this is an especially difficult key to quantify there being little project level information available. What information there is suggests that working capital might typically account for 30 percent of initial investment costs, and this is the figure we have used in the valuations. Now of course at the project level there will be large variations around this percentage, but as long as the working capital figure for a comparable project does not vary significantly from country to country, the ranking of incentive schemes is relatively insensitive to the figure chosen, a direct consequence of the fact that only three regional incentives include working capital as an eligible item of expenditure - the Italian national soft loan and the United Kingdom interest relief grants and soft loans, both part of UK selective financial assistance.

Stage B: Effective Value as a Percentage of Initial Capital Costs, Annual Capital Costs and Value Added

This stage of the valuation exercise can be treated much more briefly since most of the relevant points have already been covered.

Step 1: Initial capital cost denominator

This denominator is reached as a result of Step 4 of Stage A. The main difference between Stage B and Stage A is that within the former the emphasis is on incentive combinations rather than individual incentives. In this regard it should be noted again that it is not always the case that the value of incentives in combination is the sum of their separate values.

Step 2: Annual capital cost denominator

As already mentioned, the conversion of lump sum figures (investment costs and subsidy values) into annual equivalents is accomplished by means of a standard annuitising procedure based on the annual capital charge formula:

$$a = A.q \text{ with the annuitising factor } q = \frac{r\ (1 + r)^n}{(1 + r)^n - 1}$$

where a is the annual equivalent of the initial value A given a lifetime of n and a discount/interest rate of r. The details of the procedure can most easily be presented in terms of three sub-steps.

The first sub-step involves the calculation of a weighted capital cost factor. Within this sub-step, the annual capital charge factor is calculated for each asset type separately. This requires assumptions to be made about both asset lives (our interest here is in actual economic lives) and discount/interest rates. As far as the latter is concerned we use the EC reference rates, as in Stage A. As for asset lives, we assume a building life of 50 years and a plant life of 10 years in all EC countries (alternative asset life assumptions are possible but would not affect the ranking of the various incentive schemes unless there were marked differences between countries in asset lives.) Land and working capital are non-depreciable. For them, the annual capital charge factor is identical to the interest rate. Once the annual capital charge factor has been calculated for each asset type the results are summed using the already-identified weights of asset expenditure within project costs (see p.41 above). The resultant figure we term the weighted annual capital cost factor.

Within the second sub-step an annual subsidy factor is calculated. Just as investment costs must be annuitised so must the subsidies awarded in respect of these costs. In doing this the annual capital charge formula is again relevant. There arises, however, the interesting issue of the appropriate value for "n" in the formula - that is, the appropriate "life" over which to spread the subsidy. In the case where item-related replacement is subsidised the issue is easily resolved. Clearly, the subsidy should be spread over the life of the asset to which it relates - 10 years for plant, 50 years for buildings. But what if item-related replacement is not subsidised? The inevitable problem is to decide on an appropriate subsidy life. One possibility is to use the life of the longest asset (the fifty-year building life). Another, and one which tries to take into account the fact that not only setting-up projects but also other project types like rationalisation are aided, is to adopt a somewhat shorter subsidy life - at least in the case of plant.

In the valuation tables we have assumed that (in those cases where replacement is not specifically subsidised) the appropriate plant subsidy life is 20 years - twice the lifetime of the plant. This is perhaps one of the weakest assumptions in the whole valuation exercise. It is one which we feel to be appropriate, but is difficult to substantiate. For this reason it could perhaps be argued that we should simply have settled for the 50 year subsidy life assumption. However, and this is an important point to make, the results would not in fact have been very different from those produced in the tables, and there would certainly have been no significant change in the ranking or grouping of countries.

The third sub-step of the annuitising procedure involves simply dividing, for each incentive in turn, the annual subsidy factor by the weighted annual capital cost factor (i.e. the outcome of sub-step (ii) by the outcome of sub-step (i)). The resultant annuitising factor is used to transform the column one results of valuation Table B into column two results. In so doing, it moves the valuations from the initial to the annual capital cost denominator.

Step 3: Value added denominator

The transformation from annual capital costs to value added is technically very straightforward. If annual capital costs are interpreted to mean "gross profits" in the national income accounting sense of the term (profits before deduction of depreciation, interest payments and taxation) then it is no major task to identify the link between gross profits and value added. We use aggregate national data (as presented in Eurostat, National Accounts: 1970-74, Eurostat Yearbook 2-1975, Statistical Office of the European Communities, 1975, Table 5) as a proxy for this relationship in comparable projects in each country. The justification for using country-specific keys is that this picks up differences in the actual factor cost mix confronting firms in particular locations, which *a priori* can be expected to vary internationally, not least since mechanisms tending to equalise factor costs work very slowly. For those who do not accept this, or who argue that, given the quality of the data, a common gross profits : value added ratio should have been adopted, it is important to note that, with a common gross profits : value added key the ranking of incentive packages is obviously identical to that thrown up by the annual capital cost denominator (except perhaps where labour subsidies are paid).

As a final point to this general introduction to the valuation tables, it will be noted that no direct attempt is made within the tables to value direct tax concessions (as opposed to depreciation allowances). The reason for this is the simple one that data on taxable profits is not consistently or comprehensively available. Nevertheless, as additional notes to the valuation tables, some broad indication of the value of any available tax concessions is given under very specific assumptions.

In the remainder of Part I, we present, for each Community country in turn, a survey of the regional incentives in that country. These surveys consist of a brief overview of the regional incentive system, detailed synopsis tables covering key features of the main regional incentives, an introduction to the valuation of these incentives, and, finally, the valuation tables themselves together with explanatory notes.

COUNTRY SURVEYS

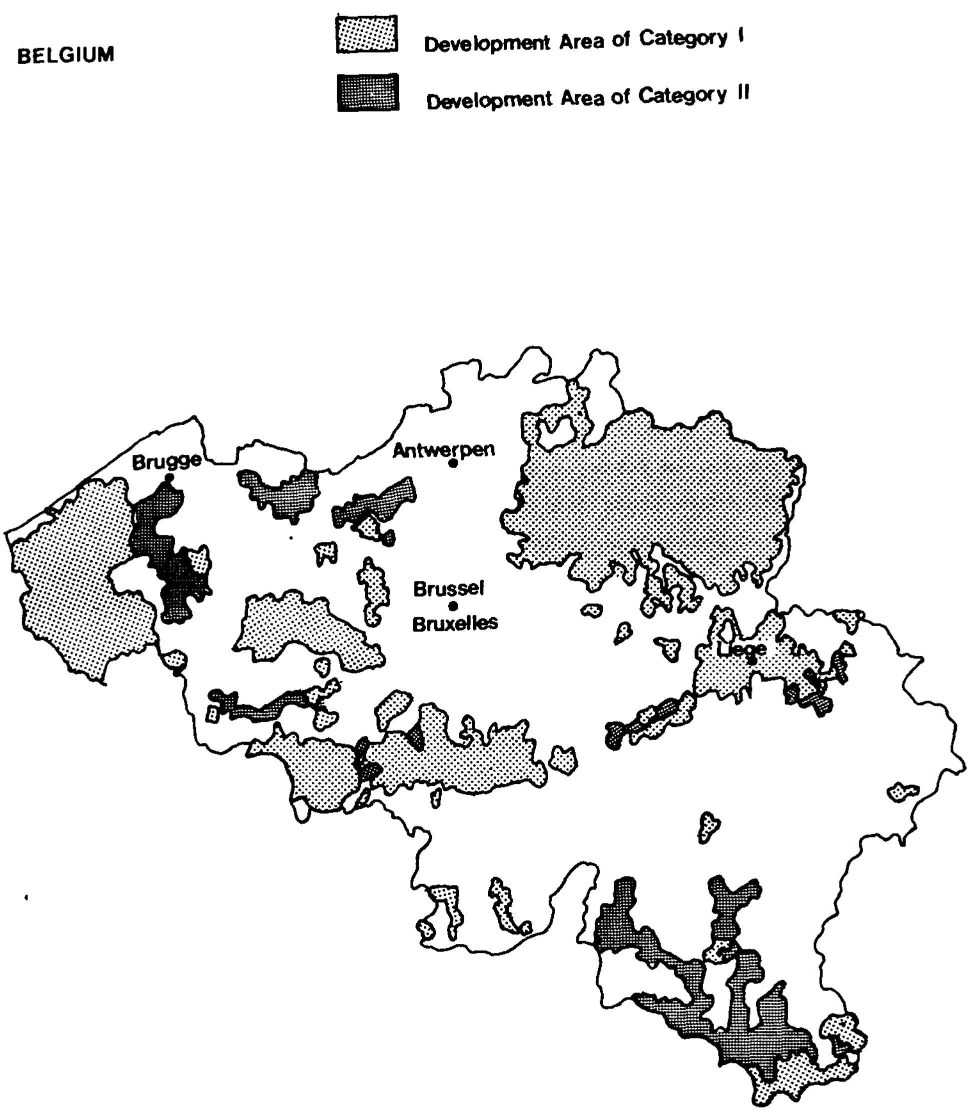
BELGIUM

THE INCENTIVES

Within the framework of its industrial and regional policy, Belgium operates a number of financial and fiscal incentives, the bulk of which originate from the so-called General Expansion Laws of 1959, 1966 and 1970. In 1959 two such laws were introduced - one national in character aimed at improving the sectoral structure of the economy while the second (regional) law instituted special measures to combat the economic and social difficulties of certain problem regions. This regional dimension to the General Expansion Laws was further accentuated by the specifically regional laws of 1966 and 1970.

The 1970 Expansion Law created two categories of development zone (Categories I and II). These zones have not, however, been operationalised, with the result that the zones established under the 1959 and 1966 laws remain in force. In the accompanying map, we term as 'Category I zones' those areas designated in 1966 while 'Category II zones' are those areas delineated in 1959 but not included within the 1966 zones. As already noted, there is no practical difference at present between these areas in terms of award levels. Together they cover 34 percent of the surface area of the country and hold some 42 percent of the national population.

The great majority of financial incentives on offer in Belgium have no specified regional dimension. State guarantees, for example, covering the whole or partial redemption of public credit institute loans are national aids, as is financial assistance (in the form of grants which, amongst other things, cover transport and removal costs) payable to encourage the geographical mobility of unemployment workers. Similarly, interest free advances for management consultancy and research and development, as well as the provision of equity finance through the National Investment Corporation, are available on a country-wide basis. A five year exemption from real estate income tax is another measure which is available nationally. Incentives (through interest subsidies, grants and loan guarantees) for the purchase and equipping of industrial sites by public bodies are also national, as is the government purchase or construction of factory buildings for subsequent sale or letting (a provision which has not so far been used). Aid for advanced technical labour training (with grants, generally at some 25 percent of the combined wages and social security costs of the labour undergoing


BELGIUM
Development Area of Category I
Development Area of Category II
Brugge
Antwerpen
Brussel
Bruxelles
Liège

training) has a minor regional element in that the rate of award is slightly higher in the development zones.

The two specifically regional financial incentives in Belgium are interest subsidies and capital grants. Both are project-based, are discretionary, and are closely inter-related one with the other in that grants can partly or totally replace interest subsidies, and that grant rates are largely calculated on the basis of interest subsidy values. Conditions of award are, however, more stringent for the grant (and, in particular, aided investment must be at least 50 percent internally financed); the majority of projects, some 75 percent, awarded financial aids get an interest subsidy rather than a grant.

Turning to regional fiscal incentives in Belgium the main ones are: tax exemption from the non-inflationary element of capital gains; exemption from the registration tax levied at the incorporation of companies; and an accelerated depreciation allowance. (In addition, provinces and municipalities can offer fiscal incentives in addition to those embedded in the national laws but, in common with the treatment of such local incentives in the other countries, they have been considered outside the scope of the synopsis tables). Although no hard information is available on expenditure on any of these fiscal incentives, the two tax exemptions are certainly not of major significance. The main fiscal incentive, rather, is the accelerated depreciation allowance and it is this which is covered in the synopsis tables (although it must be emphasised that it is very much less important than either the interest subsidy or the capital grant and, indeed, can be viewed, to a large extent, as a form of topping up of these financial incentives). The accelerated depreciation allowance is a discretionary project-related concession on the cost price of plant, equipment and industrial buildings and involves a doubling, for three consecutive years, of the normal national straight line depreciation allowance (20 years fiscal life for industrial buildings and 10 years for plant).

Two final points need to be made in the context of Belgian incentives before moving on to the synopsis tables. The first is that, as we have seen, the regional incentives are based on the General Expansion Laws and are largely regional variations of these. One outcome of this is that many of the published figures are for the nation as a whole rather than for the problem areas per se. Therefore, where the synopsis tables indicate that figures are on the basis of the General Expansion Laws these are national figures and do not refer to the problem regions alone. The second point relates to the administrative system. Because of the three region structure of Belgium, applications for incentives are generally evaluated by the appropriate Regional State Secretaries for Economic Affairs (in Flanders, Wallonia or Brussels) in line with administrative directives specified by the region's Departmental Committee for Regional Affairs. Large projects (of between BF 150 million and BF 300 million) are however dealt with specifically by these regional committees while still larger projects (of over BF 300 million) are the responsibility of the national Departmental Committee for Economic and Social Coordination which also coordinates the work of the three regional authorities.

	Interest Subsidy	Capital Grant	Accelerated Depreciation
1. Basic details	Discretionary, project-related interest subsidy on loans offered through 'approved credit institutions' such as banks and public financial organisations. The maximum regional subsidy is 5 percentage points (6 percentage points for advanced technology projects and 'progress contracts', 7 percentage points under special cyclical conditions) on up to 75 percent of investment over a maximum 5 years compared to standard national maxima of 4 percentage points (5 percentage points for advanced technology), 66 percent and 4 years (6 years under special cyclical conditions) respectively. Repayment is annual on a straight-line basis with a maximum repayment holiday (available only in respect of the regional subsidy) of 2 years. No interest-free period is available.	Discretionary, project-related capital grants can partly or totally, replace interest subsidies in those cases where the aided investment is at least 50 percent internally financed. The level of grant is calculated by summing the undiscounted annual interest subsidies which would have been due had the 'own finance' been in the form of a 10 year interest-subsidised loan, repaid annually on a straight-line basis, with neither principal repayment holidays nor interest free periods. For the appropriate interest subsidy maxima, see Interest subsidy.	A discretionary, project-related fiscal concession on the cost price of plant, equipment and industrial buildings. If accelerated depreciation is awarded the straight-line rate (depreciation is normally linear over 20 years for industrial buildings and 10 years for plant) is doubled for a fixed three consecutive years. Accelerated depreciation is normally only awarded to projects already receiving a capital grant or interest subsidy and indeed should be viewed as a form of topping up of these incentives.
2. Legal Basis	Law of 30 December 1970: General Expansion Law. (Belgisch Staatsblad : Moniteur Belge 1 January 1971).	As interest subsidy.	As interest subsidy
3. Administration	Application is made through an approved credit institute to the appropriate State Secretary for Regional Economy (in Flanders or Wallonia or Brussels). For most projects he decides on the level of award subject to the legal maxima and in line with administrative directives specified by his region's Departmental Committee for Regional Affairs This regional committee is however directly responsible for large projects (see introduction) while for very large projects responsibility lies with a national inter-departmental committee (again, see introduction). Any subsidy awarded is paid to the approved credit institute which in turn offers a loan to the applicant firm at the market rate of interest minus the government subsidy.	As interest subsidy, except that application is made directly to the competent administration.	Application is made to the Ministry of Economic Affairs (for small firms, the Ministry of Trading Classes). The award decision is taken by the appropriate State Secretary for Regional Economy (in Flanders or Wallonia or Brussels). If an award is made, claims are administered as part of the company tax system.
4. Eligible Activities	Industrial activities (including mining), artisan activities, and enterprises in the service sector involved in trade, tourism, management and engineering techniques, and research and development are all eligible. Agriculture is not eligible unless of an industrial or service character, while construction is eligible only in as far as it deals with construction materials and prefabrication.	As interest subsidy.	An interest subsidy.
5. Activity Discrimination	In principle only priority 1 sectors receive the maximum percentage point subsidy: for priority 2 sectors, the maximum is reduced by 1 percentage point and, for non-priority sectors, by 2 percentage points. In practice, however, no distinction is made between priority 1 and 2 sectors. Within the maxima laid down the rate of concession is at the discretion of the authorities (as is the decision whether or not to make an award) thus giving some scope for discrimination.	As interest subsidy.	None in terms of rates of award these being fixed. The decision whether or not to award is however discretionary, thus giving scope for some industrial discrimination.

	Interest Subsidy	Capital Grant	Accelerated Depreciation
6. Spatial Discrimination	The regional interest subsidy is available only on projects located in category I and II development zones. In principle, the maximum subsidies are limited to category I zones but in practice no distinction is made between the two zone types (see introduction) No further specified discrimination within these zones (but see 5 above).	As interest subsidy.	In practice accelerated depreciation is available throughout the designated areas. Within the eligible areas, no scope for rate discrimination since rates are fixed. Award is, however, discretionary (see 5 above).
7. Project Type Discrimination	All project types are eligible except take-over and replacement projects (unless special permission is granted) although for transfers only the net investment increase qualifies. No specified discrimination between eligible project types (but see 5 above).	As interest subsidy.	In principle all project types are eligible A condition of award that a minimum 20 new jobs be created (which of course meant that only setting up projects and major extensions generally qualified) no longer applies. There is no rate discrimination between eligible projects, since rates are fixed. Award is however discretionary (see 5 above).
8. Size Discrimination	In terms of eligibility, projects which cost the state less than BF 100,000 per annum are excluded (except when proposed by small firms of less than 50 employees) while projects of more than FM 100 mill. may be required to undertake counterpart action (i.e. the transfer of convertible bonds to the state). In terms of rates there is no direct discrimination although, because of the presence of particularly favourable national schemes, the regional differential for small projects is less than for other projects. Beyond this, no specified size discrimination (but see 5 above).	As interest subsidy, except that the transfer of convertible bonds is not required of large projects.	The rule that a minimum of 20 new jobs must be created no longer applies - otherwise no specified discrimination (but see 5 above).
9. Eligible Items	All direct investment in the acquisition or construction of buildings, plant and equipment (including site purchase, market organisational studies etc.) is eligible, as is the reconstitution of working capital. Vehicles are generally ineligible except for small and medium sized firms, while second hand assets are eligible only under special conditions. Ancilliary buildings are eligible only when - like offices and canteens - they are a constituent part of the project. There is no lower item-value limit but short-life assets are generally ineligible since the lifetime of a subsidised asset should at least cover the subsidy period.	As interest subsidy.	Eligible items include industrial building plant and equipment, subject to a minimum asset life of 5 years. Vehicles are ineligible. Certain items (such as ships and scientific research equipment) qualify for even more favourable accelerated depreciation nationally and are not therefore normally covered by the regional scheme.
10. Eligible Forms of Expenditure	Assets purchased with cash or through phased payments are eligible as are leased assets, but not those bought on hire purchase.	As interest subsidy.	Assets purchased with cash or through phased payment are eligible, as would be assets bought on hire purchase. Leased assets are not eligible.
11. Further Conditions	In making awards the main general criteria taken into account are: creation of employment; effect on economic structure; financial soundness of the applicant enterprise; agreement with national environmental protection and anti-inflation policies; and product type (with energy-saving products, products of important socio-economic significance and products exported to non-EC countries being favoured).	As interest subsidy, but, in addition, at least 50 percent of project investment must be internally financed.	As interest subsidy.

	Interest Subsidy	Capital Grant	Accelerated Depreciation
12. Actual Awards	On average, the regional subsidy is 4 percentage points over a period of 4 years on two-thirds of investment costs. Since 1972 Interest subsidies under the general expansion laws have been related to the following loan awards (FB Mill.): 1972 1973 1974 1975 cases 475 715 512 338 awards 10,974 23,404 15,612 10,587 average 23 33 30 31 The figures relate solely to cases where interest subsidies only were awarded. In a further 100 cases annually interest subsidies were awarded in combination with state guarantees.	No information on average percentage awards. Since 1972 the following capital grants have been awarded under the general expansion laws (FB mill.): 1972 1973 1974 1975 cases 146 233 157 118 awards 1,831 2,565 1,414 1,227 average 13 11 9 10	No information
13. Tax Treatment	By reducing debt servicing charges, the interest subsidy is taxed in as far as it increases taxable profits.	Indirectly taxed whenever profits are made since aided investment must be depreciated for tax purposes net of any grant received.	Not relevant
14. Timing and Phasing	Application must be made, and conditionally accepted, before project construction starts. Application processing period: on average 2 months. The interest subsidy is 'paid' as interest payments become due.	Application must be made, and conditionally accepted, before project construction starts. Application processing period: on average 2 months. The grant is paid in three equal annual instalments - the first not less than one year after positive decision on condition that a specific part of the investment has been carried out; the second one year thereafter provided the investment programme has been completed (or 75 percent completed in the case of extended programmes requiring 18 months or more); and the third a further year later subject to the attainment of the project objectives.	Project application must be made before a tax claim is submitted, and would normally be made before project construction starts (in conjunction with capital grant/soft loan applications). Application processing period: on average 2 months. Claim relating to particular items of project expenditure are made along with the tax return. The concession applies for 3 consecutive years from the year in which expenditure is incurred.
15. Topping Up	No awards are possible beyond the formal maxima.	No awards are possible beyond the formal maxima.	No awards are possible beyond the formal maxima. The allowance is normally viewed as topping up the financial incentives.
16. Addability	Can be combined with capital grants, state guarantees and fiscal aids. However, when combined with a capital grant, the maximum value of the interest subsidy is reduced by the value of the grant (see capital grant). The provision that, when combined with a state guarantee, the maximum value of the interest subsidy is reduced by 1 percentage point, has been deleted.	The grant replaces wholly or partly the interest subsidy. Grants and interest subsidies can therefore be awarded in combination, subject to the limitation that the combined incentives do not exceed the interest subsidy maxima. Grants can also be combined with fiscal aids. However, when added to accelerated depreciation the value of the grant is reduced since the net present value of the tax to be paid on it increases.	Can be combined with all other regional incentives. When added to the capital grant, the value of the grant is reduced since the net present value of the tax to be paid on it increases. This is because the grant is, in effect, brought into income and hence taxable profits more quickly than under the normal depreciation schedule.
17. Clawback	Post-award checks are based on annual financial reports prepared by the beneficiary's approved credit institute and on factory visits. Non-realisation of objectives can lead to reduction or withdrawal of subsidy. It is not clear to what extent this provision has been applied.	Grant instalments are paid out only on condition that the award conditions are being met. Otherwise, as for interest subsidies.	Not relevant

	Interest Subsidy	Capital Grant	Accelerated Depreciation
18. Turndown	In the period 1959 to October 1976, 19 per-cent of applications made under the general expansion laws were turned down. One reason for turndown, other than general failure to meet award conditions, has been an abundance of own finance, vitiating the need for state assistance.	No information	No information
19. Cost	The costs of interest subsidies payable under the general expansion laws (calculated on the basis of the most unfavourable 'timing and phasing' assumption for the state) have been (FB mill.): 1972 1973 1974 1975 1,961 4,759 3,593 1,912	Estimated annual expenditure on capital grants awarded under the general expansion laws has been (FB mill.): 1972 1973 1974 1975 1,831 2,565 1,414 1,227	No information
20. Jobs Associated	No information on jobs associated with interest subsidies alone. The figures below relate to interest subsidies and capital grants under the general expansion laws: 1972 1973 1974 1975 25,259 34,718 23,525 12,219	See interest subsidy.	No information
21. Investment Associated	No information for interest subsidies alone. For all financial aids, under the general expansion laws, planned investment was (FB mill.): 1972 1973 1974 1975 35,677 65,593 45,826 36,501	See interest subsidy	No information
22. Anticipated Duration	No specified life	No specified life	No specified life
23. Change Provision	In the event of incentive change, applications under consideration would be treated under the new conditions.	As interest subsidy	As interest subsidy
24. Miscellan-eous			

THE INCENTIVE VALUES

As we have seen, the most commonly awarded regional financial incentive in Belgium is the interest subsidy. An interesting feature of this incentive is that it is simply the regional extension of a national incentive scheme. Whereas, for example, the maximum interest subsidy in the Development Zones (DZ) is 5 percentage points over 5 years on up to 75 percent of eligible investment, the standard national maximum is 4 percentage points over 4 years on up to two-thirds of eligible investment. Since our prime concern is with the regional advantage conferred by any given incentive scheme, for the interest subsidy we consider both regional and national values in the valuation tables which follow.

In Table A the effective values of both the interest subsidy and the capital grant (the other important financial incentive) are shown as ranges at the Development Zone level. In the case of the interest subsidy the range is a straightforward one reflecting simply the difference between the case where no principal repayment holiday is awarded and that where a period of two years principal repayment free (i.e. the maximum) is obtained. For the grant, however, the range is of a very different nature. The grant, it will be recalled, is available towards internal project financing wherever this represents at least 50 percent of project expenditure. The lower end of the range in the table shows the value of the grant when this bare minimum of 50 percent internal finance is met. In contrast, the top end of the range represents the position where the capital grant is obtained on the maximum possible soft loan component (75 percent of eligible investment in the Development Zones, for example). In addition to these, the two main regional incentives in Belgium, the table also covers the accelerated depreciation allowance, the most important of the Belgian regional fiscal aids. As mentioned in the synopsis tables the accelerated depreciation allowance is available only in the Development Zones.

From the table it can be seen that, in effective value terms, the capital grant is 'worth' considerably more than the interest subsidy - a maximum 9.5 percent of initial capital costs after tax, delays and eligible items compared with an equivalent interest subsidy maximum of 4.7 percent. It must however once again be stressed that the grant is available only towards internal financing and only when such financing accounts for at least 50 percent of project expenditure. Between 1971 and 1974 less than 45 percent of gross capital formation in Belgium was internally financed.

Table B maintains the broad structure of Table A. Like that table it distinguishes between Development Zones and the nation. Where it differs from Table A is in its concentration on the effective value of incentives in combination rather than individually. In this regard, the bracketed figures represent the outcome when the accelerated depreciation allowance is received on top of either the capital grant or the interest subsidy, or both. No figures are given for the accelerated depreciation allowance on its own since it is normally awarded in conjunction with a capital grant/interest subsidy and indeed is usually seen as a form of topping up of these incentives.

Moving now to the contents of Table B, it can be seen that the highest effective values apply to the capital grant/accelerated depreciation allowance combination in the Development Zones - 12.6 percent of initial capital costs, 11.2 percent of annual capital costs and 3.7 percent of value added. These percentages, however, give a misleading impression of the value of the Belgian regional incentive package. In the first place, they assume no less than 75 percent internal financing. With internal finance of only 50 percent (still a relatively high figure, as already noted, for projects in Belgium in recent years) the maximum value of the package in the Development Zones is 11.3 percent of initial capital costs, 10.1 percent of annual capital costs and 3.3 percent of value added; while with less than 50 percent internal finance (and hence no capital grant - the position for three-quarters of all assisted projects) the equivalent maximum package values are 8.4, 7.5 and 2.5 percent rbspectively. Secondly, the effective values mentioned above are maxima. The average award made in the Development Zones for the capital grant/interest subsidy/ accelerated depreciation combination is (assuming 50 percent internal finance) 9.1 percent of initial capital costs, 8.1 percent of annual capital costs and 2.7 percent of value added; and (assuming less than 50 percent internal finance) 6.6 percent, 5.9 percent and 1.9 percent respectively. The final reason why the percentages quoted earlier give an exaggerated view of the value of the Belgian package is that they ignore the existence of similar national measures and hence do not represent the regional differential. In terms of award maxima the overstatement amounts to 3.9 percentage points (in respect of initial capital costs) 3.5 percentage points (in respect of annual capital costs) and 1.2 percentage points (in respect of value added), while in terms of average awards the overstatement is 1.2 percentage points, 1.1 percentage points and 0.4 percentage points respectively. Everything considered, therefore, the average regional value of the standard combination of incentives in Belgium is very much lower than at first sight - and indeed as we shall see in Part II, is low in comparison with the regional incentives in most other EC countries.

BELGIUM

Table A: NOMINAL TO EFFECTIVE PERCENTAGE SUBSIDY.

AREA	INCENTIVE	LEVEL	NOMINAL VALUE	EFFECTIVE VALUE AFTER TAX	DELAYS	ELIGIBLE ITEMS
DEVELOPMENT ZONES	IS	Maximum	15.3-17.4	8.0-9.0	8.0-9.0	4.2-4.7
		average	10.8-12.1	5.6-6.3	5.6-6.3	2.6-2.9
	CG	Maximum	13.8-20.6	10.6-15.8	9.1-13.6	6.4-9.5
		average	11.0-14.7	8.4-11.2	7.2-9.6	5.0-6.7
	AD plant	fixed rate	6.0	-	-	2.3
	AD building	fixed rate	4.9	-	-	1.4
NATION	IS	Maximum	10.8	5.6	5.6	3.9
		average	6.7	3.5	3.5	1.2

Table A: NOTES AND ASSUMPTIONS

(a) GENERAL: Discount rate 10.75 percent (EC reference rate 1976)

(b) INTEREST SUBSIDY (IS)

(i) Nominal value: Net grant equivalent of interest subsidy as percent loan award assuming:

		concession period	principal repayment holiday	interest free periods	interest rate subsidy
DEVELOPMENT ZONES (DZ)	maximum	5 years	0-2 year range	none	5 percentage points
	average	4 years	reflected in table	none	4 percentage points
NATION	maximum	4 years	none	none	4 percentage points
	average	3 years	none	none	3 percentage points

Loans are 10 year loans, repaid annually on a straight line basis.

(ii) Taxation: Effective corporation tax rate: 48 percent (standard rate).

(iii) Delays: None. Loans drawn down in relation to need.

(iv) Eligible items: (a) Loan as a percentage of eligible investment - 75 percent for the DZ maxima; 66.7 percent for DZ average and national maxima; 50 percent for national average. (b) Eligible investment as a percentage of all project capital costs - 70 percent, it being assumed that working capital accounts for 30 percent thereof. As noted in the synopsis table working capital is ineligible for aid except insofar as it involves the reconstitution of working capital.

(c) CAPITAL GRANT (CG)

(i) Nominal value: As percentage eligible investment costs - calculated by multiplying 5.5 percent (i.e. the undiscounted value of a one percent subsidy on a 10 year loan as a percentage of the loan) by the appropriate interest rate subsidy (see (b) (i) above) and then by the proportion of eligible investment costs covered by the loan (i.e. 75 percent for the DZ maxima; 66.7 percent for DZ average). The lower end of the range shown in the table is on the assumption that the loan covers only 50 percent of eligible investment costs. (At least 50 percent of eligible investment costs must be internally financed before a capital grant can be awarded).

(ii) Taxation: Effective corporation tax rate: 23.5 percent. (Capital grants are taxed 'indirectly' by reducing the value of aided assets by the value of the grant for depreciation purposes. For depreciation purposes we assume that plant is depreciated straight line over a 10 year fiscal life and buildings straight line over 20 years).

(iii) Delays: Grant paid in three equal annual instalments - the first, one year after ministerial approval (i.e. 6 months after asset expenditure assuming immediate project start, one year project construction period, and a uniform spread of project expenditure).

(iv) Eligible items: Eligible investment assumed to be 70 percent of all project capital costs, it being assumed that working capital is 30 percent thereof. As noted in the synopsis table working capital is ineligible for aid except insofar as it involves the reconstitution of working capital.

(d) ACCELERATED DEPRECIATION (AD)

(i) Nominal value: Net present value of tax saving due to accelerated depreciation given an effective tax rate of 48 percent.

(ii/iii) Taxation/Delays: Not relevant.

(iv) Eligible items: With EC key of: land 5, buildings 40, plant 55 and with working capital assumed to be 30 percent of project capital costs, eligible buildings account for 28 percent and eligible plant for 38.5 percent of all project capital costs.

BELGIUM

Table B: EFFECTIVE SUBSIDIES AS A PERCENTAGE OF VARIOUS DENOMINATORS.

AREA	INCENTIVE COMBINATION		INITIAL CAPITAL COSTS		ANNUAL CAPITAL COSTS		VALUE ADDED	
	<u>Maximum</u>							
DZ	CG	(+AD)	9.5	(12.6)	8.5	(11.2)	2.8	(3.7)
	CG + IS	(+AD)	7.8-8.0	(11.1-11.3)	6.9-7.1	(9.9-10.1)	2.3	(3.3)
	IS	(+AD)	4.2-4.7	(7.9-8.4)	3.7-4.2	(7.0-7.5)	1.2-1.4	(2.3-2.5)
NATION								
	IS		3.9		3.5		1.2	
	<u>Average</u>							
DZ	CG	(+AD)	6.7	(9.9)	6.0	(8.8)	2.0	(2.9)
	CG + IS	(+AD)	5.7	(9.1)	5.1	(8.1)	1.7	(2.7)
	IS	(+AD)	2.6-2.9	(6.3-6.6)	2.3-2.6	(5.6-5.9)	0.8-0.9	(1.8-1.9)
NATION								
	IS		1.2		1.1		0.4	

Table B: NOTES AND ASSUMPTIONS

(a) INITIAL CAPITAL COSTS

In general the summation of the Table A results. Note, though that when a capital grant is awarded in conjunction with accelerated depreciation the value of the grant is reduced to 93.26 percent of its Table A level since tax on the grant is paid more quickly under the accelerated depreciation regime. Moreover, when capital grant and interest subsidy are combined it is assumed that the notional loan on which the former is based (equivalent of course to the level of internal financing) covers 50 percent of eligible investment costs (the minimum level of internal finance necessary before a capital grant can be awarded) and that the loan on which the interest subsidy is awarded covers 25 percent of eligible investment costs for the DZ maxima and 16.7 percent for DZ average.

(b) ANNUAL CAPITAL COSTS (Discount/interest rate 10.75 percent).

(i) Calculation of weighted annual capital cost factor:

Asset	Assumed Life	Annual Capital Charge Factor	Weight	Weighted Factors
Buildings	50	0.1082	0.280	0.0303
Plant	10	0.1680	0.385	0.0647
Land/Working Capital	-	0.1075	0.335	0.0360
	WEIGHTED ANNUAL CAPITAL COST FACTOR			0.1310

(ii) Calculation of annual subsidy factor:

- AD building : 0.1082 (building subsidised)
- AD plant : 0.1235 (plant subsidised)
- CG, IS : 0.1166 (plant/building/land subsidised)

Since replacement is not explicitly subsidised, the subsidy life of the plant element of the CG and IS, and of AD plant, is taken to be 20 years - see p 32 above.

(iii) Calculation of annuitising factor ((ii) ÷ (i))

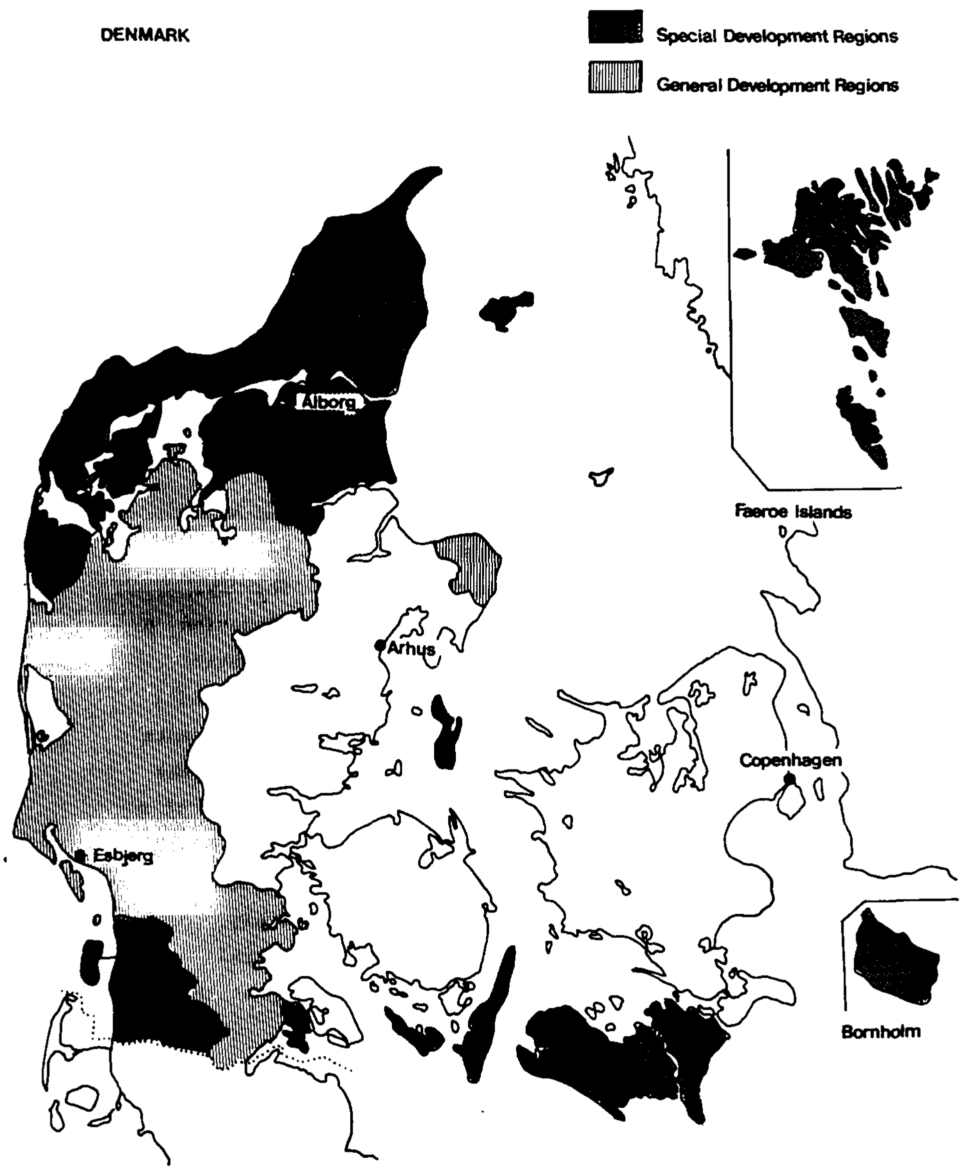
- AD building : 0.8260
- AD plant : 0.9427
- CG, IS : 0.8901

(c) VALUE ADDED

It is assumed that gross profits make up 33 percent of value added. This was the average figure for manufacturing industry in Belgium over the period 1970-74. See Eurostat, National Accounts 1970-74 Eurostat Yearbook 2 - 1975, Statistical Office of the European Communities, 1975, Table 5.

THE INCENTIVES

Denmark, like most other EC countries, has a considerable variety of regional incentives on offer. Many are, however, of only minor importance - at least in expenditure terms. There are seven such minor regional incentives. First, there are operational grants payable to industrial enterprises whose financial position has seriously suffered because of location in a development area. To be eligible the enterprise must have received a company soft loan or have moved into industrial buildings aided under the municipality soft loan scheme. (Both of these incentives are discussed below). The grant is payable within three years of the signing of the contract for the company soft loan or of the move into a municipal industrial building. The funds available for the incentive are, however, limited and reserved for special cases; they can only be paid after consultation with the EC. Only three awards have in fact been made under this scheme since its introduction in 1969. Secondly, companies moving into a development area may receive company removal grants to cover the costs of removal where these are substantial. Only 13 such grants were awarded between 1972 and1976 - having a total value of DKr 0.5 million. Thirdly, where essential for the operation of a company in its new location, a removal grant of DKr 4,000 can be awarded for each member of staff moved. Again, however, these awards are rare and between 1972 and 1976 only 95 were made, totalling some DKr 380,000. Fourthly, grants may be paid for studies and plans for projects of importance for the industrial development of a region (as well as for the operation of so-called Regional Development Committees). Between 1972/73 and 1975/76 DKr 425,000 was awarded for project studies and DKr 1.75 million for the operation of the Regional Development Committees. Fifthly, loans and grants may be awarded to infrastructure projects of central importance to the industrial development of the region in that they safeguard or attract industrial activities. Since 1972/73, DKr 3.5 million has been awarded under this scheme - all of it in 1975/76. Sixthly, companies which, within the previous three years, have received company soft loans or have moved into an industrial building financed by a municipality soft loan may be awarded guarantees on loans for working capital if it can be shown that it would otherwise



DENMARK
Special Development Regions
General Development Regions
Ålborg
Århus
Esbjerg
Copenhagen
Faeroe Islands
Bornholm

be impossible to procure sufficient working capital. The duration of the guarantee may not exceed 5 years, and the amount of the guarantee is reduced during this period. A 2 year period of grace may be allowed. These guarantees can only be awarded after consultation with the EC. In fact, no awards under the scheme have so far been made. Finally, companies can receive guarantees on loans for pre-rationalisation studies if it would otherwise be impossible to finance such studies. The duration and grace period is as with the working capital guarantees. There have, so far, been no applications for award under this scheme.

All of these regional incentives, then, are small in terms of the amount of money expended upon them or the number of projects aided. There are, in fact, only three regional incentives which are of major importance. The main incentive, currently involving some DKr 130 million annually, is a company soft loan of up to 20 years duration for buildings and up to 10 years for plant. This loan is at 7.5 percent interest, covers up to 90 percent of eligible investment costs and carries with it repayment holidays of up to 5 years (although in practice a 2 year maximum period of grace is standard). Closely related to this loan, and indeed often offered in conjunction with it, is an investment grant covering a maximum 25 percent of eligible investment costs. Current investment grant expenditure is DKr 50 million per year. Unlike the company soft loan and the investment grant, the final important incentive in Denmark does not go directly to companies but rather subsidises the building of factories by municipalities. The subsidy takes the form of a low interest (7 percent) loan of 25 years duration on 75 percent of building costs. This subsidy must however be passed on in full to the occupant firm (either in the rent or in the sale price) and, moreover, municipalities must subsidise the remaining 25 percent of building costs at the same rate. Expenditure on the municipality soft loan amounts to some DKr 20 million per annum. The synopsis tables (and the valuation tables) which follow are concerned with these three key incentives.

Before moving to the synopsis tables, however, two preliminary remarks need to be made. The first concerns the spatial coverage of the Danish incentives. From the accompanying map it can be seen that aided areas are of two types - General Development Regions and, within these, Special Development Regions where the intensity of the regional problem is most acute. The former hold some 31 percent of the Danish population and the latter, some 16 percent. From the viewpoint of the regional incentives the major difference between the two areas is that investment grants are payable only in the Special Development Regions. Secondly, when calculating eligible investment for the company soft loans and grants, account is taken of so-called mortgage credit loans. In the case of the soft loan scheme, eligible expenditure is reduced by the value of any mortgage credit loan received. For the investment grant, the grant is awarded in respect of eligible investment minus the difference between the nominal and market price of the mortgage credit loan. These mortgage credit loans are peculiar to Denmark and involve a system whereby, in return for the deposit of mortgage deeds, special mortgage institutes issue bearer bonds having a nominal value equal to the loan to be awarded. The borrower must then sell the bonds for what they will fetch on the Stock Exchange.

	Company Soft Loan	Investment Grant	Municipality Soft Loan
1. <u>Basic Details</u>	Discretionary, project-related soft loan of up to 20 years duration (for buildings) and up to 10 years duration (for plant). Repayment six-monthly on a straight-line basis. The maximum repayment holiday is 5 years (in practice, 2 years). No interest-free period is available. A maximum of 90 percent of eligible project costs (i.e. project fixed capital costs minus the maximum mortgage-credit loan - normally about 60 percent of project fixed capital costs - and any investment grant awarded) can be covered. Current interest rate: 7.5 percent. Using EC reference rate as the market rate the current concession is 2.75 percentage points.	Discretionary, project-related capital grant. The grant may not exceed 25 percent of eligible project fixed capital costs less the difference between the nominal value and the market price of the mortgage deeds issued in respect of the project by the mortgage-credit institution which is part-financing the project.	Soft loan available to municipalities to allow them to build, for specified clients, industrial buildings which are then normally rented but which can be bought. Loan repayment is six monthly on a straight line basis over a standard 25 years (although the legal maximum is 30 years). Current interest rate: 7 percent. Using EC reference rate as the market rate the current concession is 3.25 percentage points. No repayment holidays. No interest-free periods. Loan covers a standard 75 percent of building costs but municipalities are obliged to subsidise the remaining 25 percent on the same terms when calculating the appropriate rental or selling price. Annual rent is therefore 4 percent (i.e. 1/25th) of total costs plus 7 percent of the outstanding loan plus general running expenses. Leaseholder can buy the building at any time during the course of the lease at total costs (less subsidy) minus any rental instalments paid.
2. <u>Legal Basis</u>	Article 6 of Regional Development Act 1972 (Act No. 219, 7 June). Act administered through "rules of procedure" laid down by Minister of Commerce (the current rules date from 15 August 1973).	Article 10 of Regional Development Act 1972 (Act No. 219, 7 June). Act administered through "rules of procedure" laid down by Minister of Commerce (the current rules date from 15 August 1973).	Article 9 of Regional Development Act 1972 (Act No. 219, 7 June). Act administered through "rules of procedure" laid down by Minister of Commerce (the current rules date from 15 August 1973).
3. <u>Administration</u>	Day-to-day administration by Regional Development Directorate (RDD). RDD responsible to 11 member Regional Development Council (RDC), appointed by Minister of Commerce. RDC appraises projects and makes awards. RDC decisions are final.	As company soft loan.	Municipalities secure clients in advance and then apply to RDC. RDC appraises project and, if decision favourable, awards the municipality the loan.
4. <u>Eligible Activities</u>	In law only industrial activities (including mining) and services are eligible. Agriculture and construction are not eligible unless their production is industrialised. In practice awards are overwhelmingly towards manufacturing with service awards being limited to the hotel sector. State industry cannot be aided.	As company soft loan.	Only industrial buildings are eligible. The loan is therefore generally limited to manufacturing. State industry cannot be aided.
5. <u>Activity Discrimination</u>	No specified discrimination between eligible activities but the decision whether or not to award and the rate of award (subject to the set maxima) are at the discretion of the authorities (the decision being based on a "total evaluation" - see 11 below), thus giving some scope for discrimination.	As company soft loan.	Between eligible activities no rate discrimination since rates are in practice fixed. The decision whether or not to award is however at the discretion of the authorities, thus giving some scope for discrimination.
6. <u>Spatial Discrimination</u>	No specified discrimination within the eligible areas (the General Development Regions) but see 5 above on discretion.	Available only in the Special Development Regions but otherwise as company soft loan.	As company soft loan except that in practice no discrimination in rates.
7. <u>Project Type Discrimination</u>	In law setting-up projects, extensions, rationalisations, reorganisations, modernisations and transfers are all eligible. Neither takeovers nor wholly replacement projects are eligible. As far as rates of award are concerned project type is specifically taken into account in the "total evaluation". For example, whereas setting-up projects and major extensions receive 30 percent loan coverage for building costs, small extensions and alterations can obtain 50 percent coverage (depending on the mortgage-credit loan). Further discrimination is possible because of the discretionary nature of the incentive (see 5 above).	Eligible project types are as company soft loan. As far as rates of award are concerned, project type is taken into account in the "total evaluation", with setting-up projects being favoured.	Eligibility is limited mainly to setting-up projects. All other project types (extensions, rationalisations, reorganisations, modernisations, transfers, takeovers and replacement) generally ineligible, although local industries starting new production may be sympathetically viewed.

<table>
<tr><th></th><th>Company Soft Loan</th><th>Investment Grant</th><th>Municipality Soft Loan</th></tr>
<tr><td>8. <u>Size Discrimination</u></td><td>Loans not normally granted to projects involving fixed investment of less than DKr 0.5 mill. or more than DKr 40 mill. No further specified discrimination (but see 5 above).</td><td>Grants not normally awarded to projects involving fixed investment of less than DKr 1 mill. No further specified discrimination (but see 5 above).</td><td>There is no specified size discrimination. Buildings constructed normally range from 600 m^2 to 10,000 m^2.</td></tr>
<tr><td>9. <u>Eligible Items</u></td><td>Eligible items include plant and machinery, buildings, site purchase and preliminary investigations. Working capital and vehicles are the main ineligible items. Replacement is not eligible. Second-hand assets are eligible if a case is made for their necessity. Ancillary buildings (e.g. worker's housing) are ineligible but offices on the premises are eligible. Low value and short life assets are not eligible.</td><td>As company soft loan except that there is no minimum asset life.</td><td>The construction costs of the building (including office accommodation) are eligible, as are the costs of site purchase and infrastructure connections. The cost of "usual installations" (heating, lighting, power, water etc.) is also covered. All other project costs (including plant and machinery, vehicles and working capital) are ineligible.</td></tr>
<tr><td>10. <u>Eligible Forms of Expenditure</u></td><td>Assets purchased with cash or through phased payments are eligible. Assets bought on hire purchase or leased are not eligible.</td><td>As company soft loan.</td><td>Not relevant.</td></tr>
<tr><td>11. <u>Further Conditions</u></td><td>As part of the "total evaluation" the project must, among other things, be "sound", be on a reasonable commercial basis, and make an impact on the recipient area (in terms of both jobs and growth). The financial needs of the project (as reflected in available own capital) are also considered.</td><td>As company soft loan.</td><td>Client must be known in advance and must be acceptable to the RDC. (For the factors considered, see company soft loan). Although loan limited to a standard 75 percent of building costs, municipalities are obliged to subsidise the remaining 25 percent on identical terms for the purposes of calculating the appropriate rental or selling price.</td></tr>
<tr><td>12. <u>Actual Awards</u></td><td>On average, loan durations are 18 years for buildings (max. 20 years) and 8 years for plant (max. 10 years); while the standard repayment holiday is 1 or 2 years (max. 5 years). Between 1972-73 and 1975-76 the following awards were made (DKr mill.):
<table>
<tr><th></th><th>1972-73</th><th>1973-74</th><th>1974-75</th><th>1975-76</th></tr>
<tr><td>cases</td><td>65</td><td>82</td><td>94</td><td>94</td></tr>
<tr><td>awards</td><td>98.7</td><td>99.9</td><td>99.2</td><td>130.0</td></tr>
<tr><td>average</td><td>1.5</td><td>1.2</td><td>1.1</td><td>1.4</td></tr>
</table></td><td>No hard information on the average grant award as a percentage of eligible investment but it would seem that 15 percent is normal. Since 1972-73 the following grant awards have been made (DKr mill.):
<table>
<tr><th></th><th>1972-73</th><th>1973-74</th><th>1974-75</th><th>1975-76</th></tr>
<tr><td>cases</td><td>34</td><td>42</td><td>34</td><td>45</td></tr>
<tr><td>average award</td><td>0.7</td><td>0.7</td><td>0.7</td><td>0.8</td></tr>
</table></td><td>Since 1972-73 the following awards have been made (DKr mill):
<table>
<tr><th></th><th>1972-73</th><th>1973-74</th><th>1974-75</th><th>1975-76</th></tr>
<tr><td>cases</td><td>13</td><td>9</td><td>11</td><td>15</td></tr>
<tr><td>average award</td><td>1.0</td><td>2.2</td><td>1.7</td><td>1.9</td></tr>
</table></td></tr>
<tr><td>13. <u>Tax Treatment</u></td><td>By reducing debt servicing charges, the concessionary element of the loan is taxed in as far as it increases taxable profits.</td><td>Grant regarded as income and therefore taxed to the extent that it leads to increased profits. However, it can be brought into income anytime within 10 years after it is received and thus could be fed into income either when losses are being made or in the tenth year.</td><td>By reducing rental charges or the purchase price of the building to the client, the concessionary element of the loan is taxed in as far as it increases taxable profits.</td></tr>
<tr><td>14. <u>Timing and Phasing</u></td><td>It is preferred that application be made and a decision received before project construction starts. Application processing period: on average 1.5 months. Loan starts when construction of the project has been completed.</td><td>As company soft loan except that the grant is paid out in lump sum when construction of the project has been completed.</td><td>As company soft loan.</td></tr>
<tr><td>15. <u>Topping Up</u></td><td>No awards are possible beyond the formal maxima.</td><td>No awards are possible beyond the formal maxima.</td><td>No awards are possible beyond the formal fixed rates.</td></tr>
<tr><td>16. <u>Addability</u></td><td>When combined with an investment grant the maximum amount which can be loaned is reduced by the value of the grant. When combined with a municipality soft loan, only plant costs can be covered by the company loan.</td><td>Normally awarded in combination with a company soft loan. Where a grant is awarded the maximum company soft loan which can be offered is reduced by the value of the grant.</td><td>If municipality soft loan obtained, then company soft loan/investment grant are obviously not available towards building costs. They could however be claimed in respect of all eligible project fixed capital costs not covered by the municipality loan.</td></tr>
</table>

	Company Soft Loan	Investment Grant	Municipality Soft Loan
17. <u>Clawback</u>	No direct information. Loan repayment must be secured through mortgages, guarantees or by other means acceptable to the authorities.	If the conditions of award are broken within 5 years the authorities can clawback the grant. The amount to be repaid is reduced by one fifth for every year which passes after award.	No information.
18. <u>Turndown</u>	1972-73 / 1973-74 / 1974-75 / 1975-76 applications: 101 / 140 / 159 / 131 turndown: 36 / 58 / 65 / 37 percent: 35.6 / 41.4 / 40.9 / 28.2 Most turndown is due to financial weakness of applicant or to lack of impact of project on the economic development of the problem areas.	1972-73 / 1973-74 / 1974-75 / 1975-76 applications: 56 / 87 / 72 / 79 turndown: 22 / 45 / 38 / 45 percent: 39.3 / 51.7 / 52.8 / 57.0 Turndown rates reflect the highly selective nature of grant awards, but beyond this the reasons for turndown are similar to those for the company soft loan.	1972-73 / 1973-74 / 1974-75 / 1975-76 applications: 30 / 16 / 14 / 21 turndown: 17 / 9 / 3 / 6 percent: 56.6 / 56.3 / 21.4 / 28.6 The reasons for turndown are generally as for company soft loan.
19. <u>Cost</u>	Loans paid out between 1972-73 and 1975-76 totalled DKr 427,9 mill., DKr 130.0 mill. being disbursed in 1975-76 and DKr 99.2 mill. in the previous financial year.	Grants approved between 1969-70 and 1975-76 totalled DKr 168.9 mill., DKr 34.5 mill. being approved in 1975-76 and DKr 23,3 mill. in 1974-75.	Loans paid out between 1963-64 and 1975-76 totalled DKr 252 mill., DKr 28.4 mill. being disbursed in 1975-76 and DKr 19.1 mill. the previous financial year.
20. <u>Jobs Associated</u>	No information for loans alone but jobs associated between 1958-76 with the incentive package as a whole - on the basis of investors' own estimates of additional jobs created - have been put at 24,000.	See company soft loan.	See company soft loan.
21. <u>Investment Associated</u>	Estimates are not available for the loan alone. Total project fixed capital costs associated with the three main Danish incentives have been (DKr mill.): 1972-73 / 1973-74 / 1974-75 276 / 465 / 408	See company soft loan.	Between 1963-76, DKr 252 mill. has been awarded in the form of municipality soft loans, in support of total building investment of DKr 336 mill.
22. <u>Anticipated Duration</u>	No specified life.	No specified life.	No specified life.
23. <u>Change Provisions</u>	Whether projects already under consideration are awarded "old" or "new" is decided <u>ad hoc</u> for each change.	As company soft loan.	As company soft loan.
24. <u>Miscellaneous</u>	-	-	-

THE INCENTIVE VALUES

As we have seen, there are three basic elements to the Danish regional incentive package - a company soft loan (CSL), an investment grant (IG) and a municipality soft loan (MSL). These are the incentives covered in this valuation. The most important of these incentives, at least in terms of number of awards made, is the company soft loan. There were 335 such awards in the period 1972/73 to 1975/76 (involving annual expenditure of DKr 130.0 million in 1975/76) - more than twice the number of investment grants awarded (annual expenditure, DKr 34.5 million in 1975/76) and some seven times the number of municipality soft loan awards (annual expenditure, DKr 28.4 million in 1975/76). Indeed, there were on average a mere 12 municipality soft loans awarded annually over the period.

Table A shows the effective values of these three incentives after taxation, delays in payment and eligible items have been taken into account. The table is in two parts reflecting the two main types of problem area in Denmark - the General Development Regions (GDR) and, within these, the Special Development Regions (SDR). While both the company soft loan and the municipality soft loan are available throughout the General Development Regions, the investment grant can be obtained only in the Special Development Regions.

The main point to arise from the table is that the concessionary element of the two soft loan schemes is worth very much less, in effective value terms, than the investment grant. The effective value of the maximum company soft loan subsidy, for example, is only 2.6 percent of initial investment costs (perhaps primarily due to the existence of the already-mentioned mortgage credit loans in Denmark which sharply reduce company soft loan coverage) compared with a maximum investment grant effective value of 14.5 percent. A further feature of the table is that while there would appear to be considerable discretion in the award of investment grants (the average rate being some three-fifths of the maximum), the subsidy element of the average company soft loan lies very close to the maximum - particularly when it is recalled from the synopsis tables that the maximum five year principal repayment holiday assumed in the table is never awarded, the maximum in practice being only two years.

Table B has a similar structure to Table A, distinguishing between Special and General Development Regions and between maximum and average rates of award. In the table the five possible combinations of the main Danish incentives are valued - CSL alone (the standard case), MSL alone and MSL plus CSL (plant element only) in the General Development Regions outside the Special Development Regions; and CSL plus IG (the standard case) and MSL plus CSL (plant element only) plus IG in the Special Development Regions. The case of IG alone is not considered since, as already noted, the investment grant is virtually always awarded in combination with a company soft loan.

From the table it can be seen that, where no investment grant award is made, the maximum effective value of the concessionary element of the Danish package is relatively low - 5.8 percent of initial capital costs, 5.0 percent of annual capital costs and 1.9 percent of value added (and then only if a municipality soft loan is awarded, a not particularly common occurrence). Where, however, an investment grant is obtained (and about half of projects aided by a company soft loan also secured an investment grant) the effective value of the package reaches levels which, as we shall see in Part II, gives an effective value similar to that found in most other EC countries - 10.0 percent of initial capital costs, 9.0 percent of annual capital costs and 3.4 percent of value added in terms of average awards; and 15.4, 13.8 and 5.2 percent respectively for maximum awards.

DENMARK

Table A: NOMINAL TO EFFECTIVE PERCENTAGE SUBSIDY.

AREA	INCENTIVE	LEVEL	NOMINAL VALUE	EFFECTIVE VALUE AFTER TAX	DELAYS	ELIGIBLE ITEMS
SDR, GDR	CSL buildings	maximum	18.8	12.2	11.6	1.5
		average	14.9-16.3	9.7-10.6	9.2-10.1	1.2-1.3
	CSL plant	maximum	14.5	9.4	9.0	1.1
		average	8.9-10.8	5.8-7.0	5.5-6.7	0.7-0.8
	MSL	standard	20.6	13.3	13.3	4.7
SDR only	IG	maximum	25.0	21.7	20.7	14.5
		average	15.0	13.0	12.4	8.7

Table A: NOTES AND ASSUMPTIONS

(a) GENERAL: Discount rate 10.25 percent (EC reference rate 1976).

(b) COMPANY SOFT LOAN (CSL)

(i) Nominal value: Net grant equivalent of loan subsidy as percent loan award, assuming:

	Building maximum	Building average	Plant maximum	Plant average
- loan period (yrs)	20	18	10	8
- principal repayment holiday (yrs)	5	0-2	5	0-2
- interest free periods (yrs)	No interest free periods are available.			
- interest rate subsidy	Using EC reference rate as market rate, 2.75 percentage points.			
- repayment system	Repaid 6 monthly on straight line basis.			

(ii) Taxation: Effective corporation tax rate 35.2 percent (standard corporation tax of 37 percent discounted 6 months - the average delay).

(iii) Delays: Loan starts on completion of project construction (average construction period 2 months to 2 years). Assuming average one year construction period and a uniform spread of project expenditure, average delay from time of asset expenditure is 6 months.

(iv) Eligible items: (a) Loan as percent eligible investment - maximum 90 percent. (b) Eligible investment as percent project fixed capital costs - 40 percent (assuming the maximum mortgage credit loan is 60 percent of project fixed capital costs). (c) Project fixed capital costs as percent all project capital costs - 70 percent. The maximum loan as percent of all project capital costs is 25.2 percent (i.e. 0.9 x 0.4 x 0.7). This is split evenly between plant and buildings/land (site purchase is eligible as part of the building loan) following the EC key for Denmark (5 : 45 : 50). Both the maximum plant and the maximum building loan are therefore 12.6 percent of project capital costs.

(c) MUNICIPALITY SOFT LOAN (MSL)

(i) Nominal value: Net grant equivalent of subsidy passed on to clients in the form of reduced rents as a percentage of total building costs. The subsidy is equivalent to that on a 25 year loan, repaid six monthly on a straight line basis, with an interest rate concession of 3.25 percentage points (using EC reference rate as market rate).

(ii) Taxation: Effective corporation tax rate 35.2 percent (see above).

(iii) Delays: None.

(iv) Eligible items: The subsidy is on all building costs including site purchase. With the EC key of land 5, buildings 45 and plant 50; and with working capital assumed to be 30 percent of project capital costs, land plus buildings account for 35 percent of all project capital costs.

(d) INVESTMENT GRANT (IG)

(i) Nominal value: As percentage eligible investment costs .

(ii) Taxation: Effective rate of corporation tax, 35.2 percent, applied in year 10, giving an effective tax rate of 13.3 percent.

(iii) Delays: On average 6 months (see (b)(iii) above).

(iv) Eligible items: Eligible investment assumed to be 70 percent of all project capital costs, it being assumed that (ineligible) working capital is 30 percent thereof. It is also assumed that the nominal and market price of the mortgage credit loan are identical.

DENMARK

Table B: EFFECTIVE SUBSIDIES AS A PERCENTAGE OF VARIOUS DENOMINATORS.

AREA	INCENTIVE COMBINATIONS	INITIAL CAPITAL COSTS	ANNUAL CAPITAL COSTS	VALUE ADDED
SDR, GDR	CSL (maximum)	2.6	2.3	0.9
	CSL (average)	1.9-2.1	1.7-1.9	0.6-0.7
	MSL	4.7	3.9	1.5
	MSL + CSL plant (maximum)	5.8	5.0	1.9
	MSL + CSL plant (average)	5.4-5.5	4.6-4.7	1.7-1.8
SDR only	CSL (maximum) + IG (maximum)	15.4	13.8	5.2
	CSL (average) + IG (maximum)	15.2-15.3	13.6-13.7	5.2
	CSL (maximum) + IG (average)	10.3	9.2	3.5
	CSL (average) + IG (average)	9.8-10.0	8.8-9.0	3.3-3.4
	MSL + CSL plant (max) + IG plant (max)	12.4	11.3	4.3
	MSL + CSL plant (av) + IG plant (max)	12.3	11.2	4.3
	MSL + CSL plant (max) + IG plant (av)	9.8	8.8	3.3
	MSL + CSL plant (av) + IG plant (av)	9.5-9.6	8.5-8.6	3.2-3.3

Table B: NOTES AND ASSUMPTIONS

(a) INITIAL CAPITAL COSTS

In general the summation of the Table A results. Note, though, that when an investment grant is awarded in conjunction with a company soft loan then eligible company soft loan investment is reduced from 40 percent to 15 percent when the maximum investment grant award is made and from 40 percent to 25 percent for an average investment grant. For this reason, the figures in Table B involving an investment grant are lower than the sum of their Table A components. Moreover when company soft loans/investment grants are offered in conjunction with a municipality soft loan (which normally implies that the building is rented) they are available only on eligible plant costs.

(b) ANNUAL CAPITAL COSTS (Discount/interest rate: 10.25 percent).

(i) Calculation of weighted annual capital cost factor:

Asset	Assumed Life	Annual Capital Charge Factor	Weight	Weighted Factors
Buildings	50	0.1033	0.315	0.0325
Plant	10	0.1645	0.350	0.0576
Land/Working Capital	-	0.1025	0.335	0.0343
	WEIGHTED ANNUAL CAPITAL COST FACTOR			0.1244

(ii) Calculation of annual subsidy factor.

- MSL, CSL building, IG building : 0.1033 (building/land subsidised)
- CSL plant, IG plant : 0.1195 (plant subsidised)
- CSL, IG : 0.1114 (plant/building/land subsidised)

Since replacement is not explicitly subsidised, the plant subsidy life is taken to be 20 years - see p 32 above.

(iii) Calculation of annuitising factor ((ii) ÷ (i)).

- MSL, CSL building, IG building : 0.8304
- CSL plant, IG plant : 0.9606
- CSL, IG : 0.8955

(c) VALUE ADDED

It is assumed that gross profits make up 38 percent of value added. This was the average figure for manufacturing industry in Denmark over the period 1972-73. See Eurostat, National Accounts 1970-74 Eurostat Yearbook 2 - 1975, Statistical Office of the European Communities, 1975, Table 5.

FRANCE

THE INCENTIVES

The synopsis tables which follow cover the three main regional incentives on offer in France. Although all three incentives are available for both industrial and tertiary investment, for reasons of space we have restricted ourselves in the synopsis tables to describing them as they apply to industrial investment - in practice, they are awarded predominantly for industrial projects. Further below in this introduction, however, where we briefly describe service sector assistance in France, we shall note how the three incentives also apply to tertiary investment. Before that, we introduce the three incentives and provide background information and essential details which could not be sufficiently condensed for inclusion in the synopsis tables. The three incentives covered are the regional development grant, the local business tax concession and the special depreciation allowance.

The regional development grant (*prime de développement régional*), a project-related capital grant, is the major regional incentive in France, accounting for some 45 percent of annual regional incentive spending. It is basically for setting-up and extension projects, with rates of award varying between three zones of award and ranging from 12 percent of eligible investment or FF 12,000 per job created (whichever is the lower) for extensions in the minimum rate zone to 25 percent and FF 25,000 respectively for setting-up projects in the maximum rate zone. The full details of the job and investment conditions for this grant were impossible to condense for inclusion in the synopsis tables without loss of important information. The details are provided in the accompanying table.

The local business tax concession (*exonération de la taxe professionelle*) relates to a local tax, raised by each *commune* and *département*. A firm's liability to the tax is assessed according to the theoretical rental value of its fixed assets as well as to a proportion of its annual wage bill. The taxable value thus obtained is multiplied by a rate of taxation to obtain the firm's assessment. This tax rate is set by each *commune* and *département* separately, according to revenue needs. The concession, which is project-related, takes the form of a total or partial exemption on either or both the *commune* and *département* levies for a period of up to five years. Each *commune* and *département*

REGIONAL DEVELOPMENT GRANT: JOB AND INVESTMENT CONDITIONS OF AWARD

GENERAL CASE

Size of locality		less than 15,000	15,000 or more	Areas where only large projects eligible
Setting-up	minimum jobs	10	30	100
	minimum investment	FF 300,000	FF 800,000	FF 10 million
Extension	mimimum jobs	10/25% increase or 50/10% increase or 120	30/25% increase or 120	extension projects ineligible
	minimum investment	FF 300,000	FF 800,000	

UPLAND AND RURAL AREAS AND CORSICA

Size of locality		less than 15,000	15,000 to 49,999	50,000 and more
Setting-up	minimum jobs	6	15	30
	minimum investment	FF 300,000	FF 500,000	FF 800,000
Extension	minimum jobs	6/20% increase or 50/10% increase or 120	15/20% increase or 50/10% increase or 120	30/25% increase or 120
	minimum investment	FF 300,000	FF 500,000	FF 800,000

Note: For extension projects alternative job conditions exist. For example, in the general case for an extension in a locality with less than 15,000 inhabitants 10 new jobs representing an increase of at least 25% of the original labour force are required <u>or</u> 50 new jobs representing a 10% minimum increase <u>or</u> 120 new jobs irrespective of the percentage increase.

decides for itself whether to offer a concession and also sets its value and duration, to which the Minister of Economics and Finance must agree before the concession can become effective. The incentive accounts for approximately 25 percent of annual regional incentive spending, calculated as its gross cost in terms of revenue foregone in a given year.

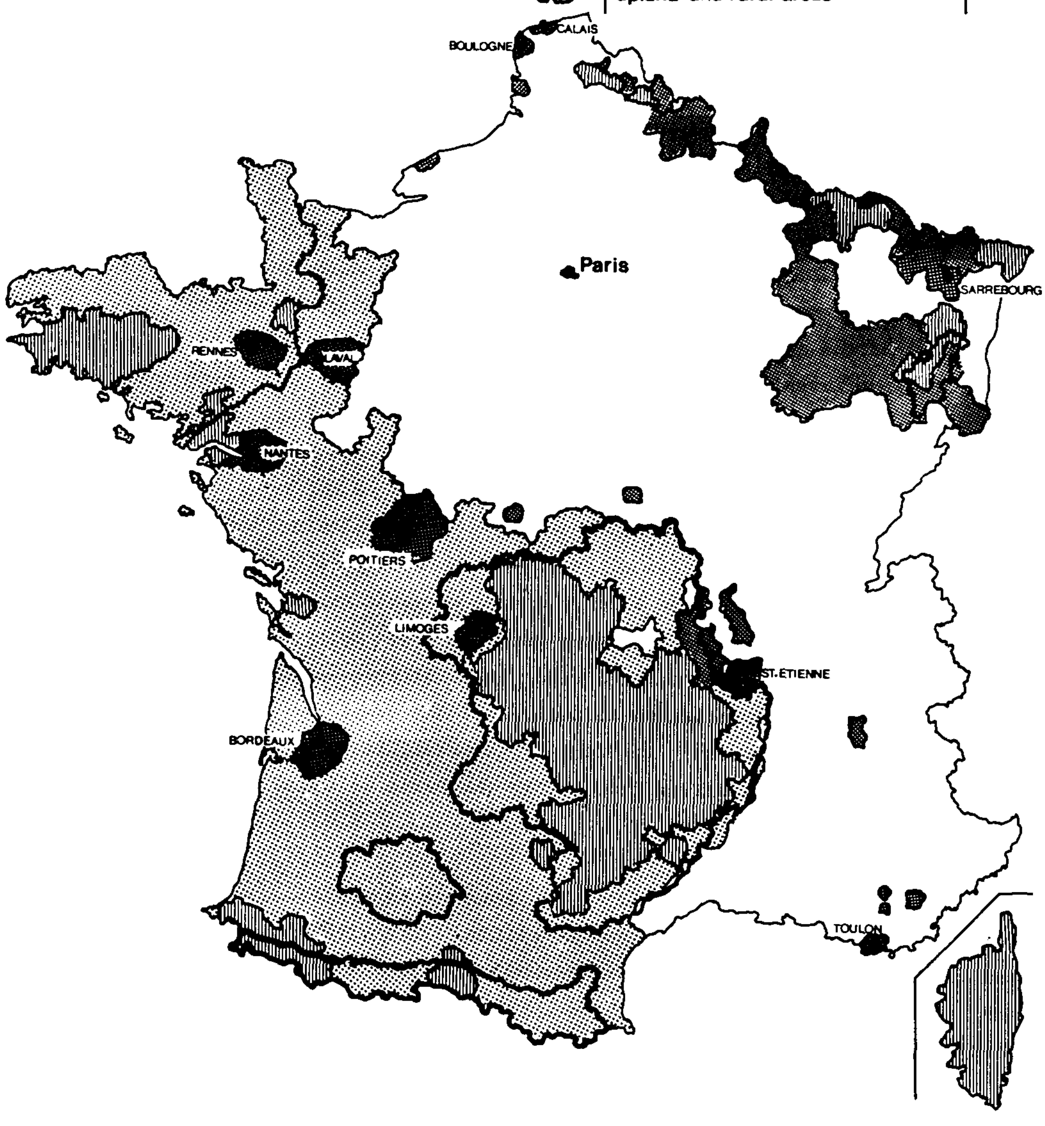
The special depreciation allowance (amortissement exceptionel) is a project-related incentive allowing recipient firms to write down - in addition to ordinary depreciation - 25 percent of the value of their new buildings in the first year. On the valuation assumptions which we employ in Part II of this report, the cost of the special depreciation allowance is some 5 percent of annual regional incentive spending.

The spatial availability of the three incentives introduced above is shown on the accompanying two maps. The first map shows the areas eligible for the regional development grant, which account for almost 50 percent of the national territory and in which some 30 percent of the population lives. The map shows the three award zones into which the designated area is sub-divided as well as the boundaries of the upland and rural areas and the localities where only large projects can qualify for assistance (see table). The second map shows where the local business tax concession and the special depreciation allowance can be obtained. The depreciation allowance is available only in the western and south-western parts of the country where the grant can be obtained (with the exception of food-processing projects - see synopsis). The local business tax concession has a wider availability, encompassing all the areas where the depreciation allowance and the grant are available as well as many other areas; in "Zone C", however, it is available only for projects transferring from either the Paris or Lyons region (Zone D).

The three incentives covered in the synopsis tables account together for some 75 percent of annual regional incentive spending and are the three major regional incentives on offer in France. There are, however, a large number of other incentives and it is appropriate that we should briefly note the main ones at this point.

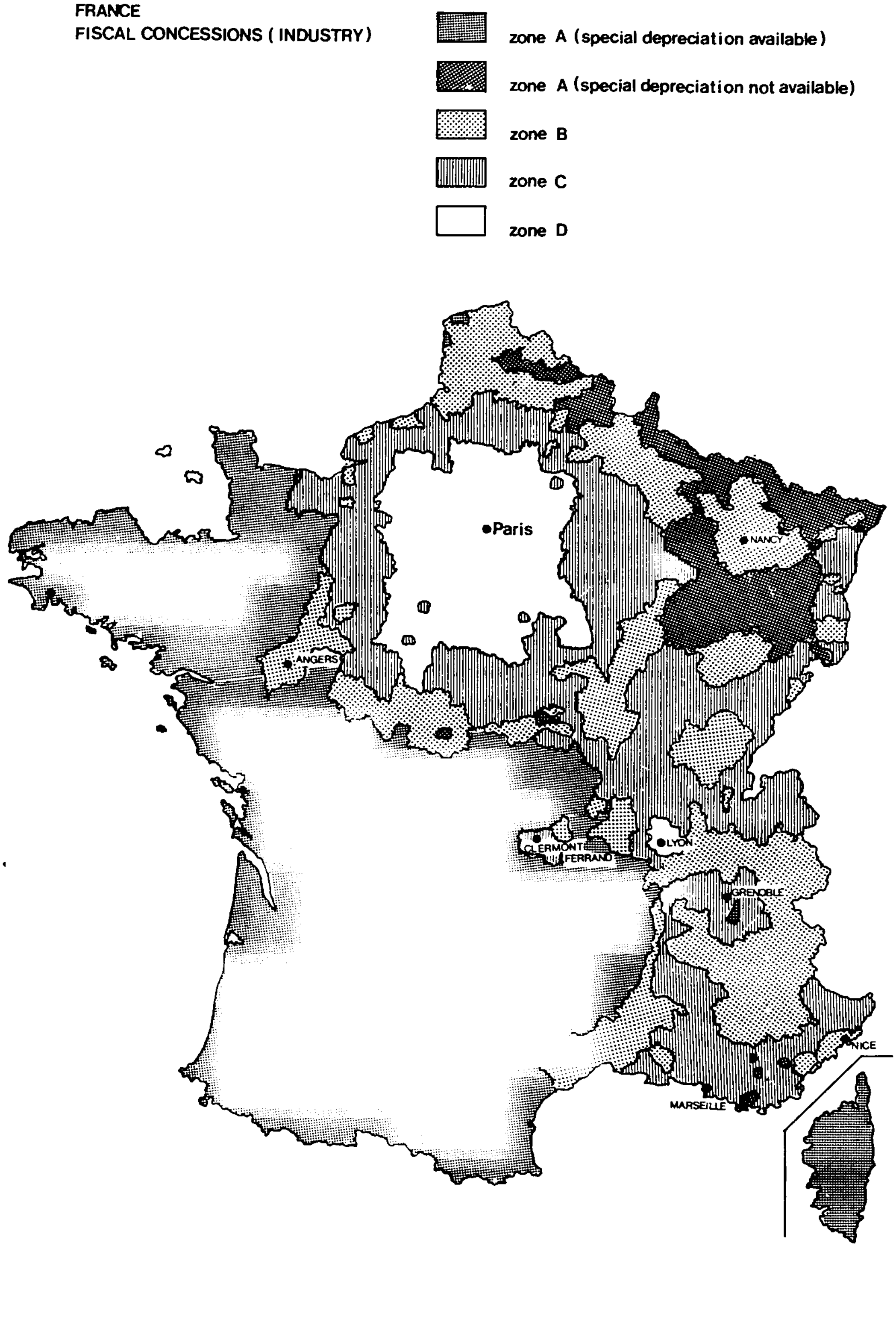
FRANCE
REGIONAL DEVELOPMENT GRANT

		Setting - up	Extension
	Zone 1	25000 F max. of 25%	22000 F max. of 25%
	Zone 2	20000 F max. of 17%	17000 F max. of 17%
	Zone 3	15000 F max. of 12%	12000 F max. of 12%
	only large projects eligible here		
	upland and rural areas		



Of particular interest among the other regional incentives are two schemes aimed directly at service activities, at tertiary firms as well as at tertiary function projects of firms operating in the manufacturing sector. The service activities grant (prime de localisation de certaines activités tertiaires) is project-related and is given for the setting up, extension or transfer from the Paris region of management, administration, consultancy and data-processing activities. Thirty new jobs are required, 20 if the project involves the setting up or decentralisation of registered offices into the aided areas - which in the case of an extension must represent an increase of at least 50 percent in the original labour force engaged in tertiary activities (alternatively, simply 100 new jobs if the project involves the creation of a new function or a decentralisation from the Paris region). There is no investment condition of award. This incentive is available throughout the country other than in the Paris basin (although only qualitatively and quantitatively significant projects may be assisted in the Lyons région). Awards are at the rate of FF 20,000 per job in areas where the regional development grant is awarded and FF 10,000 per job in the other designated areas. The second of the tertiary grants is the research activities grant (prime de localisation d'activités de recherche). This incentive is also project-related and is available for the setting up, extension and transfer of pure and applied research activities. Ten new research-related jobs are required, which in the case of an extension must normally represent an increase of at least 30 percent in the original research-related labour force (or 50 new jobs with no stipulated percentage increase for: extension by transfer from the Paris region; extension by the creation of a new activity; a first extension following the setting up of qualifying activities). There is no investment condition of award. The incentive is available in the whole of the country excluding the Paris basin (i.e. as for the services activities grant but with no restriction as regards the Lyons region). For projects involving eligible investment of less than FF 10 million the rate of award is 15 percent of eligible investment (20 percent in certain towns and cities considered as 'centres of research' - métropole de recherche). For projects with eligible investment of FF 10 million or more the rate of award is up to 20 percent. In all cases awards are limited to a maximum of FF 25,000 per job created (but this limit may be exceeded in exceptional cases).

FRANCE
FISCAL CONCESSIONS (INDUSTRY)



Up until the reform of the regional incentive package in 1976 these tertiary grants had proved a disappointment: only 20 were awarded in the three years 1973 to 1975 (in which period 1,462 regional development grants had been awarded). Figures for more recent years are not yet available.

Staying with the theme of incentives for tertiary investment, we noted in the opening paragraph that although the synopsis tables describe the three major incentives only as they apply to industrial investment, they are also available for tertiary investment. All three of them can be awarded for projects involving activities eligible for one or other of the two service grants (the local business tax concession is also available for certain hotel and other tourist accommodation projects). As regards the grant, virtually no awards (the conditions and rates are the same as for industrial projects) have been made for tertiary projects, and precisely because the tertiary-specific grants are available. Tertiary projects continue to be theoretically eligible for the regional development grant because job conditions can be less demanding and rates of award higher than for the appropriate tertiary grant, but there is an evident reluctance to make use of this discretion. In the cases of the local business tax concession and the depreciation allowance, tertiary awards are more frequent, but there are no figures available as to how many awards go to such projects. The job conditions of award differ in both cases from those described in the synopsis tables; they are in fact the same conditions which apply to the corresponding tertiary grant (thus there is no investment condition - see tertiary grant above). The rates of award are the same as those shown in the synopsis tables.

Moving on from tertiary investment incentives, the land grant (<u>bonification des terrains par le Fonds d'aide à la décentralisation et par les collectivités locales</u>) is a project-related incentive available for investments which fulfil the requirements for the grant (or for either of the tertiary grants). In practice these awards almost invariably go to projects which actually receive a grant. The award is payable on the cost price of the developed site acquired for the project, provided that it is located on a designated industrial estate. Awards are up to one half of the price of the site, as long as certain minimum own contribution requirements are met. An award is usually also conditional upon 30 new jobs per hectare being created (although a proportionally reduced award may be given for fewer jobs).

FRANCE

The decentralisation grant (indemnité de décentralisation) is available for industrial firms to reimburse them part of the costs of transferring all or part of their production from the Paris Region (including the eight southern-most cantons of the département of Oise) to a location outside the Paris basin. The firm must vacate at least 500 square metres of industrial floor-space. The award comprises: 60 percent of the costs of dismantling the plant and equipment to be removed, 60 percent of the costs of removal to the new location, and a further 30 percent of dismantling costs as a contribution to reassembly on the new premises. Awards are, however, normally limited to a maximum of FF 500,000.

In the synopsis tables we cover the two major fiscal incentives in France (the local business tax concession and the depreciation allowance). In addition, there are two other fiscal incentives. The first involves the transfer tax (droit de mutation) applicable to the sale of certain intangible assets and, more importantly, of used industrial buildings (at least five years old). This incentive is available for setting up and extension projects (in Zones A and B of the second map). The job conditions of award for these project types are the same as for the local business tax concession. For projects transferring out of either the Paris or Lyons region (the incentive can then be awarded also in Zone C) the job conditions of award are at least 10 new jobs for projects located in areas with a population of less than 15,000 inhabitants and 30 new jobs in all other cases. The incentive is also available for regrouping onto an industrial estate or transfer to an industrial estate from a location in a residential area - and for a restricted number of modernisation projects. For regrouping, transfer and modernisation, the maintenance of existing jobs is required. The award takes the form of a reduction in the normal rate of transfer tax, from 13.8 percent to 2 percent for buildings and from 17.2 percent to 2 percent for intangibles (though it should be noted that there is no reduction on the supplementary local levies).

The second of the two minor fiscal concessions, and also not covered in the synopsis tables, is the capital gains tax upon the transfer of building land for development purposes (impôt sur les plus-values foncières). Award is conditional upon either a local business tax concession or a depreciation allowance having been received, since the retained tax liablities must be fully invested in the project which gave rise to the award of the other (two) fiscal incentive(s). The conditions of award are identical to those for the fiscal incentive(s) already obtained. The concession reduces the normal rate of taxation from 25 percent of capital gains to 12 percent.

Still on the subject of minor regional incentives, soft loan facilities are available for regional industrial development through the central government's Fonds de développement économique et social (FDES) However, since 1973 all the loan facilities made available by the appropriate FDES committee (Comité 1ter) appear to have been for reconversion and other structural reorganisation projects and not for regional development purposes per se. Soft loan facilities are also provided by the Regional Development Credit Institutes (Sociétés de développement régional). They are also able to take equity in new and developing ventures and this is a form of intervention which could grow rapidly in the wake of recent legislation (décret 76-438). However, these institutions operate throughout the country with the exception of the Paris region (which, however, will soon also be covered), and it is difficult to conceive of them as part of the regional incentive package proper because of the absence of any apparent spatial discrimination in their interventions. This is one of the reasons for their exclusion from the synopsis tables.

Since 1974 four new grant schemes have been added to the regional incentive package. These are all aimed at providing incentives for small-scale, artisanal firms. The first of these (indemnité particulière de décentralisation en faveur d'entreprises artisanales de sous-traitance - décret 74-444) is a decentralisation grant for artisanal sub-contractors in the Paris region who follow the (relocated) firms for whom they normally work. Awards are: 100 percent of the first FF 20,000 of incurred removal costs (dismantling, transport and reassembly of plant and equipment), 75 percent of the next FF 30,000 and 60 percent of any amount exceeding FF 50,000.

The prime à l'installation d'enterprises artisanales (décret 75-803) is intended to encourage the setting up of artisanal firms in rural areas (and some selected urban locations). Awards are available in all localities outside the Paris region with populations not exceeding 5,000 (not exceeding 20,000 inhabitants in the designated upland and rural areas). There is a minimum capital investment requirement of FF 50,000 and the rates of award vary according to location - with higher awards in the Massif central - and size of investment. The maximum award is 30 percent of investment in the Massif and 16 percent elsewhere.

The prime de développement artisanal - (décret 76-329) was brought in to complement the scheme just described, but only in the Massif central, by making assistance available there for extension projects in places with populations of less than 50,000 inhabitants. At least three new permanent jobs must be created within three years and a minimum of FF 150,000 must be invested in premises and plant and equipment. The rates of award are identical to those offered under the regional development grant scheme (part of the Massif falls in regional development grant Zone 1 and the other in Zone 2).

The last of the four artisanal schemes, (aide spéciale rurale - décret 76-795) is the most general small-project scheme yet introduced. It is a grant scheme which applies in all cantons within the problem regions defined by the EC insofar as they recorded a population decline between the censuses of 1968 and 1975 and have a population density of less than 20 inhabitants per square kilometre, but excluding cantons with a population exceeding 5,000 inhabitants (as well as tourist centres with a capacity of 500 beds or more). Aid is available for industrial, tertiary, commercial, tourist and hotel projects. There is no investment condition of award and no minimum job creation requirement. Awards are according to the number of jobs created and according to project type. For setting up, the amount paid per job created is FF 20,000 for the first 10 jobs, FF 15,000 for the next 10 and FF 8,000 for the final 10, (i.e. no aid is given for any job above the thirtieth). For extension projects, account is taken of the existing labour force when calculating the award; for example, an establishment with 18 employees which created three new jobs would receive FF 15,000 for each of the first two jobs and FF 8,000 for the third.

Also on offer in France are a number of labour training and removal schemes. As regards labour training aids, regional development criteria are not the sole criteria giving firms access to them and they cannot therefore be seen as regional aids in the strict sense of the term.

Labour removal grants (allocation de transfert de domicile et de réinstallation) on the other hand do have a direct spatial element. They are payable to employees who move with a firm as well as to unemployed persons who have to move to a new locality in order to find employment appropriate to their qualifications and experience. No aid is available in principle for employees who move into the Paris and Lyons regions, although exceptions are not infrequently made for specialised staff; there is, however, a complete ban on awards for moves within or between these two regions. Awards compromise three elements: the second class rail fare for the family between the original and the new location; an amount for household removal costs up to 3,000 kilogrammes; a resettlement grant calculated according to a number of factors - notably size of family and whether or not housing is provided by the employer - and which amounts to between 1,150 and 2,400 times the hourly rate of the national minimum guaranteed industrial wage (Salaire minimum industriel garanti).

These, then, are the major national regional incentives on offer in France. In addition to these national schemes there are a number of forms of aid available from sub-national government. In the past sub-national financial aid has principally featured the sale and preparation of sites at concessionary prices, the supply of temporary factory premises (usines relais) and job creation grants. New legislation (dêcret 77-850) allows the regions (Etablissements publics rêgionaux) to make setting up awards of their own to supplement those made by central government. Although the powers which this legislation confers on the regions are limited, it will be interesting to see how they are used and how they develop over the next few years.

	Regional Development Grant	Local Business Tax Concession	Special Depreciation Allowance
1. Basic Details	A project-related capital grant, given predominantly to manufacturing industry. Largely automatic eligibility conditions and rates of award which vary both spatially and by project type (setting-up/extension). The designated areas are divided into three zones of award and awards are calculated as the lower of X percent of eligible investment and FF Y per job created, ranging from 25 percent/FF 25,000 for setting up in the maximum rate zone to 12 percent/FF 12,000 for extension in the minimum rate zone.	A project-related concession on the local business tax. The concession is limited to a maximum of up to five years and 100 percent of tax liability. It may be on either or both the département or commune levy. The typical concession goes predominantly to setting-up and extension projects in mobile manufacturing industry. In the case of extension projects, the award is limited to the net new investment. Eligibility is largely automatic within a matrix of conditions.	A special fixed 25 percent first-year depreciation allowance on new buildings. The concession is project-related, for setting-up and extension projects. Although certain tertiary projects qualify (administrative functions as well as research and development and data-processing firms and functions) awards go predominantly to mobile manufacturing industry. Eligibility is largely automatic within a matrix of conditions. The special allowance is additional to ordinary linear depreciation. Thus, assuming an industrial building depreciated over 20 years (the typical fiscal life for industrial buildings), the actual first-year write-down when the special allowance is received is 25 percent plus 5 percent, i.e. 30 percent.
2. Legal Basis	Décret 76/325 of 14 April 1976 and on Interministerial circular of 24 May 1976.	Arrêté in Journal officiel of 24/25 May 1976.	Arrêté in Journal officiel of 24/25 May 1976.
3. Administration	For projects of up to FF 10 mill. of eligible investment, applications go to and decisions are taken by the préfet du département, upon the advice of an interministerial advisory committee (Comité départemental pour la promotion de l'emploi). For all other projects, applications go to DATAR and decisions are taken by the Minister of Economy and Finance upon the advice of an interministerial advisory committee (Comité Iter du Fonds de développement économique et social). Projects are monitored and awards are disbursed by the Direction départementale de la concurrence et des prix.	Each commune and département in the designated areas decides for itself whether to make a concession available, and sets the value of the concession. This concession must be agreed to by the Minister of Economy and Finance, and is then valid for all qualifying projects in the respective commune and département. Project applications for the concession are made to the Directeur départemental des services fiscaux, who also decides on all projects of up to FF 10 mill. of eligible investment. For larger projects, he forwards the application to Paris for a decision by the Minister of Economy and Finance. Decisions by the Minister are taken on the advice of an interministerial committee (Comité quinquiès du Fonds de développement économique et social).	Application procedure as local business tax concession. When both the tax concession and the special depreciation allowance are to be applied for, a single joint application is possible.
4. Eligible Activities	Aid goes predominantly to mobile manufacturing industry. The extractive, construction, haulage and tourism "industries" are excluded. While agriculture is generally excluded, food-processing does qualify. Tertiary functions (e.g. headquarters functions of industrial firms) and firms (e.g. data-processing, research and development) do qualify, but are virtually never aided. Stock-holding projects are excluded. Autonomously managed state industries* are eligible, other state industries are not.	Awards go predominantly to mobile manufacturing industry. The extractive, haulage and construction "industries" are excluded. Agriculture is excluded. Although many tertiary projects are eligible (administrative functions as well as data-processing and research and development firms and functions; certain tourism and hotel projects), the great majority of concessions and the most valuable concessions go to industrial projects. Stock-holding projects are ineligible. Autonomously managed state industries* qualify, other state industries do not.	Awards go predominantly to mobile manufacturing industry (the extractive, construction and haulage "industries" being excluded). Food-processing projects located anywhere outside the Paris Basin and Lyons Region also qualify. With the exception of the food processing industry, stock-holding projects do not qualify. Autonomously managed state industries* qualify, other state industries do not.
5. Activity Discrimination	None specified. Since eligibility and rates of award are largely automatic, there is little scope for activity discrimination.	None specified. Since eligiblity is largely automatic and since the rate of concession is fixed for all projects in the locality, there is little scope for activity discrimination. There may be indirect discrimination in that the theoretical rental value of the project's assets and the size of its payroll affect liability to the tax and hence the value of a concession.	The largely automatic character of the incentive means that there is little scope for discrimination with regard to industrial projects. Different job conditions attach to tertiary projects.

* State industries operating under competition

	Regional Development Grant	Local Business Tax Concession	Special Depreciation Allowance
6. <u>Spatial Discrimination</u>	The grant is available in large parts of western and south-western France, Corsica and in a number of areas along the northern and north-eastern borders. Job and investment requirements are less stringent in (1) upland and rural areas and in Corsica than in (2) the rest of the designated areas. Within (1) and (2) these conditions become more stringent with increasing size of locality. As for rates, there are three zones of award. Investment/job formula determines award. Rates are: zone 1 / zone 2 / zone 3 setting-up: 25 percent/ FF 25,000; 17 percent/ FF 20,000; 12 percent/ FF 15,000 * extension: 25 percent/ FF 22,000; 17 percent/ FF 17,000; 12 percent/ FF 12,000 The largely automatic character of the grant gives little scope for further spatial discrimination (see also 8 and 24 below).	The concession is available in all areas qualifying for the regional development grant and also in many other areas. Indeed, for projects involving a transfer from the Paris or Lyons Regions the concession can be awarded anywhere outside the Paris Basin and the Lyons Region. Eligibility: job conditions are less stringent in (1) upland and rural areas and in Corsica than in (2) the rest of the designated areas. Within (1) and (2) the conditions become more stringent with increasing size of locality. Rates: there may be discrimination between localities in that less than the maximum concession may be awarded and because rates of taxation also vary spatially. Any discrimination within localities is indirect (reflecting the theoretical rental values of different projects' assets and the size of their payroll) since the rate of concession is fixed for all qualifying projects in the locality.	The allowance is available in those parts of western and south-western France where the regional development grant is available. Eligibility as local business tax concession (but see 4 above for food-processing projects). No rate discrimination possible since the rate of 25 percent is fixed.
7. <u>Project Type Discrimination</u>	Basically for setting-up and extension projects. Job and investment eligibility conditions and rates of award favour setting-up over extension (see 6 above). Setting-up includes certain take-overs of establishments in difficulty (stringent conditions). Where project is setting-up by transfer, award may be reduced to take account of assets disposed of. Extension includes certain reorganisation projects (in a declining sector - product change required). Rationalisation, modernisation and replacement projects are not eligible <u>per se</u>. The largely automatic character of the grant gives little scope for further project-type discrimination.	Basically for setting-up, extension and (some) industrial reorganisation projects. Job conditions favour setting-up over extension. Setting-up by transfer from the Paris or Lyons Regions is treated as a creation in this regard. For setting-up by transfer from outside the designated areas, but excluding the Paris and Lyons Regions, the concession may be limited to part of the new investment in order to take account of assets disposed of. For reorganisation projects (in a declining sector; product change required) maintenance of the original labour force is necessary. Rationalisation, modernisation and replacement projects are not eligible <u>per se</u>. There is no direct discrimination in the value of concessions, since the rate of concession is fixed for all qualifying projects in the locality.	Eligibility: as local business tax concession. No discrimination by rates of award, since the rate of 25 percent is fixed.
8. <u>Size Discrimination</u>	Minimum job and investment requirements (variable spatially and by project type) preclude aid for small projects. Even in the most favourable circumstances, no aid is available for any project providing less than 6 new permanent full-time jobs and FF 300,000 of eligible investment; As for rates, for extensions the amount per job created is limited to FF 10,000 once the labour force has exceeded 800. For projects with FF 10 mill. or more of eligible investment, an award of up to 25 percent can be given instead of the usual fixed rate*	Minimum job creation requirements (variable spatially and by project type) preclude aid for small projects. Even in the most favourable circumstances, no aid is available for any project creating less than 6 permanent full-time jobs; and if the project is an extension, the jobs must represent an at least 20 percent increase in the original labour force. Since rates are fixed for all qualifying projects in the locality, any discrimination in the rates of award is indirect in that liability to the tax and hence the value of a concession is determined by the local rate of taxation, the theoretical rental values of the project's fixed assets and the size of its payroll.	Minimum job creation requirements discriminate against small projects exactly as in the case of the local business tax concession. There is no discrimination by rates of award, since the rate of 25 percent is fixed.
9. <u>Eligible Items</u>	Land, buildings (but not residential or social) and plant and machinery (but not second-hand) are all eligible. Working capital and off-site vehicles are excluded. Site preparation, legal and consultancy fees are eligible. Works other than ornamental are eligible. There are no specific rules with regard to short-life or low-value assets. Replacement investment is not eligible.	Not directly relevant, although liability to the tax is, at least in part determined by fixed capital investment, so that all investment in land, buildings and plant and machinery (with some generally trivial exceptions) influences the value of a concession (but also the value of post-concession tax liability).	The concession is strictly limited to new, i.e. unused, buildings (or those parts of buildings) directly related to production.

* Though usually no more than the percentage rates for the locality

	Regional Development Grant	Local Business Tax Concession	Special Depreciation Allowance
10. Eligible Forms of Expenditure	The investor must own the assets or have a contractual option on ownership. Thus rented assets are ineligible, but hire purchase, leasing (lease-back or similar) and phased payments are all eligible.	Not directly relevant (see 9 above). How assets are financed does not affect their contributing to liability to the tax.	As regional development grant.
11. Further Conditions	Agreed job and investment targets must be met within three years. Project must be judged financially and commercially viable, and must not serve a purely local market. Job quality may be important at the margin, and recruitment priority may be required for local unemployed.	There is no investment condition of award., Agreed job targets must be fulfilled within three years. The project must be judged financially viable. The investor must have no record of serious fiscal offences. Multiple establishment firms must not shed labour in any of their other establishments anywhere in the nation - except if the project is a transfer from the Paris or Lyons Regions, when the shedding of labour is permitted.	As local business tax concession.
12. Actual Awards	There is no information available by the three award zones. For the designated areas as a whole, the number of awards agreed, their total value (FF mill.) and the average value of each expressed as a percentage of eligible investment have been: 1973 1974 1975 number 600 472 390 total value 422.7 453.8 390.5 percent award 11.1 8.5 10.3 Note that eligibility conditions, zoning and rates were revised in 1976, when the current system was introduced.	The number of concessions agreed has been: 1973 1974 1975 1,040 868 606 The maximum award is the typical award.	The number of awards agreed has been: 1973 1974 1975 333 279 179
13. Tax Treatment	Grants are viewed as income and hence subject to corporation tax. They are bought into income as the assets to which they relate are depreciated. For non-depreciable assets (notably land), the awards are usually brought into income in ten equal annual instalments.	Local business tax liability is deductible from corporation tax liability. Thus the concession is effectively subject to corporation tax.	Not relevant.
14. Timing and Phasing	In principle, application is required before the project is started, but a letter of intent giving up to six months notice of application fulfils this requirement and is common practice. Application processing period: 2-3 months. Advance payments of one-third of the value of an award are almost invariably paid upon the award decision having been made. One or two instalments are usually paid as the project develops and a final instalment upon completion. Delays in payment: usually 2-3 months, possibly longer for the final instalment because of time required for checking that conditions of award have been fulfilled.	Application must be made before the project is started. Application processing period: 3-4 months. The concession is taken when tax liability would ordinarily fall due.	Application must be made, at the latest, before the close of the financial year in which construction is terminated. Application processing period: 3-4 months. The concession is taken in the firm's annual corporation tax return.
15. Topping Up	Exceptionally (and it is rare) the amount per job may be waived and an award up to the stipulated percentage of investment for that location given. Similarly, for projects with FF 10 mill. or more of eligible investment, an award of up to 25 percent of eligible investment can be given irrespective of where the project is located within the designated areas (again, very rare). Note also that the land subsidy (see Introduction) almost only ever goes to industrial projects receiving the regional development grant, and hence may be viewed as a form of topping up.	No awards are possible beyond the rate fixed in a locality.	No awards are possible beyond the fixed 25 percent rate.

	Regional Development Grant	Local Business Tax Concession	Special Depreciation Allowance
16. Addability	Receipt of a regional development grant disqualifies the project from receiving a tertiary grant. If a land subsidy is received, the eligible investment in land is reduced by the full amount of the land subsidy. If a special depreciation allowance is received, the effective value of the grant is reduced, since the part thereof relating to the buildings for which the allowance is awarded is brought into profit and taxed more rapidly than otherwise, in line with the accelerated depreciated schedule.	No constraints or consequences.	This incentive may be awarded with any of the other regional incentives. When awarded in conjunction with a regional development grant, it reduces the value of the grant - see regional development grant.
17. Clawback	Failure to meet agreed job and/or investment targets results in clawback. The whole of the grant is recalled if the minimum job and/or investment conditions are not met, otherwise in proportion to the failure to meet targets. Clawback is stringently enforced, although there is probably more monitoring of job creation than of invdstment. Clawback receipts tend to amount to about 10 percent of gross annual expenditure on the grant.	No detailed information available. For fiscal concessions as a whole, it is estimated that between one third and one quarter of concessions are subsequently revoked because of failure to achieve job and/or investment targets.	No information available for this incentive alone. See local business tax concession.
18. Turndown	The percentage of applications turned down has declined noticably, most probably as familiarity with the scheme has increased: 1973 / 1974 / 1975 percent turndown: 18 / 13 / 7 No quantitative information is available on the reasons for turndown, but refusals are probably most commonly because of job and/or investment requirement not being met.	No quantitative information available, but possibly around one quarter. No quantitative information available on reasons for turndown, but these include lateness of application, no concession available in the particular location, bad fiscal record, project not judged to be viable.	No information.
19. Cost	No information on amounts disbursed each year. For total value of awards decided in each year see 12 above.	In terms of concessions operating in each year (not cdncessions awarded in each year) the amount of foregone revenue (FF mill.) in each year has been: 1972 / 1973 / 1974 126.2 / 184.6 / 239.2	No published estimates available (but see introduction).
20. Jobs Associated	On the basis of job targets agreed between the investor and the administration, the number of jobs associated with aided investment and the average number of jobs per aided project has been: 1973 / 1974 / 1975 number: 47,771 / 43,182 / 31,752 average: 80 / 91 / 81	No specific information available. Regional fiscal incentives as a whole, on the basis of job targets agreed in each year between investors and the administration, involved associated jobs and average numbers of jobs per aided project as follows: 1973 / 1974 / 1975 number: 64,819 / 55,977 / 39,800 average: 39 / 42 / 41	No information available for this incentive alone. See local business tax concession.
21. Investment Associated	On the basis of investment targets agreed between the investor and the administration, the total value of eligible investment associated with all aided projects and the average amount of qualifying investment per aided project were (FF mill.) 1973 / 1974 / 1975 total value: 3644.2 / 4115.2 / 3560.3 average: 6.1 / 8.7 / 9.1	No specific information available. Regional fiscal incentives as a whole, on the basis of qualifying investment targets agreed in each year between investors and the administration, involved associated qualifying investment per aided project as follows (FF mill.): 1973 / 1974 / 1975 total value: 11,938 / 6,834 / 5,410 average: 7.2 / 5.1 / 5.6	The only specific information available relates to the total value of the buildings for which all concessions were awarded. These values and the average value per aided project have been (FF mill.): 1973 / 1974 / 1975 total value: 609.5 / 493.0 / 642.5 average: 1.8 / 1.8 / 3.6 See also local business tax concession.

	Regional Development Grant	Local Business Tax Concession	Special Depreciation Allowance
22. Anticipated Duration	The present scheme ends on 31 December 1980 with some territorial revisions due by 31 December 1978 and some other territorial revisions possible at any time.	No specified life, but a review can be expected in 1979, with possible changes being introduced in 1980.	As local business tax concession.
23. Change Provisions	The past principle has been to apply the scheme in operation at the time of application, with no change to awards already agreed but not yet (fully) disbursed.	The past principle has been to apply the conditions and rate of concession (for the given location) in operation at the time of application, with no change to concessions already agreed.	As local business tax concession.
24. Miscel-laneous	Qualifying projects located just outside the designated areas can exceptionally (and it is rare) be assisted. Generally, such projects must offer substantial employment for people in the proximate designated areas. The award for these projects is 12 percent/FF 15,000 for setting up and 12 percent/FF 12,000 for extensions. A small amount of extra assistance is available on anti-pollution investment.	Since the value of a concession varies spatially and since the rate of taxation varies both spatially and over time, it is difficult for the firm to weigh short-term gains from a concession against long-term tax liabilities.	

THE INCENTIVE VALUES

As we have seen, there are three main regional incentives on offer in France - the Regional Development Grant (RDG), the Special Depreciation Allowance (SDA) and the Local Business Tax Concession (LBTC). Only the first two of these, however, are included in the valuation tables which follow. The problems inherent in the valuation, and indeed interpretation, of the local business tax concession make it more appropriate to consider that concession in this introduction rather than in the valuation tables themselves.

The basic valuation problem with respect to the local business tax concession is the almost total absence of detailed statistics on both the tax and the concession. No information is available, for example, on the average rate of tax paid, although we do know that the range is extremely wide (in Alsace, to take but one region, the highest rate of levy in any commune in 1976 was 178.0 per cent of the tax base and the lowest 2.6 per cent) and that rates can vary markedly over time. Data on the typical rate of concession has similarly been elusive, although it is probably the case that the maximum award (of 100 per cent over a five year period on both commune and département common. Given this general lack of information, any attempt to value the local business tax concession must be based overwhelmingly on assumptions - assumptions, moreover, which would not be at all easy to validate. For this reason amongst others (see below) we have not included our valuation of the local business tax concession in the tables which follow. Our best guess of its value (assuming a full concession of 100 per cent of the tax for five years, an average tax rate of 20 per cent and tax liability calculated on the basis of annual rental values of 8 per cent of the purchase price of land/buildings and 16 per cent of the purchase price of plant, plus a labour cost element) is that the concession is worth, in effective value terms, between five and six per cent of initial capital costs and one and two per cent of value added.

We have already mentioned that, in addition to the problem of valuing the local business tax concession, there is a problem in interpreting the results of any valuation. The essential problem here is most simply posed by considering the position of a firm with a given project and a choice of two locations for that project. In one location it is offered a concession on local business tax while in the other no concession is available. All else being equal, is it obvious that the project should be located where the concession is available? The answer is not unambiguous, the dilemma being that the rate of taxation in the locality where the concession is offered may be so high compared to that in the alternative no-concession location as to favour this second location in the long run - a fact not taken account of in the valuation and therefore a further ground for not including the local business tax concession within the valuation tables.

These tables, rather, are limited to the regional development grant and to the special depreciation allowance. The former is, as we have seen, far and away the most important regional incentive in France, accounting for about 45 per cent of annual regional incentive spending. Between 1973 and 1975 1,462 RDG awards were made. (In the same period 791 SDAs were awarded). A key feature of the regional development grant scheme is the fact that rates of award vary between three award zones - the maximum nominal awards being 25.0 per cent in award zone 1, 17.0 per cent in award zone 2 and 12.0 per cent in award zone 3. For this reason, Table A distinguishes between these three award zones. Since RDG values are dependent on a cost per job constraint which varies both spatially and by project-type, the table also draws a distinction between setting up and extension projects. (The presentation in Table A is somewhat simplified; see the synopsis tables for full details). The job-constrained percentages shown are averages, based on the position in 1975 when the average assisted project involved some 81 jobs and about FF 9.15 million of eligible investment.

It must be clearly understood that the job-constrained figures in Tables A and B refer to awards for the average assisted project and not to average awards for all assisted projects. The point is that the cost per job constraints bite only lightly on the average project (hence the constrained percentages are not very different to the nominal maximum percentages) but bite quite severely on a small number of large and capital intensive projects - and because these latter projects account for a substantial proportion of all aided investment the average award for all assisted projects is much lower than our constrained percentages might suggest. In fact, published figures show the annual average award (for all project types and award zones) to have varied between approximately 8.5 and 11.0 per cent between 1973 and 1975 and although many details the RDG scheme which influence award values were changed in 1976 we would be surprised if the current average award is substantially different - probably less than 12 per cent of qualifying investment. Thus an indication of the effective value of the average award for all assisted projects can be obtained from those rows of Tables A and B relating to the maximum regional development grant award in award zone 3 (nominal value 12 percent).

From Table A it can be seen that, after tax, delays in payment and eligible items have been taken into account, the regional development grant is "worth" significantly more than the special depreciation allowance - a maximum 11.8 per cent of initial capital costs compared with a standard rate (in the two award zones where the SDA is available) of 2.3 per cent. Moreover, the grant has a markedly higher value in award zone 1 (an average 10.5 per cent for setting-up projects and 9.2 per cent for extensions) than in award zones 2 (8.1 and 7.1 per cent respectively) and 3 (5.7 and 5.0 per cent respectively).

In Table B, the effective values of the regional development grant and the special depreciation allowance, both separately and in combination, are shown as a percentage of initial capital costs, annual capital costs and value added. Like Table A, the table is subdivided into the three award zones, and distinguishes between setting-up and extension projects. The table shows that the special depreciation allowance does not have a major impact on the overall package value (being "worth" only 2.3 per cent of initial capital costs, 2.0 per cent of annual capital costs and 0.6 per cent of value added. These figures are, of course, only for award zones 1 and 2 since the allowance is not available in award zone 3. The table further shows that the maximum effective value of the French package is 13.5 per cent of initial capital costs, 12.2 per cent of annual capital costs and 3.7 per cent of value added. The incorporation of the local business tax into the valuation would (on the basis of the assumptions mentioned above) raise these percentages to some 19, 17 and 5 per cent respectively. Either with or without the local business tax concession, the French package is of a value which, as we shall see in Part II, places it within the middle range of EC country schemes.

FRANCE

Table A: NOMINAL TO EFFECTIVE PERCENTAGE SUBSIDY.

AREA	INCENTIVE	LEVEL	NOMINAL VALUE	EFFECTIVE VALUE AFTER TAX	DELAYS	ELIGIBLE ITEMS
AWARD ZONE 1	RDG	maximum	25.0	17.7	16.8	11.8
		job-constrained rate: creation	22.3	15.8	15.0	10.5
		job-constrained rate: extension	19.6	13.9	13.2	9.2
	SDA	fixed rate	6.7	-	-	2.3
AWARD ZONE 2	RDG	maximum	17.0	12.1	11.5	8.1
		job-constrained rate: creation	17.0	12.1	11.5	8.1
		job-constrained rate: extension	15.1	10.7	10.2	7.1
	SDA	fixed rate	6.7	-	-	2.3
AWARD ZONE 3	RDG	maximum	12.0	8.5	8.1	5.7
		job-constrained rate: creation	12.0	8.5	8.1	5.7
		job-constrained rate: extension	10.7	7.6	7.2	5.0

Table A: NOTES AND ASSUMPTIONS

(a) GENERAL: Discount rate 10.75 percent (EC reference rate 1976)

(b) REGIONAL DEVELOPMENT GRANT (RDG)

(i) Nominal value: As a percentage of eligible investment costs. The maximum rates of award (as shown) are subject to cost/job limits of FF 25,000, 20,000 and 15,000 in award zones 1, 2 and 3 respectively for creation projects and FF 22,000, 17.000 and 12,000 for extension projects. The job-constrained percentages are on the basis of the (1975) average assisted project which involved some 81 jobs and FF 9.15 million of eligible investment.

(ii) Taxation: Effective rate of corporation tax 29.1 percent (standard rate 50 percent reduced by average 9 month delay before grant taken into account for tax purposes and by the fact that grant is fed into income - and hence taxable profits - in line with the depreciation schedules of the assets to which it relates. For depreciation purposes we assume that plant is depreciated reducing balance over an 8 year fiscal life and that buildings are depreciated straight line over 20 years. Land is non-depreciable and is brought into income over the 10 years following that in which the grant is received in equal annual portions).

(iii) Delays: Assuming one year construction period (thus minimising benefit of advance payments), uniform project expenditure, and grant claims after 6 and 12 months then, given 3 month processing period, average delay in grant payment is 6 months.

(iv) Eligible items: Eligible investment assumed to be 70 percent of all project capital costs, it being assumed that (ineligible) working capital is 30 percent thereof.

(c) SPECIAL DEPRECIATION ALLOWANCE (SDA)

(i) Nominal value: Net present value of tax saving due to accelerated depreciation given an effective tax rate of 46.3 percent (standard rate of 50 percent delayed 9 months).

(ii) Taxation: Not relevant.

(iii) Delays: Not relevant.

(iv) Eligible items: With EC key of: land 5, buildings 50, plant 45 and with working capital assumed to be 30 percent of project capital costs, eligible buildings account for 35 percent of all project capital costs.

FRANCE

Table B: EFFECTIVE SUBSIDIES AS A PERCENTAGE OF VARIOUS DENOMINATORS.

AREA		INCENTIVE COMBINATION	INITIAL CAPITAL COSTS	ANNUAL CAPITAL COSTS	VALUE ADDED
AWARD ZONE 1	RDG	(maximum)	11.8	10.7	3.2
	RDG	(constrained creation)	10.5	9.5	2.9
	RDG	(constrained extension)	9.2	8.4	2.5
	RDG	(maximum) + SDA	13.5	12.2	3.7
	RDG	(constrained creation) + SDA	12.3	11.1	3.3
	RDG	(constrained extension) + SDA	11.1	10.0	3.0
AWARD ZONE 2	RDG	(maximum)	8.1	7.4	2.2
	RDG	(constrained creation)	8.1	7.4	2.2
	RDG	(constrained extension)	7.1	6.4	1.9
	RDG	(maximum) + SDA	10.0	9.0	2.7
	RDG	(constrained creation) + SDA	10.0	9.0	2.7
	RDG	(constrained extension) + SDA	9.1	8.2	2.5
AWARD ZONE 3	RDG	(maximum)	5.7	5.2	1.6
	RDG	(constrained creation)	5.7	5.2	1.6
	RDG	(constrained extension)	5.0	4.5	1.4

Table B: NOTES AND ASSUMPTIONS

(a) INITIAL CAPITAL COSTS

In general, the summation of the Table A results. Note, though, that when an RDG is awarded in conjunction with a special depreciation allowance the value of the RDG is reduced to 95.20 percent of its Table A level since tax payments on the building element of grant are made more quickly under the SDA regime.

(b) ANNUAL CAPITAL COSTS (Discount/interest rate: 10.75 percent).

(i) Calculation of weighted annual capital cost factor:

Asset	Assumed Life	Annual Capital Charge Factor	Weight	Weighted Factors
Buildings	50	0.1082	0.350	0.0379
Plant	10	0.1680	0.315	0.0529
Land/Working Capital	-	0.1075	0.335	0.0360
	WEIGHTED ANNUAL CAPITAL COST FACTOR			0.1268

(ii) Calculation of annual subsidy factor:

- RDG : 0.1151 (plant/building/land subsidised)
- SDA : 0.1082 (building subsidised)

Since replacement is not explicitly subsidised, the subsidy life of the plant element of the RDG is taken to be 20 years - see p 32 above.

(iii) Calculation of annuitising factor ((ii) ÷ (i))

- RDG : 0.9077
- SDA : 0.8533

(c) VALUE ADDED

It is assumed that gross profits make up 30 percent of value added. (Cf. for example, Ministère de l'industrie et de la recherche, L'industrie francaise, Paris 1975, page 9, Table 10, which shows that labour costs accounted for 70 percent of value added in French manufacturing industry in 1973).

THE INCENTIVES

Since the second world war the Federal Republic of Germany has had on offer a variety of direct and indirect regional incentives. These range from direct financial aids awarded at the Federal and State (Land) levels to industrial infrastructure programmes, from worker removal aids to preferential public contract programmes, from concessions on the purchase of public land to freight transportation subsidies (payable in the ZRG - Zonal Border Area (Zonenrandgebiet) - on specific commodities to compensate for the loss of supplies and markets with the creation of the Iron Curtain). However, the main regional incentives are in fact four in number. These are the investment allowance, (Investitionszulage), the investment grant, (Investitionszuschuß), ERP regional soft loan, (ERP Regionaldarlehen) and a special depreciation allowance, (Sonderabschreibungen).

The project-related investment allowance is the basic regional incentive. It is a fairly automatic incentive being a fixed 7.5 percent of eligible investment costs. The discretionary project-related investment grant can be interpreted as a topping up system for the investment allowance. It is awarded as a percentage of eligible investment up to maximum rates differing according to location and type of project. The maximum rates are identical with so-called maximum preferential rates. These are the maximum value (in grant equivalent terms) for direct public aids, with a few exceptions, which can be paid to specified areas and for project types. They are set out in the accompanying table. It can be seen that the maximum preferential rates go up to 25 percent. In practice, as we shall see, actual grant awards are well below these maxima.

The ERP soft loan is awarded to small or medium sized firms for projects that are not eligible for an investment allowance or an investment grant. The loan is a fairly straightforward one with few discretionary elements. The interest rate, currently at 6 percent (5 percent in the ZRG), is well below market rate and is fixed for the duration of the loan - this being up to 10 years for plant and machinery and up to 15 years for building and land, the actual duration being

Maximum Preferential Rates by Type of Locality and Type of Investment Project, 1975[§]

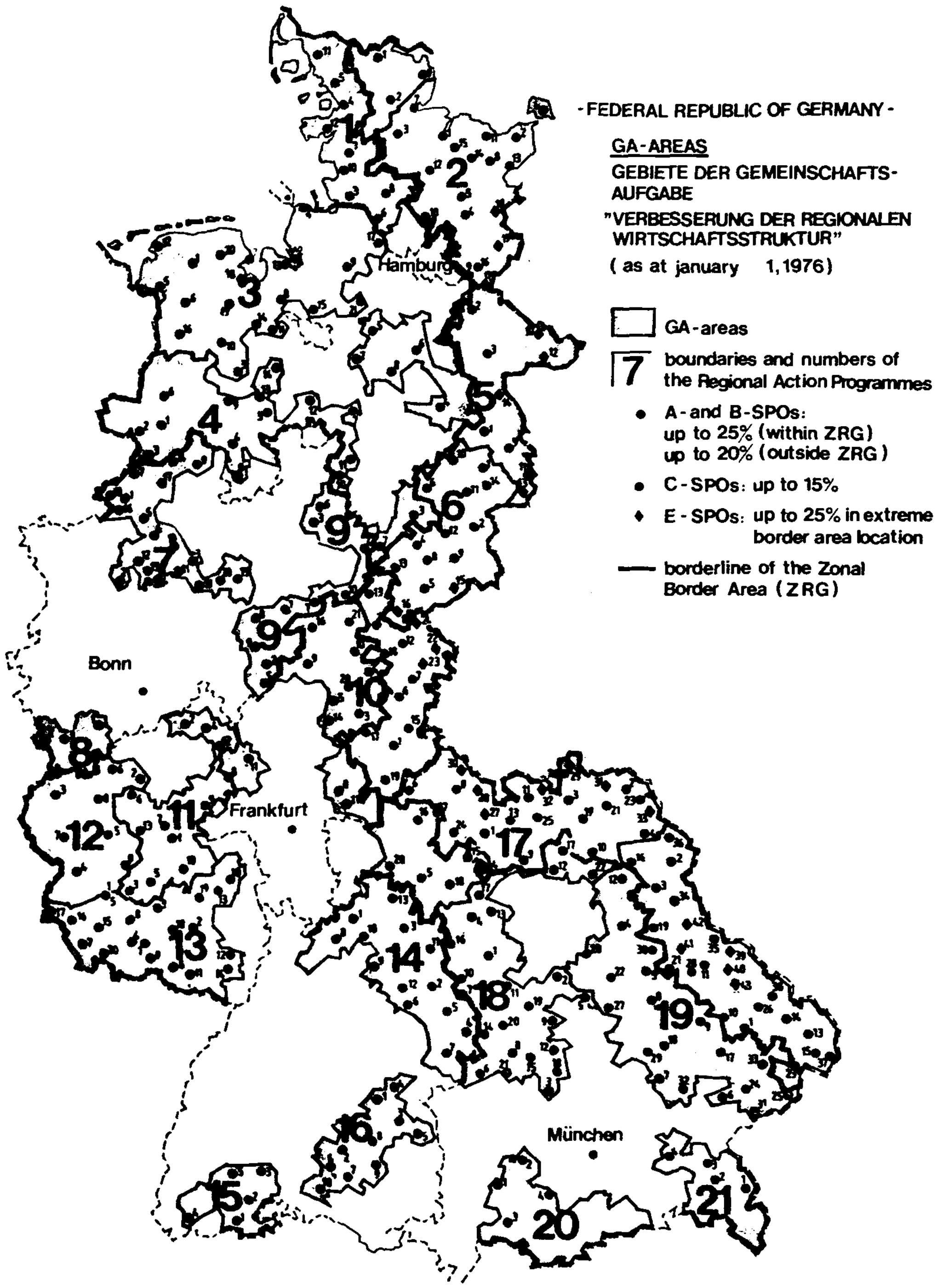
	setting up	extension	reorganisation or basic rationalization
	within Zonal Border Area (ZRG)		
within key locality (SPO)			
- superior SPO	25	25	
- SPO in extreme border location	25	25	10 (15)[c] (25)[a]
- normal SPO	15 (25)[a]	15 (25)[a]	
outside key locality (SPO)			
taking over/setting up of premises			
- after 31.12.1971	15[b,c] (25)[a]	15[b,c] (25)[a]	10[b] (15)[c] (25)[a]
- between 1.1.72 and 31.12.74	-	15[d,c] (25)[a]	10[d] (15)[c] (25)[a]
- before 1.1.1972	-	15 (25)[a]	10 (15)[c] (25)[a]
	outside Zonal Border Area (ZRG)		
within key locality (SPO)			
- superior SPO	20	20	10 (15)[c]
- normal SPO	15	15	
outside key locality (SPO)			
taking over/setting up of premises			
- after 31.12.1971	10[b] (15)[c]	10[b] (15)[c]	10[b] (15)[c]
- between 1.1.72 and 31.12.74	-	10[d] (15)[c]	10[d] (15)[c]
- before 1.1.1972	-	10 (15)[c]	10 (15)[c]

Notes: a: in proved exceptional cases only, if the location is in "extreme border area", i.e. adjacent to the border line. b: only if either the majority of new jobs is for female labour, or if the project is bound to the location because of the raw materials, or if the running of the business causes danger, noise or other severe inconveniences to living or housing areas. c: only if the project has a "high structural effect" (i.e. the introduction of new industries which leads to a diversification of the industrial structure of the area, for reorganisation and basic rationalisation the effect must be "exceptionally high"). d: only if the business had been set up or taken over during the time when the location had been an SPO.

§: The sixth framework plan (1977-1980) has slightly changed the conditions for non-SPO projects, in that projects of establishments that have been set up or taken over after 31 December 1976 are only eligible under the conditions set under (b).

fixed on the basis of the life of the assets involved. A redemption free period of between 18 and 24 months (depending on the starting date of the loan) is normally awarded. The maximum loan is DM 200,000. The loan can cover up to two-thirds of eligible investment. In practice, only small projects, involving eligible costs of DM 75,000 or less, get the maximum. From DM 75,000 to DM 150,000 of eligible investment the loan declines steadily from two-thirds coverage to one-third. From DM 150,000 to DM 600,000 the loan stays at one-third. However, and this is important, the difference between the ERP loan and two-thirds coverage is met by additional loans paid from the so-called ME programme of the KW (Kreditanstalt für Wiederaufbau)- which also administers the ERP programme. The ME programme is specifically aimed at topping up the ERP loans. The loans have very similar conditions to the ERP loans but with a one percentage point higher rate of interest. The special depreciation allowance, of up to 50 percent for plant and machinery and up to 30 percent for buildings, is available to profit-making firms for their investment in depreciable new assets in the ZRG. The allowance can be used together with normal straight line depreciation in the year of acquisition (or even in that of advance payment of tax) and in the subsequent four years.

These four incentives are all operated at the national level and are by far the most important of the German regional incentives. It is these incentives, therefore, that are covered in the following synopsis tables. In terms of promoted approved projects (1972-1975) the investment allowance (16,710) is the most important, followed by the ERP soft loan scheme (13,615); least important is the investment grant with 3,030 cases. The special depreciation allowance (39,047 cases) cannot be compared on this basis since it is item-related. In terms of investment aided (DM million) the order is: investment allowance (38,322), investment grant (13,626), special depreciation allowance (7,500) and the ERP soft loan (4,345). On the basis of the value of incentives awarded (again in DM million) the investment allowance (2,700) is followed by the special depreciation allowance (1,500 in terms of post-poned tax assuming a tax rate of 50 percent), the ERP soft loan (1,000) and the investment grant (738).


- FEDERAL REPUBLIC OF GERMANY -
GA-AREAS
GEBIETE DER GEMEINSCHAFTS-AUFGABE
"VERBESSERUNG DER REGIONALEN WIRTSCHAFTSSTRUKTUR"
(as at january 1,1976)
GA-areas
7 boundaries and numbers of the Regional Action Programmes
A-and B-SPOs: up to 25% (within ZRG) up to 20% (outside ZRG)
C-SPOs: up to 15%
E-SPOs: up to 25% in extreme border area location
borderline of the Zonal Border Area (ZRG)
Hamburg
Bonn
Frankfurt
München

These incentives are available in the designated problem areas of the Federal Republic - Gemeinschaftsaufgabengebiete (GA areas). These are composed of three main types of area: first, the ZRG - a roughly forty kilometre wide belt along the Federal Republic's border with East Germany, Czechoslavakia and the Baltic Sea; secondly, the coal mining areas of the Ruhr and of the Saar region; and thirdly, other areas that suffer or are likely to suffer from below average economic development. The GA areas are a mixture of agricultural and industrial areas, rural and urban areas, having only one thing in common; and this is that they are characterised by economic development below the national average - measured by the weighted combination of three indicators (income per head, labour reserves and physical infrastructure, which are themselves already a combination of a variety of other factors). All local authorities in the Federal Republic (except Berlin for which a special promotion programme operates) are ranked according to the value of the weighted indicators with those at the lower end of the scale, covering 33.9 percent of the total population and some 60 percent of the surface of the nation, being designated as GA areas (see the accompanying map).

Within the GA areas, the incentives are not always awarded uniformly, and in particular the ZRG is generally favoured with higher rates of award and/or easier award conditions (and indeed the special depreciation allowance is, as we have seen, available only in the ZRG). In addition, a further form of intra-area discrimination is based on a growth point strategy - with some 326 SPOs (Schwerpunktorte) having been designated. These are generally favoured by the investment allowance and the investment grant, and indeed, as we have seen, for the investment grant there is also discrimination (in terms of eligibility and rates) between different types of SPO. Three types of SPO have been designated - superior SPOs, SPOs in extreme border areas and normal SPOs. The extent and forms of spatial discrimination have been well illustrated by the table presented earlier which shows maximum preferential rates by project type and area.

Before passing on to the synopses, one final aspect of German regional policy has to be mentioned and this concerns the problems of operating a regional policy in a federal state such as Germany, with the partly independent Länder running their own regional policies.

In order to cope with these problems, a constitutional arrangement (the so-called "Joint Task for the Improvement of Regional Structures" - Gemeinschaftsaufgabe 'Verbesserung der regionalen Wirtschaftsstruktur') was made in 1969 whereby each year, a framework plan (Rahmenplan) is agreed which establishes rules for cooperation and the harmonisation of regional policies in the Federal Republic and, in particular, sets rates and conditions of award for assistance, delineates the GA areas, and determines location specific maximum ceilings for all direct public aids to firms in the GA areas - the maximum preferential rates discussed earlier.

	Investment Allowance	Investment Grant	ERP Regional Soft Loans	Special Depreciation Allowance
1. Basic Details	Fairly automatic project-related capital grant of a fixed 7.5 percent of eligible investment	A discretionary project-related capital grant with rates of up to 25 percent of eligible investment depending on location and project type	A largely automatic, project-related soft loan of up to 15 years duration for buildings and up to 10 years for plant, according to the lifetime of the asset. Repayment is 6 monthly on a straight-line basis. Repayment holiday of between 18 and 24 months depending on the starting date of the loan. No interest-free period is available. Current interest rate is 6 percent (5 percent in the ZRG). Using EC reference rate as the market rate, the current concession is 2 percentage points (3 percentage points in the ZRG). Loan covers up to two-thirds of investment with the actual proportion being determined by set formula on the basis of project size.	An item-related concession, applicable only in the ZRG, involving a high initial depreciation allowance of up to 50 percent (for plant and machinery) and up to 30 percent (for buildings) of eligible costs. The concession can, in exceptional cases, be used prior to acquisition of the asset as a tax free reserve. Although in principle the decision whether or not to award, and the rate, is discretionary; in practice little discretion is excercised. The allowance can only be used on condition that it does not give rise to losses or exacerbate an existing loss situation. Otherwise the timing of use is, within a five-year limit, at the discretion of the beneficiary.
2. Legal Basis	Investitionszulagengesetz (InvZulG), 3 May, 1977, in: BGBl. I, (1977), no. 27, p. 669; "Schreiben des Bundesministers der Finanzen..." (5.5.77), in: BStBl. I, (1977), no. 10, p. 246.	Gesetz über die Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur" (GRW), 1969, in: BGBl.I, (1969), p. 1861, amended 1971 (in: BGBl. I, (1971), p. 21); annual "Rahmenplan der Gemeinschaftsaufgabe 'Verbesserung der regionalen Wirtschaftsstruktur'" (for 1977-78 - in: BTDr. 8/759, 1977).	Gesetz über die Verwaltung des ERP-Sondervermögens, 1953, in: BGBl. I, (1953), p. 1312); Bekanntmachung der Allgemeinen Bedingungen für die Vergabe von ERP Mitteln sowie der Richtlinien für die Gewährung von ERP Darlehen, vom 21.7.76, in: BAnz, Jg. 28 (1976), no.139; annual "ERP-Wirtschaftsplangesetz" (for 1976 - in: BGBl. I, (1976) no. 112, p. 2533)	Gesetz zur Förderung des Zonenrandgebietes (ZRFG), 1971, in: BGBl. I, (1971), p. 1237; in connection with income tax and corporation tax acts and their regulations. Executive orders: "Schreiben des Bundesministers der Finanzen..." (18.8.1971), in: BStBl. I, (1971), p. 386.
3. Administration	Application through the responsible Länder ministries to the Bundesamt für gewerbliche Wirtschaft (BAW) or to the Federal Ministry of Economics (BMWi) which certify whether the project is "especially worthwhile promoting economically". In case of approval, the application for award must be sent to applicant's local tax board, which checks the eligible items and also awards the allowance (either in cash or, on request, as an income tax or corporation tax rebate).	Application to the responsible Länder ministry which decides whether or not to award and, within the formal maxima (see 6 and 7 below), the rates of award. Exceptionally, rates can go above the maxima, and awards can be made to projects which are not formally eligible, with the agreement of the GA planning committee, within which the Länder Governments and the Federal Government are represented. The grant is paid by the Länder with 50 percent being subsequently reimbursed by the Federal Government.	Application through a bank to the Kreditanstalt für Wiederaufbau (KW) which decides upon and awards the loan through the bank (on order of the Minister of Economics). The KW is - in respect of the ERP loans - supervised by the Federal Ministry which administers the ERP fund.	Application, with no standardised format to the applicant's local tax board which decides whether or not to award, and the rate of award (with the agreement of the Federal Ministry of Finance needed in cases of allowances of DM 2 mill. and over). Advance tax payment will normally be adjusted to take account of any award.
4. Eligible Activities	Permanent independent activities for profit (Gewerbebetriebe) which are liable to income/corporation tax, and where the investment has a "primary effect". This is the case with the production of commodities which are normally distributed outside the region. In practice, eligible activities are: mining, gas, electricity, water, manufacturing and tourist accommodation facilities in GA tourist areas, plus those service activities explicitly named for the investment grant. In general, excluded activities are: agriculture and forestry, construction, free professions, and all local services.	Permanent independent activities for profit (Gewerbebetriebe) the production of which has a "primary effect" (see investment allowance). In practice, restricted (by GA planning committee) to industry numbers 200 to 299 (manufacturing) of the W2 industrial classification, which are declared to be a priori eligible industries plus several explicitly named service activities (mail order; import/export wholesale; head offices of industrial firms, banks, credit and insurance companies; the production of soft-ware or data processing systems; publishing companies; and certain congress and fair organising activities), as well as tourist accommodation facilities in GA areas*. All other activities are ineligible unless decided otherwise by the GA planning committee.	Small and medium permanent independent activities for profit (Gewerbebetriebe) which do not have a "primary effect", but serve the local market. Retail, wholesale and local handicraft activities account for more than 60 percent of all cases aided. Activities which are eligible for an investment allowance or investment grant (having a primary effect) are explicitly excluded.	In principle, a very wide coverage - all permanent independent activities for profit (Gewerbebetriebe) with only a few minor activities, like for instance rent collecting or finance investment, being specifically excluded. In practice, the requirement that the applicant must run a book-keeping system for tax purposes excludes most agricultural and forestry units and some very small firms.
5. Activity Discrimination	Tourist activities have less stringent location requirements (see 6 below); otherwise no discrimination since the awards are largely automatic as long as conditions of award are fulfilled, and the rate is fixed.	Tourist activities have less stringent location requirements (see 6 below); otherwise no specified discrimination but the decision whether or not to award and the rate of award, subject to the set maxima, are at the discretion of the authorities, thus giving some scope for discrimination.	None specified and, in practice, little scope since award and rate, as long as conditions of award are fulfilled, are fairly automatic.	Very little scope since award and rate, as long as conditions of award are fulfilled, are largely automatic.

* GA tourist areas

	Investment Allowance	Investment Grant	ERP Regional Soft Loans	Special Depreciation Allowance
6. **Spatial Discrimination**	None in rates which are fixed, but different project types are eligible only if they fulfil specified location requirements (see 7 below) except for tourist activities which have no such limitations in the GA tourist areas.	Awards possible within the GA areas only. Without agreement (rare) of the GA sub-committee, grants cannot exceed the maximum preferential rate of localities: up to 25 percent for superior SPOs in the ZRG and SPOs in extreme border locations; up to 20 percent for superior SPOs outside the ZRG; up to 15 percent for normal SPOs and, under specific conditions only, for non-SPO locations. Further spatial discrimination arises through project-type discrimination (see 7 below). The discretionary nature of the grant (see 5 above) gives scope for other spatial discrimination.	Available within GA areas only. Intra-GA area discrimination by way of an extra one percentage point interest rate concession in the ZRG. No further spatial discrimination.	Available only in the ZRG and requiring proof of disadvantageous location (though this is very leniently applied).
7. **Project Type Discrimination**	No discrimination in rates which are fixed. However, setting-up and extension projects (except for factories set up or taken over before 1 January 1972) are eligible in SPOs only; minimum job targets are set for extensions, of 20 percent or 150 additional jobs (see 22 below); , transfers originating from outside GA areas qualify as setting up - intra-GA area moves qualify partly as extensions if there is an extension effect. Reorganisation and basic rationalisation projects are eligible in the ZRG only. Wholly replacement projects and taking-over projects are not eligible. Modernisation projects are not eligible except for eligible tourist activities, which may qualify as basic rationalisation.	Eligible project types, and location and other conditions, are basically as with the investment allowance; with the exception that (1) basic rationalisation and reorganisation are also eligible in non-ZRG areas; (2) taking over can be eligible in exceptional cases; (3) job targets for extensions are 15 percent or 50, including permanent jobs for vocational training; and (4) specific regulations regarding inter- and intra-GA area transfers of firms. The main difference is that the maximum preferential rate is lower for reorganisation and basic rationalisation projects. The discretionary nature of the grant (see 5 above) gives some scope, within the regulations, for further project-type discrimination.	According to the regulations, only setting-up, extension, reorganisation and basic rationalisation projects are eligible. For extensions, a job target (an additional 15 percent of jobs must be created) is set - though this is leniently applied. In practice, all project types except replacement projects get through. Transfers are eligible only between different local authority areas. No specified project-type discrimination, and the automatic nature of the incentive gives little scope for such (see 5 above).	None, since the award is item - not project - related.
8. **Size Discrimination**	None, either in terms of eligibility or rates.	No awards possible on eligible investment above DM 100 mill. Within this limit, and within the regulations, the discretionary nature of the grant (see 5 above) gives some scope for size discrimination.	The loans are for small and medium-sized firms - broadly up to 200 employees and/or annual turnover of up to DM 50 mill. (variable by sector), but these conditions are generously interpreted. Straightforward discrimination by project size in that there is a maximum value of award of DM 200,000. No further specified size discrimination, and the automatic nature of the incentive gives little scope for such (see 5 above).	No specified discrimination either in size of applicant or in size of project except that expenditure must be an unspecified, minimum proportion of invested capital of the applicant firm (see 11 below). Beyond this, size discrimination is unlikely (see 5 above).
9. **Eligible Items**	All new tangible depreciable fixed assets as long as used for the production process (directly or indirectly) i.e. plant, equipment and buildings - and if their value is over DM 800 and they have a life of more than one year. Ineligible are: land, second-hand assets (including used buildings), replacement assets, and working capital. Specially equipped vehicles are eligible if essential for production. All eligible items must be used for three years and immovable items must be used to the extent of at least 90 percent in the applicant's factory.	In principle, all items necessary for the project are eligible. Different Länder have different regulations on eligible items. Often, however, eligible items are as with the investment allowance.	All tangible fixed assets necessary for the project (plant and equipment, land, buildings) having a minimum life of 5 years; and being used 100 percent within the applicant's business. Second-hand assets are eligible. Pure replacement projects are not eligible. Stock and other items of working capital are ineligible, though with exceptions.	As investment allowance except that assets need not necessarily be related to the production process.

	Investment Allowance	Investment Grant	ERP Regional Soft Loans	Special Depreciation Allowance
10. <u>Eligible Forms of Expenditure</u>	Not specified. In practice, assets purchased with cash or through phased payments are eligible, as are leased assets and assets bought on hire purchase as long as the assets can be set in the applicant's balance sheet. Thus, for leasing, only assets under finance leasing are eligible.	As investment allowance.	As investment allowance except that leased assets are not eligible.	As investment allowance.
11. <u>Further Conditions</u>	1) Investment cost ceiling of DM 3.6 mill. per newly created or secured job; 2) the project must not receive more than the maximum preferential rate of the locality in the form of direct public aids; 3) the investment must be in accordance with town and area planning laws; 4) the investment must not aggravate monostructures or harm competition in the area of location.	As investment allowance except that condition No. 4 does not apply. An additional condition, however, is that the project must not have started before application.	1) to be in need of the loan; 2) guarantees (<u>dingliche Sicherheiten</u>) from a bank or by the <u>Länder</u>; 3) project must not have started before application; 4) no cumulation with other ERP loans; 5) proof of "worthwhileness of promoting economically" (little used); 6) firms which are part of a conglomerate or owned by banks are generally ineligible.	1) the investment must not be "trifling" (generously applied); 2) not payable to exceptionally well-off firms (with exceptions); 3) profits must be made (key condition); 4) cannot be cumulated with other special depreciation allowance concessions.
12. <u>Actual Awards</u>	The rate of award is fixed at 7.5 percent. The table below shows the number of approved cases, i.e. certifications (see 3 above) and awards in the form of actual expenditure (DM mill.). The award figure for 1972 is not comparable with the other figures since it also includes expenditure on other investment allowances. 1972 1973 1974 1975 cases 5601 4401 3476 3232 awards (665) 700 800 579	Over the period 1973-75 the average setting-up/extension award, where grants only were involved, was 6.5 percent of eligible investment; 8.5 percent for reorganisation/basic rationalisation projects in SPOs. Where the investment allowance was also awarded the average was 6.8 percent and 2.9 percent respectively. The number of cases approved for investment grants, and, in DM mill., the total value of grants involved in these approvals and the average grant per case have been: 1972 1973 1974 1975 cases 450 829 713 1083 awards 99 174 232 234 average 0.22 0.21 0.32 0.22	In practice the concessionary element of the loan is as with the nominal rates (see 1 above). On average 25 percent of eligible investment is covered by a loan. The number of cases approved, the value of the loans involved (and the average) have been (DM mill.): 1972 1973 1974 1975 cases 3251 363 5325 4668 award 247 27 388 341 average 0.11 0.07 0.07 0.07	No hard information about actual rate of award but the evidence is that the standard rate is (with very few exceptions) the maximum. The total number of cases of special depreciation allowance/tax free reserves used, amount (DM mill.) involved as well as the average amount have been: 1972 1973 1974 1975 cases 2720 11910 12422 11995 awards 287 815 989 1001 average 0.11 0.07 0.08 0.08
13. <u>Tax Treatment</u>	Not taxed.	Taxed directly if fed into taxable profits or indirectly (and this is the normal case) in that the asset must be depreciated for tax purposes net of any grant received.	By reducing debt-servicing charges the concessionary element of the loan is taxed in as far as it increases taxable profits. In addition, the loan is (as with all long-term debts) taxed by the local business tax on earnings and capital. Estimated additional cost equal to some 1 percentage points of interest rate. (These tax payments are, however, deductible expenses from national income and/or corporation tax).	Not relevant.
14. <u>Timing and Phasing</u>	Application for certification (<u>Bescheinigung</u>) is possible after the start of the project and even after application for award (<u>Bewilligung</u>) is made. The application for award has to be made within the first three months of the year after the year of expenditure. Claim-processing period averages some 6 months.	Application must be made before the start of the project, though projects can start before decision on application is received. The application-processing period is 6-12 months. The grant can be called in (after approval) one month in advance of actual expenditure at the grant rate. Sometimes, the total grant is paid immediately after approval.	Application must be made before the start of the project though projects can start before a decision upon the application has been reached. Application-processing period averages one month. The loan can be called in as expenditure is incurred in line with the agreed coverage.	Application not necessary before expenditure but must be made before, or at, the final tax declaration for the year of expenditure. The special depreciation allowance can be used in total to reduce advance payments immediately after approval (if the profits are high enough) or it can be distributed according to the needs of the investor over the year of acquisition and the following 4 years.

	Investment Allowance	Investment Grant	ERP Regional Soft Loans	Special Depreciation Allowance
15. Topping Up	No awards are possible beyond the formal fixed rate. The investment grant can be viewed as a topping-up of the allowance, the limits being set in the maximum preferential rate system.	Grants of a value which, in combination with other direct public aids, would exceed the maximum preferential rate for the locality are only possible, with the agreement of the GA planning committee.	The formal maximum concessionary elements of the loan cannot be exceeded. Except for very small projects (involving eligible costs of up to DM 75,000) the ERP loan covers less than the maximum two-thirds of eligible investment; being replaced, at set proportions depending on total loan size, by national MB loans from the KW (with slightly higher interest rates).	No awards are possible beyond the formal maxima.
16. Addability	Eligibility conditions mean that the allowance is not addable to the ERP regional loans. Addable to all other direct public aid as long as the total grant equivalent values of all these aids do not exceed the maximum preferential rate of the location. (The grant equivalent value of an investment allowance is counted as 7.5 percent of the total investment, not of eligible investment).	As investment allowance. When awarded in conjunction with the special depreciation allowance the value of the grant is reduced since it is brought into income, and hence taxable profits, more quickly, than under the normal depreciation schedule.	Addable to all other direct public aids - but not to the investment grant or investment allowance or to other ERP loans - as long as the total grant equivalent of these aids does not exceed the maximum preferential rate of the area. (The grant equivalent value of the ERP soft loan is measured in relation to a 7.5 percent reference rate).	Addable to straight-line depreciation and to all other incentives except other national special depreciation allowances. It is not included in the calculation of the maximum preferential rates. When added to the investment grant the value of the grant is reduced since the net present value of the tax to be paid on it increases.
17. Clawback	Awards are clawed back if regulations and conditions of award are not met.	Awards are clawed back if the regulations and conditions of award are not met (unless with the agreement of the awarding body). An interest surcharge of 2 percentage points above the discount rate of the Deutsche Bundesbank is levied on the repayable sum. Interest advantages secured by the beneficiary while in receipt of the grant are payable to the awarding authority.	Surcharge regulations similar to those of the investment grant with, however, the qualification that the interest charged must be at least 3 percentage points above the interest rate of the loan.	No explicit regulations. General tax law is applied with a surcharge of 5 percent being levied on all outstanding tax payments.
18. Turndown	Turndown over the period 1972-75 is shown below. In these years the high rates were largely caused by uncertainties of applicants regarding the definition of primary effect activities. Other reasons for turndown are ineligible location and the fact that job requirements not met. 1972 / 1973 / 1974 / 1975 applications: 8285 / 6947 / 6030 / 5313 turndown: 2574 / 2136 / 2281 / 1648 percent: 31.1 / 31.7 / 37.8 / 31.0	No comprehensive hard information - perhaps half of applications are not approved or are withdrawn by applicants. No comprehensive information on reasons for turndown but start of a project before application and inability to meet job requirements are not uncommon reasons.	In 1974 6,711 applications were made for these loans of which 1,061 (17 percent) were turned down. The figures for 1975 were 5,608, 772 and 14 percent respectively. In 1975 the reasons for turndown were: 32 percent, applicant not eligible; 31 percent, project not eligible (locations, size); 12 percent, financial reasons (applicant's own funds deemed adequate / longterm finance like ERP loan not needed) 6 percent, project already started (or even finished).	No hard information available; evidence that turndown rates are trivially low.
19. Cost	Expenditure on the investment allowance has been (DM mill.): 1972 / 1973 / 1974 / 1975 (665) / 700 / 800 / 579 (For an explanation of the 1972 figure see 12 above).	No information on expenditure (for grants approved see 12 above). Funds available and allocated to the GA programme for investment grants (for setting-up, extension, reorganisation and basic rationalisation projects) have been (DM mill.): 1973 / 1974 / 1975 / 1976 217 / 217 / 263 / 253	No information on expenditure. (For loans approved see 12 above).	No direct cost information available. Nominal temporary tax relief (estimates based on a tax rate of 35 percent) for the period 1972-75 was DM 1,396 mill. in total.

	Investment Allowance	Investment Grant	ERP Regional Soft Loans	Special Depreciation Allowance
20. Jobs Associated	Estimates of jobs associated with applications approved in the following years have been: 1972 / 1973 / 1974 / 1975 new jobs: 104,676 / 138,927 / 105,502 / 49,130 consolidated jobs: 1,249 / 119,422 / 148,175 / 80,458 Note: Some of the projects in receipt of an investment allowance would also be in receipt of an investment grant. Thus, the jobs associated above cannot be allocated only to the investment allowance.	Estimates of jobs associated with applications approved in the following years have been: 1972 / 1973 / 1974 / 1975 new jobs: 25,519 / 38,123 / 31,418 / 26,213 consolidated jobs: 4,265 / 26,720 / 34,843 / 43,426 Note: most projects in receipt of a grant will also be in receipt of an investment allowance; thus, these figures do not relate solely to the investment grant.	No information.	No information.
21. Investment Associated	Total eligible investment (DM mill.) in applications certified in the following years has been: 1972 / 1973 / 1974 / 1975 setting-up: 4,180 / 3,395 / 2,341 / 1,469 extensions: 5,065 / 7,450 / 7,234 / 4,792 reorganisation and rationalisation: 405 / 744 / 693 / 593 (see note at 20 above).	Total eligible investment (DM mill.) in applications approved in the following years have been: 1972 / 1973 / 1974 / 1975 setting-up: 1,920 / 920 / 726 / 562 extensions: 918 / 1,740 / 2,759 / 3,016 reorganisation and rationalisation: 156 / 181 / 273 / 456 (see note at 20 above).	Total eligible (DM mill.) investment in applications approved in the following years was: 1972 / 1973 / 1974 / 1975 1,188 / 106 / 1,743 / 1,371	Estimates on the basis of maximum rates of award (including tax free reserves) for the period 1972-75 are DM 7,534 mill., of which DM 3,330 mill. for immovable assets and DM 4,204 mill. for movable assets.
22. Anticipated Duration	No specified life. Regulations for the investment grant on job targets will be adopted for the investment allowance. New regulations are likely, deeming as ineligible those projects which start before application. See also investment grant.	No specified life. Eligible areas and maximum preferential rates are open to change annually (although they are in fact relatively stable).	No specified life. Interest rates for new loans are, broadly, in line with the development of market rates and overall economic conditions.	No specified life.
23. Change Provisions	Date of application and date of project start (first expenditure) as compared with the first implementation of new regulations determine whether or not the new or old regulations apply. In the event of changes of the regulations, arrangements are largely in favour of the applicant - at least for a transitional period.	Decisions in the pipeline are treated under the new conditions, as are any assets acquired under the new conditions. In the case of area changes, applications can be made for a further year under the old regulations.	No alterations of conditions on awarded loans. In case of a change of conditions between date of application and date of approval, the new regulations apply.	No guidelines.
24. Miscellaneous	-	-	-	-

THE INCENTIVE VALUES

As we have seen, there are four major regional incentives in the Federal Republic of Germany - two grants on capital (the investment allowance, IA, and the investment grant, IG), one soft loan (the ERP loan) and a special depreciation allowance (SDA). The first three of these are available throughout the assisted areas (the GA areas) while the fourth is restricted to the ZRG.

The investment allowance is the basic grant. It is awarded more or less automatically and is at a fixed rate of award. In contrast, as was made clear in the synopsis tables, the investment grant is both discriminatory (with differing maximum levels of grant being set for different project types and locations) and discretionary (with perhaps only about one fifth of eligible projects actually being awarded a grant). Whereas more than 16,000 investment allowances were "certified" in the period 1972-75 only 3,030 investment grant awards were approved. In many respects the investment grant can be viewed as a "topping-up" element in the grant system, tailoring the overall award to the needs of both applicant and the particular State (Land).

While the investment allowance and the investment grant are complementary aids, both going to projects which have a "primary effect", the ERP soft loan goes to a completely different set of projects. Indeed, it is a condition of award that ERP loan-assisted projects do not have a primary effect, but rather are of a local character. Some 13,600 such projects were supported by an ERP soft loan between 1972 and 1975. The final incentive, the SDA, is available to both primary and non-primary effect industries. The key condition of its award, as already noted, is that the investment take place within the ZRG.

Table A has been structured to take account of the main incentive features described above. A distinction has, for example, been drawn within the table between the ZRG and non-ZRG areas (within the GA areas). The table also differentiates between primary effect and non-primary effect industry, and, further, identifies - in view of the award matrix used for the investment grant - the key investment grant maxima. Within the ZRG, the prime determinants of an investment grant award are project-type and location. For setting-up projects and extensions, the maximum award is 25 per cent in both superior SPOs and SPOs in extreme border areas and 15 per cent elsewhere; while for reorganisations and basic rationalisations a general 10 per cent maximum applies. Outside the ZRG the picture is similar, the maximum 20 per cent award being restricted to setting-up projects and extensions in superior SPOs. In addition, setting-up and extension in normal SPOs receives a maximum 15 per cent award, while reorganisation and basic rationalisation again is limited to a 10 per cent maximum. (For more details on the investment grant award matrix see p. 104 above). As well as these maxima, Table A also contains information on average investment grant awards (1976 figures) both in combination with an investment allowance and when awarded alone (a very rare occurrence). Reflecting the scope for discretion in the administration of the grant, these average awards fall well below the possible maxima. Indeed, in combination with the investment allowance, the average investment grant is only 8.8 per cent in the ZRG and 6.5 per cent outside the ZRG (see Table A) compared with possible award maxima (after subtracting out the investment allowance) of 17.5 per cent and 12.5 per cent respectively.

A final structural feature of Table A worth mentioning is the distinction between average and maximum ERP loan awards. As we have seen in the synopses tables, project size is the crucial determinant of ERP loan coverage. For small projects, involving eligible costs of up to DM 75,000, the ERP loan covers two thirds of these costs. The larger projects the coverage decreases below this level and indeed is only one third of eligible costs where these lie between DM 150,000 and DM 600,000. Moreover, for projects of over DM 600,000 coverage is further reduced since the maximum possible loan award is DM 200,000. It is as a result of this feature of the scheme that the overall average award used in Table A is only 26 per cent of project costs. The median award, on which we have no detailed information, would be much higher.

Turning from the broad composition of Table A to the details of the table, there are three points to be made. First, although in terms of award maxima the investment grant is far and away the most valuable of the incentives (the maximum 25 per cent nominal award having an effective value after tax, delays and eligible items of 11.3 per cent) the average investment grant is much less valuable being worth, in effective value terms, about 4 percent of initial capital costs in the ZRG and some 3 percent outside the ZRG (compared with, for example, an investment allowance effective value of 4.6 percent in both areas). Secondly, ZRG awards are generally higher than those outside the ZRG. This is the case not only for the investment grant, it also holds for the ERP soft loan, its average effective value being 2.3 percent in the ZRG and 1.5 percent in the non-ZRG areas. Moreoever, as already mentioned, the SDA is available only in the ZRG. Thirdly, in effective value terms, awards to primary effect industries are generally higher than those to non-primary effect industry. On average, the ERP soft loan is worth significantly less than both the investment allowance and the investment grant while - despite the fact that rates and conditions of award are the same for both industry types - the SDA is less valuable to non-primary industry (mainly due to its lower tax liability).

Table B has the same broad structure as Table A (distinguishing, for example, between the ZRG and non-ZRG areas and between primary effect and non-primary effect industry) but differs from that table in its emphasis on incentive combinations rather than individual incentives. For primary effect industry in the ZRG there are seven possible incentive combinations, all of which are shown in the table - IA alone, IA + SDA, IG alone, IG + SDA, IA + IG, IA + IG + SDA, SDA alone. Not all of these of course, are of equal importance. Some combinations are rare while others are fairly common. It is, for example, not at all usual to receive an investment grant, and yet not be awarded an investment allowance; and it is similarly rare not to obtain a special depreciation allowance when an investment allowance has been secured. Given this, the combinations IA + SDA and IA + IG + SDA are the ones normally found for primary effect industries in the ZRG, with the former combination being more common than the latter. Outside the ZRG, there is no special depreciation allowance available, so that IA alone and IA + IG are the standard forms of award with IA alone being the normal case. For non-primary effect industry, neither the investment allowance nor the investment grant is available. For such industry, the standard combination is ERP + SDA in the ZRG and ERP alone in the non-ZRG areas.

In terms of the standard combinations identified in the previous paragraph, the basic point to arise from Table B is that the incentive package in the Federal Republic of Germany is "worth" very much less outside the ZRG than within it. Whereas the investment allowance alone in the non-ZRG areas has effective values of 4.6 percent of initial capital costs, 3.9 percent of annual capital costs and 1.3 percent of value added (relatively low figures in international comparative terms as we shall see in Part II), the combination IA + SDA in the ZRG has significantly higher effective value percentages - 11.5, 9.8 and 3.3 percent respectively. Nor does receipt of an investment grant change the basic picture. In the ZRG the combination, IA + IG + SDA has average effective values of 14.9 percent of initial capital costs, 12.7 percent of annual capital costs and 4.3 percent of value added, while, outside the ZRG, the IA + IG combination is "worth" on average 7.5 percent, 6.4 percent and 2.2 percent respectively, in effective value terms. For non-primary effect industry the position is similar in that non-receipt of the special depreciation allowance and a lower subsidy value for the ERP soft loan outside the ZRG makes for markedly lower non-ZRG effective values.

GERMANY

Table A: NOMINAL TO EFFECTIVE PERCENTAGE SUBSIDY.

AREA	INCENTIVE	LEVEL	NOMINAL VALUE	EFFECTIVE VALUE AFTER TAX	DELAYS	ELIGIBLE ITEMS
ZRG						
(a) primary effect industry						
	IA	fixed rate	7.5	7.5	6.9	4.6
	IG	25 percent max	25.0	16.5	16.2	11.3
		15 percent max	15.0	9.9	9.7	6.8
		10 percent max	10.0	6.6.	6.5	4.6
		average (no IA)	8.5	5.6	5.5	3.9
		average (with IA)	8.8	5.8	5.7	4.0
	SDA plant	fixed rate	9.2	-	-	4.2
	SDA buildings	fixed rate	13.0	-	-	2.7
(b) non-primary effect industry						
	ERP	maximum	14.2-17.9	9.9-12.5	9.9-12.5	4.6-5.8
		average	14.2-17.9	9.9-12.5	9.9-12.5	1.8-2.3
	SDA plant	fixed rate	5.1	-	-	2.3
	SDA buildings	fixed rate	7.2	-	-	1.5
NON-ZRG						
(a) primary effect industry						
	IA	fixed rate	7.5	7.5	6.9	4.6
	IG	20 percent max	20.0	13.2	12.9	9.0
		15 percent max	15.0	9.9	9.7	6.8
		10 percent max	10.0	6.6	6.5	4.6
		average (no IA)	7.0	4.6	4.5	3.2
		average (with IA)	6.5	4.3	4.2	2.9
(b) non-primary effect industry						
	ERP	maximum	9.5-11.9	6.7-8.3	6.7-8.3	3.1-3.9
		average	9.5-11.9	6.7-8.3	6.7-8.3	1.2-1.5

Table A: NOTES AND ASSUMPTIONS

(a) GENERAL: Discount rate 8.0 percent (EC reference rate 1976)

(b) INVESTMENT ALLOWANCE (IA)
(i) Nominal value: As percentage eligible investment costs.
(ii) Taxation: Not taxed.
(iii) Delays: Assuming calendar and financial years coincide (the normal case) then 12 month delay on average (average 6 months submission delay plus average 6 months processing delay).
(iv) Eligible items: With EC key of: land 5, building 30, plant 65 and with working capital assumed to be 30 percent of project capital costs, eligible buildings/plant account for 66.5 percent of all project capital costs.

(c) INVESTMENT GRANT (IG)
(i) Nominal value: As percentage eligible investment costs.
(ii) Taxation: Effective rate of corporation tax 34.1 percent (standard rate 56 percent reduced by the fact that there is an average six month delay in tax payment and because the grant is taxed "indirectly" through reducing the value of aided assets by the value of the grant for depreciation purposes. For depreciation purposes we assume that plant is depreciated straight line over an 8 year fiscal life and that buildings are depreciated straight line over 50 years. Land is non-depreciable with the result that the land element of grant is fed directly into income and hence taxable profits).
(iii) Delays: Processing delay: average 9 months (range 6-12 months). Assuming grant application made just before project construction starts (in practice it can be made earlier but not later), a one year construction period and a uniform distribution of project expenditure, the 9 month average processing delay implies an average 3 month delay between asset expenditure and grant receipt.
(iv) Eligible items: Eligible investment assumed to be 70 percent of all project capital costs, it being assumed that (ineligible) working capital is 30 percent thereof.

(d) SPECIAL DEPRECIATION ALLOWANCE (SDA)
(i) Nominal value: Net present value of tax saving due to accelerated depreciation given an effective tax rate of 53.9 percent for primary effect industry (standard 56 percent corporation tax reduced by average 6 month delay) and 30 percent for non-primary effect industry (since it would tend to be subject to income tax).
(ii/iii) Taxation/Delays: Not relevant.
(iv) Eligible items: Given the assumptions in (b)(iv) above plant covers 45.5 and buildings 21.0 percent of all project capital costs.

(e) ERP SOFT LOAN (ERP)
(i) Nominal value: Net grant equivalent of loan subsidy as percent loan award assuming:

	loan period	principal repayment holiday	interest free period	interest rate subsidy (given EC reference rate)
ZRG	10-15 yrs	2 yrs	None	3 percentage pts
NON-ZRG	10-15 yrs	2 yrs	None	2 percentage pts

Repayment is six monthly on a straight line basis.
(ii) Taxation: Effective rate of tax (income tax): 30 percent.
(iii) Delays: None.
(iv) Eligible items: (a) Loan as percent eligible investment: (1975) average 26 percent; maximum 66.7 percent. (b) Eligible investment as percent project costs (given EC key) - 70 percent. Loan is therefore an average 18.2 percent of project costs, and has a maximum coverage of 46.7 percent of all project capital costs.

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Table B: EFFECTIVE SUBSIDIES AS A PERCENTAGE OF VARIOUS DENOMINATORS

AREA	INCENTIVE COMBINATION	INITIAL CAPITAL COSTS	ANNUAL CAPITAL COSTS	VALUE ADDED
ZRG				
	(a) <u>primary effect industry</u>			
	IA (+SDA)	4.6 (11.5)	3.9 (9.8)	1.3 (3.3)
	IG (25 percent max) (+SDA)	11.3 (16.5)	9.6 (14.0)	3.3 (4.8)
	IG (15 percent max) (+SDA)	6.8 (12.7)	5.8 (10.8)	2.0 (3.7)
	IG (10 percent max) (+SDA)	4.6 (10.8)	3.9 (9.2)	1.3 (3.1)
	IG (average) (+SDA)	3.9 (10.2)	3.3 (8.7)	1.1 (3.0)
	IA + IG (25 percent max) (+SDA)	12.5 (18.2)	10.6 (15.5)	3.6 (5.3)
	IA + IG (15 percent max) (+SDA)	8.0 (14.4)	6.8 (12.3)	2.3 (4.2)
	IA + IG (10 percent max) (+SDA)	5.7 (12.4)	4.8 (10.6)	1.6 (3.6)
	IA + IG (average) (+SDA)	8.6 (14.9)	7.3 (12.7)	2.5 (4.3)
	SDA	6.9	5.9	2.0
	(b) <u>non-primary effect industry</u>			
	ERP maximum	4.6-5.8	3.9-4.9	1.3-1.7
	(+SDA)	(8.4-9.6)	(7.1-8.1)	(2.4-2.8)
	ERP average	1.8-2.3	1.5-2.0	0.5-0.7
	(+SDA)	(5.6-6.1)	(4.7-5.2)	(1.6-1.8)
	SDA	3.8	3.2	1.1
NON-ZRG				
	(a) <u>primary effect industry</u>			
	IA	4.6	3.9	1.3
	IG (20 percent max) (+IA)	9.0 (10.3)	7.6 (8.7)	2.6 (3.0)
	IG (15 percent max) (+IA)	6.8 (8.0)	5.8 (6.8)	2.0 (2.3)
	IG (10 percent max) (+IA)	4.6 (5.7)	3.9 (4.8)	1.3 (1.6)
	IG (average) (+IA)	3.2 (7.5)	2.7 (6.4)	0.9 (2.2)
	(b) <u>non-primary effect industry</u>			
	ERP maximum	3.1-3.9	2.6-3.3	0.9-1.1
	ERP average	1.2-1.5	1.0-1.3	0.3-0.4

Table B: NOTES AND ASSUMPTIONS

(a) INITIAL CAPITAL COSTS

In general, the summation of the Table A results. Note though that when an investment allowance is awarded in conjunction with an investment grant the maximum nominal value of the grant is reduced by 7.5 percentage points since the maximum value of the two incentives in combination must not exceed the maximum preferential rate for the locality (see p.104 above). In addition, when an investment grant is awarded in conjunction with a special depreciation allowance, the value of the grant is reduced to 84.98 percent of its Table A level since tax payments on the building and plant elements of grant are in effect made more quickly under the SDA regime.

(b) ANNUAL CAPITAL COSTS (Discount/interest rate 8.0 percent).

(i) Calculation of weighted annual capital cost factor:

Asset	Assumed Life	Annual Capital Charge Factor	Weight	Weighted Factors
Buildings	50	0.0817	0.210	0.0172
Plant	10	0.1490	0.455	0.0678
Land/Working Capital	-	0.0800	0.335	0.0268
	WEIGHTED ANNUAL CAPITAL COST FACTOR			0.1118

(ii) Calculation of annual subsidy factor:
- IA, SDA : 0.0955 (plant/building subsidised)
- IG, ERP loan : 0.0948 (plant/building/land subsidised)

Since replacement is not explicitly subsidised, the subsidy life of the plant element of all the above subsidies is taken to be 20 years - see p. 44 above.

(iii) Calculation of annuitising factor ((ii) ÷ (i))
- IA, SDA : 0.8542
- IG, ERP loan : 0.8479

(c) VALUE ADDED

It is assumed that gross profits make up 34 percent of value added. This was the average figure for manufacturing industry in Germany over the period 1970-74. See Eurostat, National Accounts 1970-74 Eurostat Yearbook 2 - 1975, Statistical Office of the European Communities, 1975, Table 5.

IRELAND

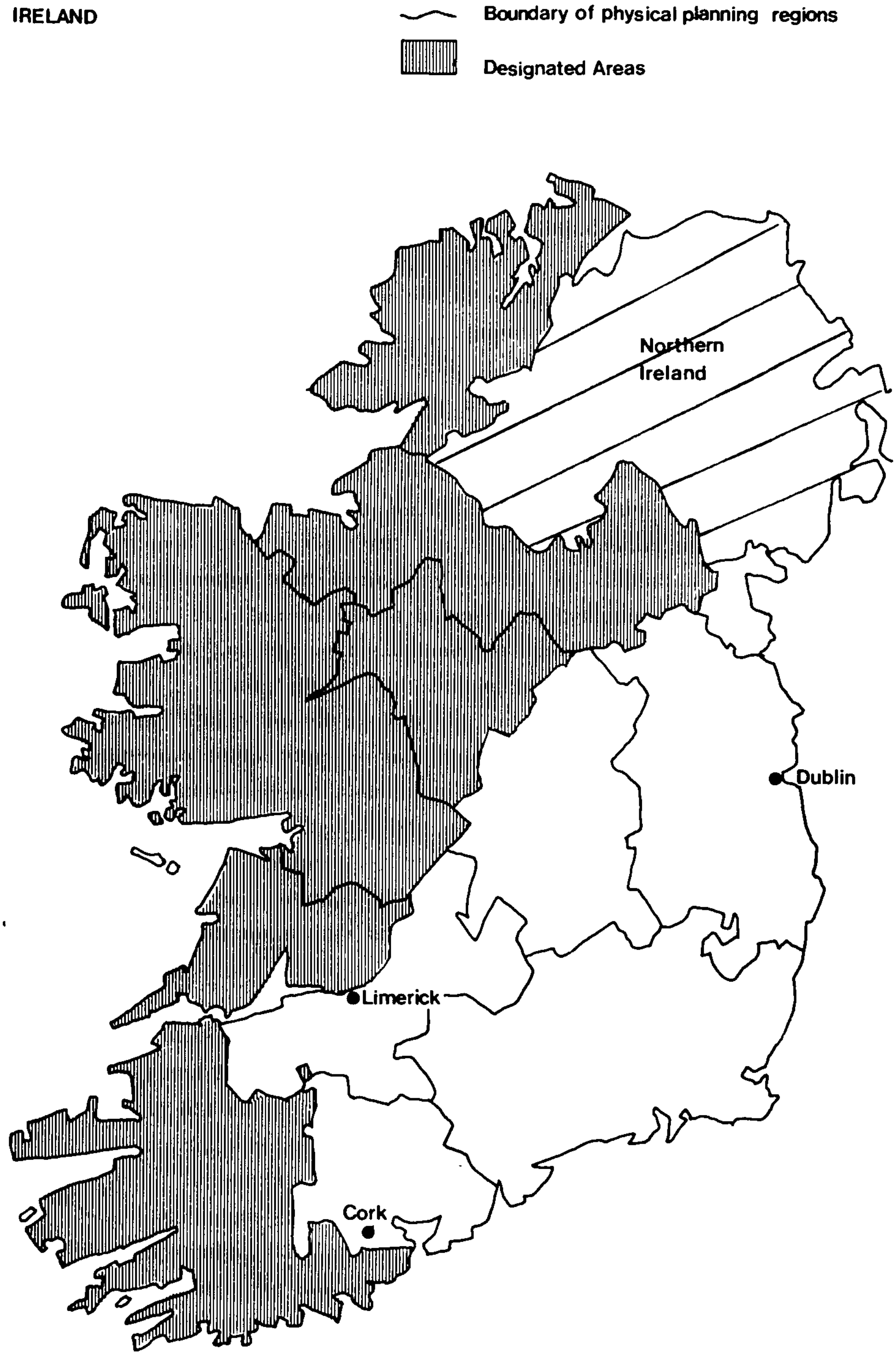
THE INCENTIVES

Both fiscal and financial incentives are currently available in the Republic of Ireland. The main financial incentives are project-related capital grants awarded by the Industrial Development Authority (IDA). The IDA grant system covers the whole of the country, albeit with differentiation in terms of rates of award between Designated Areas (containing almost one third of the national population and covering over one half of the national land area - see accompanying map), Non-Designated Areas, and Dublin. A feature of the system is its division into a number of separate grant programmes.

The most important of these, in terms of expenditure, is the New Industry and Major Expansion Programme. Over the period 1973/74 - end 1975 more than £140 million worth of grant expenditure was approved under this scheme (annual average £51.3 million), representing in expenditure terms almost three-quarters of all IDA capital grant approvals. Over the same period, a further one fifth of approved grant expenditure (averaging £14.1 million annually) was devoted to the second most important programme, the Re-equipment and Modernisation Scheme. Both the new industry/major expansion programme and the re-equipment/modernisation programme are included in the synopsis tables which follow. Under the former, the maximum rates of award, for administrative purposes, are 50 percent in the Designated Areas, 35 percent in the Non-Designated Areas and 25 percent in Dublin; while under the latter, maximum rates of 35 percent, 25 percent and 25 percent respectively apply. There is moreover an upper limit of £850,000 set for any re-equipment/modernisation grant awarded, although this limit may be exceeded with Government approval.

The remaining IDA grant programmes are of much less importance and indeed in terms of grant expenditure approved in the period April 1973 to December 1975 accounted for less than 6 percent of the IDA grant total. Just over half of this (on average some £2.3 million worth of approved expenditure per annum) was devoted to the Small Industry Programme, designed to assist small manufacturing industry employing up to 50 persons with a fixed asset investment not exceeding £200,000. Under this programme, the maximum rates of award are ten percentage points more than those noted above for new industry projects and major expansions.

IRELAND



Boundary of physical planning regions
Designated Areas
Northern Ireland
Dublin
Limerick
Cork

Other programmes, minor in terms of expenditure even though significant in the context of the development process, include the Joint Venture, Service Industries and Product and Process Development schemes. The primary objective of the Joint Venture Programme is to encourage the establishment of new manufacturing capacity through the promotion of partnerships between foreign and domestic entrepreneurs. The Service Industries Programme (like the Joint Ventures scheme offering grants at the New Industry/Major Expansion Programme maximum rates) is aimed at both domestic and overseas firms in certain areas of the service sector such as engineering consultants and computer technology, with a view to developing export services. The Product and Process Scheme, together with grants towards the provision of research facilities, has the objective of improving both the competitiveness and growth potential of Irish manufacturers through innovation and the development of industrial processes. Under this scheme, the maximum rates of grant award are as noted above under the re-equipment/modernisation programme.

Turning from financial to fiscal incentives, the most important such aid is the export profits tax relief scheme - generally considered to be of key significance in attracting foreign investment to Ireland. Under this scheme, 100 percent relief from corporation tax is given for a period of 15 years, with a reducing scale of relief for a further 5 years on profits attributable to the export of Irish manufactured goods. The scheme is scheduled to end in April 1990. In 1975, export profits tax relief is estimated to have 'cost' the exchequer £25 million in foregone revenue. The scheme is described in detail in the synopsis tables which follow.

The last of the major incentives in Ireland are capital allowances. These are administered by the Revenue Commissioners, are available throughout the country and "cost" the exchequer some £10 million annually. For new plant and machinery, they take the form of a 100 percent initial allowance or of free depreciation; while for industrial buildings the standard allowance is an initial 50 percent allowance plus a straight line writing down allowance of 4 percent per annum (making a 54 percent allowance in the year in which the expenditure is made, and 4 percent annually thereafter). Moreover, in the Designated Areas, a further allowance is available on plant and machinery - the "investment allowance". This allowance of 20 percent of capital expenditure is available on top of the capital allowances, thus permitting a total of 120 percent of the cost of new plant and machinery to be claimed for tax purposes in the Designated Areas. It is the investment allowance which is covered in the following synopsis tables.

	Capital Grants	Export Profits Tax Relief	Investment Allowance
1. Basic Details	Discretionary, project-related capital grants. In law a two-tier grant structure, the basic grant not exceeding 40 percent of eligible fixed investment in designated areas (25 percent elsewhere), while an extra maximum 20 percent grant may be offered to projects satisfying "additional criteria". In practice the position is more complex, the maximum administrative percentages for the two main grant schemes being (for designated areas, non-designated areas and Dublin respectively) 50 : 35 : 25 for setting-up projects and major extensions and 35 : 25 : 25 for re-equipment projects. Moreover, the maximum re-equipment grant is £850,000 although grants in excess of this limit may be given with Government approval.	A non-discretionary fiscal incentive for companies which export manufactured goods - the incentive being total relief on taxable profits attributable to such exports ("attribution" being on the proportion of exports to total sales) for 15 years plus partial relief for a further 5 years. However, since the incentive will lapse in 1990, only those companies which started an export trade before 1971 are eligible for the full legislative relief.	Non-discretionary, item-related fiscal concession. The allowance, a fixed 20 percent of capital expenditure on new plant and machinery, is available to set against taxable profits in the designated areas only. It is awarded on top of the national capital allowance scheme (of, amongst other things, free depreciation for plant and machinery) and thus permits a total of 120 percent of the cost of new plant and machinery to be claimed for tax purposes in the designated areas.
2. Legal Basis	Industrial Development Act 1969.	The Corporation Tax Act 1976 incorporates previous legislation in relation to tax reliefs on export profits.	Income Tax Act 1967, subsequent Finance Acts and the Corporation Tax Act 1976.
3. Administration	Grant administration is in the hands of the Industrial Development Authority (IDA) except for the Mid-West Region (where the Shannon Free Airport Development Company mainly acts as agent for the IDA) and the Gaeltacht areas (for which Gaeltarra Eireann is responsible). Finance is provided from voted capital of the Department of Industry and Commerce, and indeed the Minister of Industry and Commerce is responsible to Parliament for the IDA.	The scheme is administered as part of the general taxation system. Advice on borderline cases (where unclear that product falls within the definition of a manufactured good) is usually sought before production starts. Otherwise, the normal practice is that business accounts are submitted to the Inspector of Taxes, together with a claim for export sales relief showing the proportion of goods manufactured going to export sales. The Inspector then assesses the tax due.	Investment allowances are administered uniformly throughout the designated areas as part of the general taxation system.
4. Eligible Activities	While in law no economic activity or sector is specifically excluded, the general conditions of award (see 11 below) mean that in practice awards are made principally to manufacturing industries. Certainly, agriculture and construction are not generally eligible while services are covered by a separate IDA grant scheme (see introduction).	All manufacturing industries, plus specified manufacturing processes; certain design and planning services for projects executed abroad; repairs to non-resident-owned ships; as well as fish farming and mushroom cultivitation are eligible. In general, the primary sector, construction, tourism and services are ineligible. At Shannon Airport however all activities (including service activities like packaging) which contribute to the use and development of the airport are eligible for Shannon relief. Unlike the export profits tax relief, Shannon relief can be claimed in full, without any scaling down, for any qualifying profits made before 6 April 1990.	No sector is specifically excluded. All sectors carrying out eligible investment are eligible. However, since the allowance is restricted to new plant and machinery, most awards are made within manufacturing.
5. Activity Discrimination	Between eligible activities no specified discrimination, but the decision whether or not to award and the rate of award (subject to the administrative maxima) are at the discretion of the authorities, thus giving some scope for discrimination. Moreover, the legislative criteria of award (see 11 below) mean that, in practice, particular sectors are favoured in terms of eligibility and rates.	None. Award is automatic as long as conditions are fulfilled, and rates are fixed.	None. Award is automatic as long as conditions are fulfilled; rates are fixed.
6. Spatial Discrimination	Grants are available throughout the country but at different rates corresponding to the legal distinction drawn between designated and non-designated areas. A further administrative distinction separates out Dublin as a special case within the non-designated areas (see 1 above for maximum awards and 12 below for actual awards). Until the current recession, new industrial development was not encouraged in the Dublin area. Within eligible areas no specified discrimination (but see 5 above).	None in terms of rates nor, in general, in the decision whether or not to award. However, in the Shannon Free Airport zone there is favourable treatment (albeit only with Ministerial permission) due to the wider definition there of eligible activities (see 5 above).	Available only in the designated areas. Rates are fixed and the decision whether or not to award is largely automatic, giving no scope therefore for discrimination within eligible areas.

	Capital Grants	Export Profits Tax Relief	Investment Allowance
7. Project Type Discrimination	Setting-up projects and major extensions have higher grant maxima than "re-equipment" grant projects i.e. minor extensions, modernisations, reorganisations and rationalisations. (Essentially the distinction between the two grant types is that between expanding employment and maintaining existing employment). However, in practice, "re-equipment" grant criteria appear less stringent than those for setting-up so that such grants are less likely to be scaled down from the maxima set. Indeed (see 12 below) "re-equipment" grants often have higher average levels in percentage terms - though on the other hand they are often more difficult to obtain. Take-overs and wholly replacement projects are not eligible for assistance, while transfers do not qualify under the setting-up scheme but are assisted under the re-equipment programme. Between eligible project types no specified discrimination (but see 5 above).	None, the relief being on a company basis.	None, the allowance being on an item rather than a project basis.
8. Size Discrimination	Where investment is less than £1 mill. or £15,000 per job setting-up projects and major extensions face cost per job limits of £7,500, £5,000 and £4,000 in the designated areas, non-designated areas and Dublin respectively. No further specified size discrimination (but see 5 above).	None, in terms of eligibility nor, directly, in terms of rates. Only to the extent that corporation tax rates favour small companies (i.e. those with taxable profits of less than £15,000) does the concession, by relieving this tax burden, favour larger companies.	None, either in terms of eligibility or rates.
9. Eligible Items	Almost all project fixed capital costs - including site purchase and development, infrastructure works and installations (e.g. electrical services, water, telephones) are eligible, as long as they are "reasonable" and directly relevant to the production process. Working capital, off-site vehicles, second-hand items, plant and machinery of less than £1,000, tools and implements and office decorations are all ineligible, as is office equipment of less than £2,000. Offices and canteens on the premises are eligible but ancilliary buildings (e.g. recreational facilities) are not. Replacement is eligible where part of a re-equipment grant project.	Not relevant.	Only new plant and machinery is eligible. Second-hand items are ineligible as is any disbursement on maintenance, repairs or loose tools or small tools likely to be worn out in a short period. Replacement is eligible as long as the above conditions are met.
10. Eligible Forms of Expenditure	Assets purchased with cash or through phased payments are eligible as are assets bought on hire purchase. Leased assets are not eligible.	Not relevant.	Assets purchased by cash, or through phased payments or on hire purchase are eligible. Leased assets are not directly eligible.
11. Further Conditions	Legally, in addition to project viability, there are three basic conditions of award (the investment must be of a reasonably permanent nature; must need assistance; and above all must create or maintain employment - see 8 above) and four supplementary conditions (relating to the significance and character of the employment - skilled males being favoured; the degree of local linkage; the growth potential of the undertaking; and its technological and scientific content). In practice it appears that all the above conditions play a role in determining whether or not to make an award and the level of award. Moreover, re-equipment grant projects must be part of a fully integrated and realisable development plan and be in line with the IDA's sectoral priorities.	The relief is available to companies only. Only those profits which originate from export sales are eligible and then only where attributable to the sale of goods manufactured in Ireland (or to the activities in 4 above).	The main condition is that the asset be in use at the end of the year in which the allowance is being claimed.

<table>
<tr><th></th><th>Capital Grants</th><th>Export Profits Tax Relief</th><th>Investment Allowance</th></tr>
<tr><td>12. <u>Actual Awards</u></td><td>The table shows grant approvals over the period April 1973 to end 1975 (£ mill.):
<table>
<tr><th></th><th>Designated Areas</th><th></th><th>Non-Designated Areas</th><th></th></tr>
<tr><th></th><th>Setting Up</th><th>Re-equip-ment</th><th>Setting Up</th><th>Re-equip-ment</th></tr>
<tr><td>cases</td><td>108</td><td>151</td><td>187</td><td>608</td></tr>
<tr><td>awards</td><td>56.8</td><td>7.0</td><td>84.3</td><td>31.8</td></tr>
<tr><td>average</td><td>0.53</td><td>0.05</td><td>0.45</td><td>0.05</td></tr>
<tr><td>percent eligible investment</td><td>27.0</td><td>34.4</td><td>21.0</td><td>21.0</td></tr>
</table></td><td>No relevant information.</td><td>No information.</td></tr>
<tr><td>13. <u>Tax Treatment</u></td><td>The building element of the grant is (indirectly) taxed whenever profits are made since aided buildings can only be depreciated for tax purposes net of any grant received. In contrast, the plant and machinery element is free of tax since capital allowances apply to the total cost (i.e. ignoring grants) of aided plant and machinery.</td><td>Not relevant.</td><td>Not relevant.</td></tr>
<tr><td>14. <u>Timing and Phasing</u></td><td>Application must be made and a decision given before project construction starts. Application processing period is variable (6 months to 2 years) depending very much on length of project planning phase. Thereafter claims for grant payment can be submitted as bills paid. Claim verification period is about one month.</td><td>The basis of assessment and granting of relief is as for Corporation Tax, with application for the export profits tax relief being made as the tax accounts are submitted. Corporation tax for any accounting period is in two equal instalments, the first nine months from the end of the accounting period and the second six months later.</td><td>Application is made in conjunction with the annual tax return. The allowance is given in the accounting period related to the year of expenditure. Corporation tax for any accounting period is in two equal instalments, the first nine months from the end of the accounting period and the second six months later.</td></tr>
<tr><td>15. <u>Topping Up</u></td><td>No awards are possible beyond the formal maxima.</td><td>No awards are possible beyond the formal maxima.</td><td>No awards are possible beyond the formal fixed rate.</td></tr>
<tr><td>16. <u>Addability</u></td><td>The two main incentive types - IDA capital grants and fiscal incentives - are independent of each other and are unconditionally addable. Within the IDA incentive package capital grants can also be added to other, more minor, IDA assistance (e.g. loan guarantees, loan subsidies, and training grants) subject to the administrative maxima set out in 1 above.</td><td>Export profits tax relief and all financial incentives are independent and unconditionally addable. The relief can also be awarded in conjunction with capital allowances, but it should be noted that even where relief is claimed on all taxable profits the relevant writing down allowances (but not any accelerated allowances) are deemed to have been taken and cannot, therefore, be carried forward. Wear and tear allowances have priority over export profits relief.</td><td>Investment allowances can be added to all financial incentives without limit. When export profits tax relief is awarded, taxable profits may be reduced to such an extent that the investment allowance is either reduced in value or nullified.</td></tr>
<tr><td>17. <u>Clawback</u></td><td>Where a condition is not met, or is broken within ten years - and the case comes to IDA notice - grant is repayable. The normal policy is to examine the reason for shortfall and to try to renegotiate in the light of the changed circumstances. The law is a last resort. Total grant repayments amounted to £964,000 from April 1970 to the end of 1975.</td><td>Not relevant.</td><td>Not relevant.</td></tr>
<tr><td>18. <u>Turndown</u></td><td>For setting-up projects and large extensions there are no meaningful turndown rates since projects which fail to meet the IDA criteria are discouraged from making formal application. Any turndown is thus informal, and there is no quantification of the scale. For re-equipment grants the turndown rate for one recent year was about 40 percent - largely for reasons of overcapacity in the product area, project non-viability, lack of growth potential and financial inadequacy.</td><td>Although a formal application is required, the concession is automatic as long as the conditions of eligibility are met. There are therefore no meaningful turndown rates.</td><td>Little discretion available to the authorities and thus no meaningful turndown rates,</td></tr>
</table>

	Capital Grants	Export Profits Tax Relief	Investment Allowance
19. Cost	Expenditure in the period April 1973 - end 1975 was £33.8 mill. for setting-up projects and major extensions (including service projects and joint ventures) and £19.5 mill. for re-equipment projects. Over the same period total IDA grant expenditure was approximately £57.0 mill.	The revenue foregone to the Exchequer, outside of the Shannon area (where foregone revenue is estimated at £5 mill. per annum) has been (£ mill.): 1970/71: 15.1 · 1971/72: 16.1 · 1972/73: 15.9 · 1973/74: 15.4 · 1974/75: 23.8 · 1975/76: 24.6	No information.
20. Jobs Associated	The IDA estimates that the job potential of projects approved between April 1973 and December 1975 was 59,664.	No information.	No information.
21. Investment Associated	Fixed asset investment associated with setting-up projects/major extensions totalled £611.9 mill. in the period April 1973 - end 1975. The corresponding figure for re-equipment projects was £171.5 mill.; and for all IDA grant expenditure £807.3 mill.	No information.	No information.
22. Anticipated Duration	No specified life.	Under present legislation not payable after 5 April 1990.	No specified life.
23. Change Provisions	Where major changes are envisaged, provision will be made through statute, order or regulation as appropriate.	No guidelines available.	For capital allowances in general changes are notified in the budget and normally come into force in the relevant fiscal year.
24. Miscellaneous			

THE INCENTIVE VALUES

As we have seen, the Irish incentive system is composed of both financial and fiscal measures. The main financial incentive is the IDA capital grant. In terms of expenditure, the major IDA grant programme is that devoted to new industry and major expansions, the re-equipment and modernisation scheme being second in importance. Over the period 1973/74 - end 1975, 295 awards were approved under the new industry/ major expansion programme (average award £0.5 million) and 759 awards under the re-equipment/modernisation programme (average award £0.05 million) For reasons of space, the valuation tables which follow are limited to the former programme though we do comment shortly on the value of the re-equipment and modernisation scheme. The tables also include the main Irish fiscal incentives - the export profits tax relief scheme and the investment allowance (this latter being available only in the Designated Areas and offering firms a first year 120 percent write down of plant for tax purposes, as against 100 percent in the rest of the country). The focus of attention however is on the IDA capital grant scheme.

One of the reasons for this is the difficulty of valuing export profits tax relief - and this because of the lack of information on profits arising from exports in aided projects. In the absence of such information, Table A has to cover the extreme cases - distinguishing between projects whose profits arise solely from exports (and are therefore eligible for export profits tax relief) and those with no export profits. The table also differentiates between Designated Areas, Non-Designated Areas and Dublin, the three main types of assisted area for IDA grant administrative purposes; and further distinguishes the legal and administrative maximum levels of grant under the new industry/major expansion programme from average awards made (these being for the period April 1973 to December 1975).

From Table A it can be seen that export projects receive the highest effective rates of grant - the legal maximum being 41.6 percent in the Designated Areas compared to 36.3 percent for comparable non-export projects - and this because the effective rate of tax on the grant for such projects is zero. Working in the opposite direction, however, it can be seen that the investment allowance is "worthless" for export projects, but is worth, in effective value terms, 2.1 percent of initial capital costs where taxable profits are being made. The table further shows that Designated Area projects are treated significantly better than Non-Designated Area projects in terms of maximum rates of award, but that the difference in terms of average effective values is not major - 18.7 percent of initial capital costs in the Designated Areas for export projects compared with 14.6 percent in the Non-Designated Areas.

As already noted, the table is limited to the new industry/major expansion grants of the IDA. Under the re-equipment and modernisation scheme the administrative maxima are 35 percent in the Designated Areas, and 25 percent in the Non-Designated Areas (including Dublin) while the average values over the period 1973/74 - 1975 were 34.4 percent and 21.0 percent respectively. Re-equipment and modernisation awards - unlike those for new industry and major expansions - therefore, averaged close to the maxima over the period in question. Although, as we have said, Table A does not directly cover the re-equipment grant, both maxima and average re-equipment grant awards have comparable entries in the table. For example the 35 percent nominal administrative maximum in the Designated Areas has a "twin" in the administrative maximum for Non-Designated Areas under the new industry/major expansion scheme. It is not difficult, therefore, for the reader to identify the appropriate effective values for the re-equipment and modernisation grant programme.

Table B has the same broad structure as Table A, distinguishing between export and non-export projects; between Designated Areas, Non-Designated Areas and Dublin; and between maximum and average levels of award. As well as IDA grant awards on their own, the table shows the value of the combination IDA grant plus investment allowance (the standard combination in the Designated Areas).

From the table, it is clear that the investment allowance is not of major importance in effective value terms. Indeed, it only has a value for non-export project - and even then is not of major importance. In terms of maximum rates of award, IDA new industry/major expansion grants are high by international standards (a point to which we return in Part II) both in the Designated Areas and outside these areas, and irrespective of whether the aided project is an export project or not. The administrative grant maximum for export projects in the Designated Areas, for example, is worth, in effective value terms 34.7 percent of initial capital costs, 32.1 percent of annual capital costs and 10.0 percent of value added; while even a non-export project in the Non-Designated Areas has an administrative grant maximum effective value of 21.2 percent, 19.6 percent and 6.1 percent respectively. True, average awards fall well below the above maxima. But working in the opposite direction most aided projects in Ireland would in practice be in receipt of export profits tax relief, a point not directly taken account of in Table B. When export profits are being made (and most projects under the new industry/major expansion programme would be export-oriented) export profits tax relief can be very valuable indeed, placing the Irish incentive package among the top group of EC country schemes in terms of average as well as maximum rates of award.

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Table A: NOMINAL TO EFFECTIVE PERCENTAGE SUBSIDY.

AREA	INCENTIVE	LEVEL	NOMINAL VALUE	EFFECTIVE VALUE AFTER TAX	DELAYS	ELIGIBLE ITEMS
(A) EXPORT PROJECTS						
DESIGNATED AREA	IDA grant	legal maximum	60.0	60.0	59.4	41.6
		administrative maximum	50.0	50.0	49.5	34.7
		average	27.0	27.0	26.7	18.7
	IA	fixed rate	-	-	-	-
NON-DESIGNATED AREA	IDA grant	legal maximum	45.0	45.0	44.5	31.2
		administrative maximum	35.0	35.0	34.6	24.2
		average	21.0	21.0	20.8	14.6
DUBLIN	IDA grant	legal maximum	45.0	45.0	44.5	31.2
		administrative maximum	25.0	25.0	24.7	17.3
(B) NON-EXPORT PROJECTS						
DESIGNATED AREA	IDA grant	legal maximum	60.0	51.5	50.9	35.6
		administrative maximum	50.0	42.9	42.4	29.7
		average	27.0	23.2	23.0	16.1
	IA	fixed rate	6.6	-	-	2.1
NON-DESIGNATED AREA	IDA grant	legal maximum	45.0	38.6	38.2	26.7
		administrative maximum	35.0	30.0	29.7	20.8
		average	21.0	18.0	17.8	12.5
DUBLIN	IDA grant	legal maximum	45.0	38.6	38.2	26.7
		administrative maximum	25.0	21.5	21.3	14.9

Table A: NOTES AND ASSUMPTIONS

(a) GENERAL: Discount rate 13.75 percent (EC reference rate 1976).

(b) INDUSTRIAL DEVELOPMENT AUTHORITY (IDA) GRANT

(i) Nominal value: As percentage of eligible investment costs. The percentages shown are for setting-up projects and major extensions, with the average percentages being for the period 1973/74-1975. (About one fifth of approved IDA grant expenditure goes on re-equipment projects. These are not covered in Table A but are discussed in detail in the introduction). It will be noted that no average award figure is given for the Dublin area. This is because it is only recently - in response to high levels of unemployment - that IDA grant awards have begun to be made to Dublin-based projects.

(ii) Taxation: Effective corporate tax rate 37.1 percent (standard rate 45 percent, paid in two equal instalments, delayed 15 and 21 months). The capital grant tax rate is 14.2 percent since only the building element of grant is taxed and then only indirectly by reducing the value of the aided building for depreciation purposes.

(iii) Delays: It takes on average one month to process claims for grant payment.

(iv) Eligible items: Eligible investment assumed to be 70 percent of all project capital costs, it being assumed that (ineligible) working capital is 30 percent thereof.

(c) INVESTMENT ALLOWANCE (IA)

(i) Nominal value: Net present value of tax saving due to "accelerated" depreciation given an effective tax rate of 33.0 percent. Of no value to export projects since no taxable profits (due to export profits tax relief).

(ii) Taxation: Not relevant.

(iii) Delays: Not relevant.

(iv) Eligible items: With EC key of land 5, buildings 50, plant 45 and with working capital assumed to be 30 percent of project capital costs, eligible plant accounts for 31.5 percent of all project capital costs.

Table B: EFFECTIVE SUBSIDIES AS A PERCENTAGE OF VARIOUS DENOMINATORS.

AREA	INCENTIVE COMBINATION	INITIAL CAPITAL COSTS	ANNUAL CAPITAL COSTS	VALUE ADDED
(A) EXPORT PROJECTS				
DESIGNATED AREA	IDA grant (legal max) (+IA)	41.6 (41.6)	38.5 (38.5)	11.9 (11.9)
	IDA grant (admin max) (+IA)	34.7 (34.7)	32.1 (32.1)	10.0 (10.0)
	IDA grant (average) (+IA)	18.7 (18.7)	17.3 (17.3)	5.4 (5.4)
NON-DESIGNATED AREA	IDA grant (legal max)	31.2	28.9	9.0
	IDA grant (admin max)	24.2	22.4	6.9
	IDA grant (average)	14.6	13.5	4.2
DUBLIN	IDA grant (legal max)	31.2	28.9	9.0
	IDA grant (admin max)	17.3	16.0	5.0
(B) NON-EXPORT PROJECTS				
DESIGNATED AREA	IDA grant (legal max) (+IA)	35.6 (37.7)	33.0 (35.6)	10.2 (11.0)
	IDA grant (admin max) (+IA)	29.7 (31.8)	27.5 (30.1)	8.5 (9.3)
	IDA grant (average) (+IA)	16.1 (18.2)	14.0 (17.5)	4.6 (5.4)
NON-DESIGNATED AREA	IDA grant (legal max)	26.7	24.7	7.7
	IDA grant (admin max)	20.8	19.3	6.0
	IDA grant (average)	12.5	11.6	3.6
DUBLIN	IDA grant (legal max)	26.7	24.7	7.7
	IDA grant (admin max)	14.9	13.8	4.3

Note: For reasons explained in the text, no attempt is made to value the national export profits tax relief in the above table (although the impact of this concession on IDA grants and the investment allowance is shown). It is, however, perhaps worth noting that, if gross profits were in line with taxable profits, then the relief would (for a company which exported all if its output) be worth over 10 percent of value added in those years in which it was obtained.

Table B: NOTES AND ASSUMPTIONS

(a) INITIAL CAPITAL COSTS
As in Table A, with the investment allowance added to the IDA grant percentages where appropriate.

(b) ANNUAL CAPITAL COSTS (Discount/interest rate: 13.75 percent).
(i) Calculation of weighted annual capital cost factor:

Asset	Assumed Life	Annual Capital Charge Factor	Weights	Weighted Factors
Buildings	50	0.1377	0.350	0.0482
Plant	10	0.1899	0.315	0.0598
Land/Working Capital	-	0.1375	0.335	0.0461
	WEIGHTED ANNUAL CAPITAL COST FACTOR			0.1541

(ii) Calculation of annual subsidy factor:
- IA : 0.1899 (plant subsidised on an item basis i.e. replacement investment is explicitly aided)
- IDA grant : 0.1427 (plant/building/land subsidised)

Since replacement is not explicitly subsidised, the subsidy life of the plant element of the IDA grant is taken to be 20 years - see p. 44 above.

(iii) Calculation of annuitising factor ((ii) ÷ (i))
- IA : 1.2323
- IDA grant : 0.9260

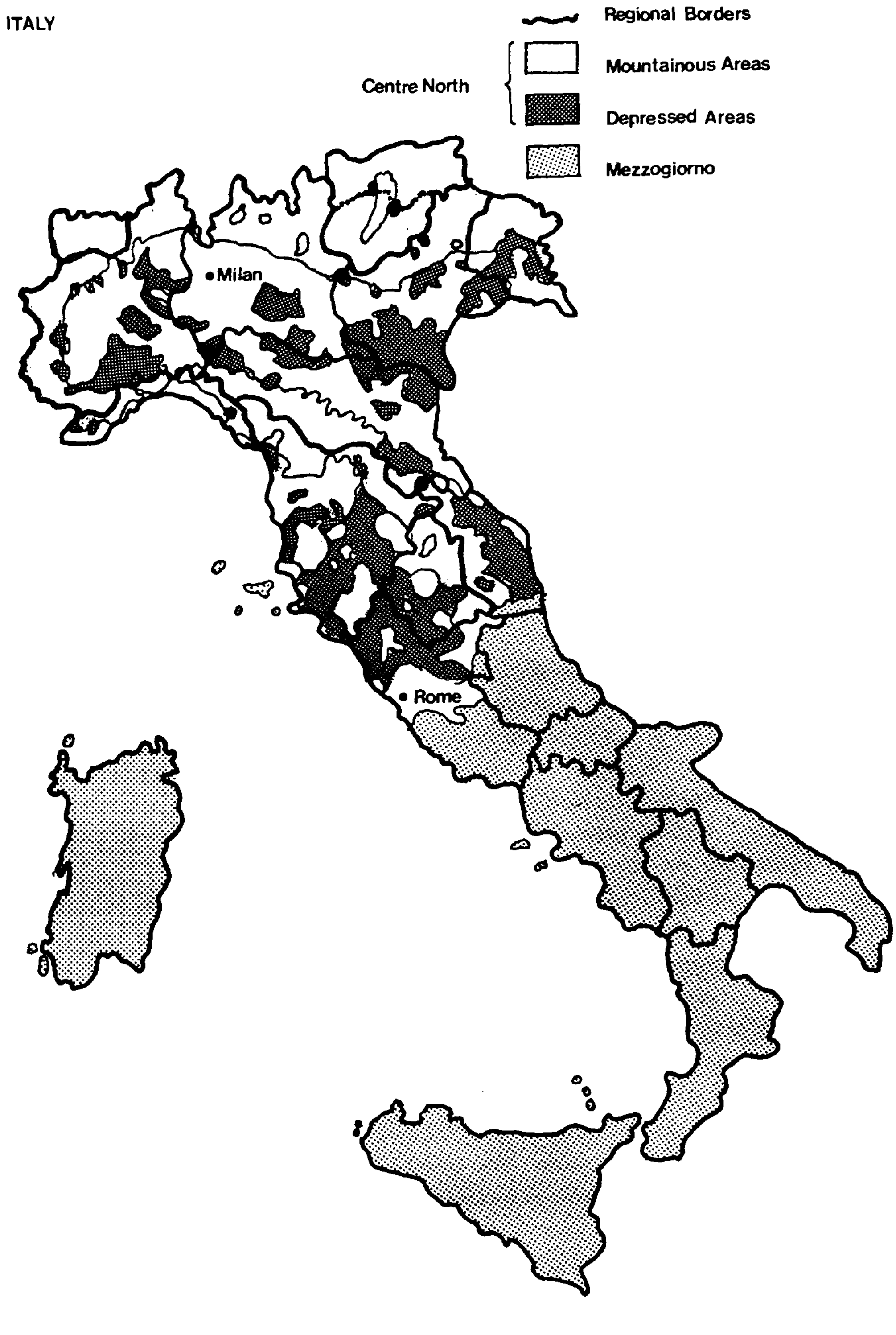
(c) VALUE ADDED
It is assumed that gross profits make up 31 percent of value added. This was the average figure for manufacturing industry in Ireland over the period 1970-72. See Eurostat, National Accounts 1970-74 Eurostat Yearbook 2 - 1975, Statistical Office of the European Communities, 1975, Table 5.

ITALY

THE INCENTIVES

Since the mid 1950s the main regional incentives in Italy have consisted of one or more nationwide soft loan schemes for small and medium sized firms (with marked regional features in terms of concessionary elements) plus a special incentive package for the Mezzogiorno of grants, soft loans and tax concessions. In addition, since 1968, social security concessions have been in operation in the Mezzogiorno.

The synopsis and valuation tables which follow cover the main current regional incentives. There are four of these. The first is a largely automatic, project-related grant with standard fixed rates determined by project size. The rates vary from 40 percent of eligible investment for projects up to Lire 2 milliard, to less than 26 percent for projects over Lire 15 milliard. In addition to this standard grant, premia are awarded to projects in priority sectors or priority areas - a premium of one fifth in one or other of these priority categories, and two-fifths when both priority requirements are met. The second major Italian incentive is the national soft loan scheme. This is a largely automatic project-related scheme but containing a very strong spatial element. In the Mezzogiorno, for example, the maximum loan duration for setting up projects is 15 years, the interest subsidy is 70 percent of the market rate, and repayment holidays of up to 5 years are available. Similar, but less powerful, concessionary elements are available in the insufficiently developed zones of central and northern Italy. Project related tax concessions on the two main profits taxes ILOR and IRPEG (with tax rates of 14.7 and 25 percent respectively) are the third main regional incentive in Italy. A full ILOR exemption on profits for 10 years after profits first arise is available for projects in the Mezzogiorno and in the aided areas of central and northern Italy. In addition, a full ILOR exemption of up to 70 percent of profits earned in Italy and re-invested in industrial projects in the Mezzogiorno is also available. Finally, a 50 percent reduction of IRPEG for 10 years after profits first arise is available for companies which are newly founded in the Mezzogiorno and have both their legal and fiscal base there. The fourth, and last, of the major Italian regional incentives is a concession on employer social security liabilities. This is a very complicated subsidy but, in brief, it means that for a project setting up in Southern Italy (the only


ITALY
Regional Borders
Centre North
Mountainous Areas
Depressed Areas
Mezzogiorno
Milan
Rome

area in which the concession applies) the full employer social security liabilities (amounting to some 27 percent of wage costs including overtime) would be paid by the State until 1986.

The main orientation of Italian regional policy is the Mezzogiorno - continental Italy roughly south of Rome plus a number of islands particularly Sardinia and Sicily. This area represents more than 40 percent of the national territory and holds a population of nearly 20 million - some 35 percent of the Italian total. Whereas, however, this large area is entirely defined as one problem region with, for many of the incentives, no further spatial differentation, there are, in central and northern Italy, a large number of comparatively small and scattered "insufficiently developed zones" - made up mainly of mountainous areas and remote rural areas. The accompanying map shows the designated Italian problem areas.

In terms of incentive expenditure, between 1971 and 1975 Italy spent roughly Lire 200 milliard annually on grants in the Mezzogiorno, and a sum of at least the same scale on interest subsidies for soft loans (of which two thirds were allocated to the Mezzogiorno). Exchequer revenue foregone on the tax concessions amounted to perhaps Lire 70 milliard per annum while, by 1975, the annual cost of the social security concessions was some Lire 700 milliard.

Beyond these main incentives, there are a number of smaller "national" regional incentives as well as some incentives awarded by the autonomous regions. These are not covered in the synopsis tables which follow. Among the national incentives in this category is the Mediocredito scheme for soft loans. This is a project-related loan scheme for small and medium sized firms with concessionary elements being available in the Mezzogiorno and the problem areas of the centre and north. A feature of these loans is that size discrimination is intertwined with spatial discrimination. The maximum size of loan which can be awarded is Lire 1.25 milliard in the Mezzogiorno and Lire 1.0 milliard and 0.75 milliard in the centre and north respectively. Because, however, of the presence of more generous loan systems in the Mezzogiorno, virtually no Mediocredito loans have been taken up there. They primarily go to the centre and north, and even there they are taken up only if there is no prospect of obtaining an award under the national soft loan system. In terms of costs, the incentive is far less important than any of those covered in the synopsis tables - with the subsidy element currently running at some Lire 6 milliard per annum.

Other minor national incentives not covered in the synopsis tables include soft loans available as reconstruction aids after catastrophies such as floods, earthquakes, epidemics, or because of especially acute political situations (e.g. some areas around Trieste). In addition, in the Mezzogiorno, there are three other minor incentives: a 25 percent reduction in electricity tariffs for firms with electrical power requirements below 30 kw (important only to the smallest of firms); a (similarly unimportant) 50 percent reduction of the indirect tax on the consumption of electricity for all firms, irrespective of size; and a total exemption from the taxes on oil and natural gas for firms located in the, very few, provinces where these are extracted.

As already mentioned, besides the national incentive schemes the autonomous regions also run their own schemes. The importance of these incentives is, however, very limited in terms of the expenditure involved, especially when compared with the main state schemes. Among the autonomous region schemes is one, in Sardinia, which is a combined grant and soft loan scheme for industrial projects in the context of the second "Sardinia rebirth plan". The aids under this plan are largely in favour of areas of "regional interest", small projects, and problem sectors (like mining) related to local resources. In Sicily there is a soft loan scheme for industrial projects, covering fixed investment and stocks. A soft loan scheme is also run for small and medium sized firms involved in large orders requiring several months of production time and which give rise to problems of liquidity. Among the autonomous regions in the north, Valle d'Aosta, gives grants and soft loans to industrial projects located in specified areas. In addition, "extraordinary" grants are available for the purchase of industrial land. In the autonomous province of Trento interest subsidies on loans are available for small and medium sized firms located in specified areas, as well as grants and interest subsidies not tied to the size of firms, for the purchase of industrial land. The autonomous province of Bolzano also offers interest subsidies for industrial projects of small and medium sized firms as well as soft loans for the purchase of industrial land, again irrespective of the size of firm. The autonomous region of Friuli-Venezia Giulia runs two soft loan schemes for industrial projects, and gives grants of up to 20 percent of investment in new plants or 12 percent for extensions.

Before moving on to the synopsis tables there are a number of miscellaneous context points which need to be made. The first of these concerns the Cassa per il Mezzogiorno (called the Cassa hereafter) which plays a central role in the operation of Italian regional incentives. The Cassa is best defined as a national special development agency centralising the implementation of the "extraordinary interventions" in the Mezzogiorno. It is represented at the Government level by the Minister for the South, who is, among other things, a member of the inter-ministerial committee on economic programming (CIPE) - the key body coordinating all national (and regional) economic policies. The Cassa shares the administration of the National Fund for Subsidised Credit to Industry (a key element of the national soft loan scheme) with the Ministry of Industry, which can allocate 35 percent of the funds to industry in the centre and north. Medium and long term loans in Italy are the special domain of the so-called "Special Credit Institutes" (called SCIs from now onwards). These normally lend their own funds, or special state-provided "rotation" funds, at interest rates below the market rates. The state then repays their "losses" through the National Fund for Subsidised Credit to Industry.

The neat division of competences, mentioned above, between the Cassa and the Ministry of Industry dates only from 1976 when a major effort of coordination and harmonisation merged two predecessor soft loan schemes into the current national scheme. Since, in many cases, the only data available on the operation of soft loans in Italy (and the data used in the synopsis tables) concerns these two predecessor schemes it is worthwhile, at least briefly, describing them. The first of these was the Cassa soft loan scheme. Under this scheme, loans were project-related and largely automatic. They were payable only in the Mezzogiorno and were characterised by strong size discrimination. Small projects (then defined as those not exceeding Lire 1.5 milliard of fixed investment) were awarded loans of a fixed 35 percent of their "global investment" i.e. fixed investment plus up to 40 percent of stocks. There was neither sector nor project type discrimination but a priority area premium could bring an additional 10 percentage point coverage and a so-called infrastructure premium a further 5 percentage points - adding up therefore, in total to a maximum of 50 percent of global investment. Medium sized projects, defined as those between Lire 1.5 milliard and Lire 5 milliard of fixed investment could get a loan of between 35 percent and 50 percent of investment - the exact percentage being determined by sector and project type according to fairly automatic criteria laid down by the CIPE. Large projects, those with fixed investment exceeding Lire 5 milliard could get between 30 and 50 percent loan coverage. However, this was not at all automatic but was at the discretion of CIPE as part of the process of "programmed bargaining".

The second of the predecessor soft loan schemes was the so-called law 623 scheme. This was a project-related national scheme for small and medium sized firms with a strong regional element. In the Mezzogiorno, the maximum size of eligible project was Lire 6 milliard of fixed investment and loans could be awarded either on their own or on top of Cassa loans. The maximum loan duration in the Mezzogiorno was up to 15 years (for setting up projects), whereas it was only 10 years in the centre and northern parts of Italy. In respect of the areas outside the Mezzogiorno spatial and size discrimination was roughly the same as under the current national soft loan system with eligibility limits relating to firms not projects. The maximum loan was defined in absolute terms (Lire 2.25 milliard in the Mezzogiorno and 0.75 milliard in the centre and north) and could not exceed 70 percent of eligible investment. There was, however, some sectoral and project type discrimination laid down in the regulations, leaving a large element of discretion to the awarding authorities (the SCIs and the Ministry of Industry).

There are three final pieces of context which are essential for an understanding of the synopses tables. First, the social security concessions are administered by INPS, the major national social security institute in Italy and responsible, among other things, for unemployment insurance and old age pension schemes - both of which are key for the calculation of the value of the social security concessions. Secondly, Italy not only operates a regional incentive scheme, but also has a national location control system requiring authorisation from CIPE for all setting-up projects exceeding Lire 10 milliard of fixed investment, and all other project types exceeding Lire 4 milliard. Finally, incentives are only awarded if a project receives a parere di conformità (judgement on conformity) issued by the CIPE or, for small and and medium size projects in the Mezzogiorno, by the Minister for the South. This is an attempt to ensure that projects comply with national economic plans and objectives.

	Capital Grant	National Soft Loan	Social Security Concession	Tax Concessions
1. Basic Details	Largely automatic, project-related grant with standard fixed rates determined by project size as follows: project size (L mrd.): up to 2 / 2-7 / 7-15 / over 15 standard rate of grant (percent): 40 / 40-33 / 33-26 / under 26 The decreasing rate of grant by project size arises because the first L 2 mrd. of eligible investment is subsidised at 40 percent, the next L 5 mrd. at 30 percent, the next L 8 mrd. at 20 percent and all further eligible investment at 15 percent. Projects in priority sectors (see 5 below) or priority areas (see 6 below) get an increase of the standard rate of grant by one fifth; priority sector and location by two fifths.	Largely automatic project-related national soft loans containing a strong spatial element. Distinction drawn between (1) Mezzogiorno; (2) insufficiently developed zones of Central Italy, (3) insufficiently developed zones of Northern Italy, and (4) rest of Italy. Loan covers a fixed 40 percent of eligible investment in (1), 60 percent in (2) and (3) and 50 percent in (4). Maximum loan duration is 10 years (except for setting up projects in (1) where it is 15 years). Repayment holidays, related to loan drawing down period, are available for up to 3 years on 10 year loans and up to 5 years on 15 year loans. No interest free period. Interest concession is a fixed 70 percent of reference rate (market rate) in (1), 60 percent in (2) and (3) and 40 percent in (4). Loan repayment is six monthly, with equal (interest plus principal repayment) instalments spread over the period of the loan.	Highly automatic, non-project-related concession on employer social security liabilities payable to INPS (National Social Security Institute). For additional labour hired between 1 July 1976 and 31 December 1980 the social security liabilities (amounting to some 27 percent of wage costs, including overtime) are paid by the state until 1986. This shall be called the "full" concession hereafter. In addition there are "historical" concessions, running out in 1980, with currently three different rates according to hiring dates and employment levels: at least 8.5 percent (of wages and salaries, excluding overtime) for all employees, if not qualifying for higher concessions; 18.5 percent for the net increase of employment between 1 October 1968 and 31 December 1970, and for those individual employees taken on before 1 October 1968 and currently still with the firm; 28.5 percent for the net increase of employment between 1 January 1971 and 1 July 1976.	Project related tax concessions relating to the two main profit taxes - ILOR and IRPEG (14.7 and 25 percent respectively). The concessions take three forms: a) A full ILOR exemption on project profits for 10 years after profits first arise. The concession applies to projects in the Mezzogiorno and in the aided areas of Central and Northern Italy. Outside the Mezzogiorno it is limited to small and medium sized firms; b) A full ILOR exemption on up to 70 percent of profits earned in Italy and reinvested in industrial projects in the Mezzogiorno; c) A 50 percent reduction of IRPEG on profits, for 10 years after profits first arise, where a company is newly founded in the Mezzogiorno and has both a legal and fiscal base there.
2. Legal Basis	Amalgamated Mezzogiorno law no. 1523/30 June 1967. Current Mezzogiorno law no. 183/2 May 1976. Ministerial Decrees on application procedures (22 January 1977 and 24 January 1977). Delibere of CIPE, 31 May 1977.	Amalgamated Mezzogiorno law no. 1523/30 June 1967. Current Mezzogiorno law no. 183/2 May 1976. Presidential Decree no. 902/9 November 1976. Ministerial Decrees on application procedures (22 January 1977 and 24 January 1977). Delibere of CIPE, 31 May 1977.	Law no. 1089/1968. Law no. 463/1972. Mezzogiorno law no. 183/2 May 1976, Article 14. INPS circulars, latest from 4 August 1976 concerning interpretation of Article 14 of law no. 183/1976.	Amalgamated Mezzogiorno law no. 1523/30 June 1967, articles 106 and 107 and subsequent amendments. Presidential Decree no. 597/29 September 1973 (tax reform).
3. Administration	Application procedures combined with soft loan system. Application completed by applicant and special credit institute together. Credit institute checks viability of project; Cassa determines value of award; Minister for the South or CIPE give parere di conformità (=judgement on conformity with economic and territorial planning). Grant is paid by the Cassa.	In Mezzogiorno, application procedure similar to grants: SCI checks viability, Cassa eligibility, Minister for the South compatibility. In other areas only SCI and Ministry for Industry and Commerce are involved. Interministerial Committee on Credit and Savings fixes reference rate of interest. SCIs pay out loans with the concessionary element being financed by the National Fund for Subsidised Credit to Industry.	No formal application. Eligible employers simply withhold relevant sums from their social security contributions. INPS checks whether sums rightly withheld. Exchequer refunds INPS for "losses".	Application in the form of a written statement to local tax office either prior to tax declaration or on receipt of tax demand. Tax authorities check whether conditions of eligibility are met. No discretion in decision whether or not to award. The incentive is "paid" through the normal company tax system.
4. Eligible Activities	Production must have an "industrial" rather than commercial or handicraft character. Service activities involving industrial technology or related to industrial development are eligible. Specific industries or sectors can be deemed ineligible by CIPE. In general, manufacturing and extractive industries are eligible. Ineligible are: agriculture, transport, construction, banking, insurance, public administration, commerce and tourism. Commercial service functions of groups of firms together (consorzi) can be eligible.	As grant.	For the "full" concession, as with grant and national soft loan. For the "historical" concessions much wider coverage with virtually no activity or sector excluded.	Basically as grant.

	Capital Grant	National Soft Loan	Social Security Concession	Tax Concessions
5. Activity Discrimination	Priority sectors (as defined by CIPE) receive grants one fifth above what they would otherwise be eligible for. This "premium" can be cumulated with the priority area "premium" (see 6 below). Currently a list of some 30 "sectors" is in force (issued 1 June 1977). The sectors involved are generally those with good market prospects and using advanced technology. Beyond this discrimination the automatic nature of the incentive (with fixed rates and little discretion by the authorities on the decision whether or not to award as long as general conditions are fulfilled) gives virtually no scope for further discrimination.	No specified discrimination between eligible activities. The automatic nature of the incentive gives little scope for discrimination in the decision whether or not to award; in terms of the concessionary elements discretion can only be exercised through decisions on loan duration and repayment holidays (see 7 below).	No specified activity discrimination. The highly automatic nature of the incentive gives no scope for discrimination in the decision whether or not to award, and in the rate of concession, since rates are fixed.	No specified discrimination between economic activities. The authorities have only technical discretion in the decision whether or not to award while the rates of concession are fixed.
6. Spatial Discrimination	The grant is available throughout the Mezzogiorno but projects in priority areas (still to be delineated) receive grants one fifth above what they would otherwise be eligible for. This "premium" can be cumulated with the priority sector "premium" (see 5 above). The automatic nature of the incentive gives no scope for further spatial discrimination.	Specified discrimination between (1) Mezzogiorno, (2) insufficiently developed zones of Central Italy, (3) insufficiently developed zones of Northern Italy and (4) the rest of Italy in terms of loan coverage, interest subsidy, loan duration and repayment holidays (see 1 above); and in terms of eligible project type (see 7 below) and eligible project/firm size (see 8 below) - with (1) in general being favoured over (2) and (3) which in turn are favoured over (4).	Available only in the Mezzogiorno. No specified intra-Mezzogiorno discrimination (see 5 above).	The 10 year ILOR concession is available in the Mezzogiorno and the aided areas of the Centre and North. The ILOR exemption on reinvested profits requires that the reinvestment be in the Mezzogiorno even though the profits can be earned anywhere in Italy. The IRPEG concession applies only to firms who are based (with headquarters) in the Mezzorgiorno. No discretion for further spatial discrimination (see 5 above).
7. Project Type Discrimination	Virtually all project types, except restructurations and pure replacement, are eligible. No specified discrimination between eligible project types and virtually no scope for discretion (see 5 above).	In the Mezzogiorno as well as in the insufficiently developed zones of Central Italy and Northern Italy all project types are eligible (except pure replacement and restructurations). In the rest of Italy only modernisations are eligible. No specified project type discrimination in the concessionary element except that in the South the maximum duration can be up to 15 years (with up to 5 years repayment holiday) for setting up projects as against up to 10 years (and up to 3 years repayment holiday) for other projects (see also 5 above).	The scheme is not project-related. There is anyway no specified discrimination and no scope for discretion (see 5 above). However, since additional jobs and more recently created jobs get higher rates of concession, projects involving additional jobs (setting up and extension projects) are favoured over, say, rationalisation and modernisation projects.	No specified discrimination. Possible advantage for setting-up projects as compared with other project types because of technicalities in assessing non-eligible and eligible profits in pre-existing plants. No discretion for further discrimination (see 5 above).
8. Size Discrimination	Size of project is the major determinant of grant rate. Ignoring the priority sector (see 5 above) and the priority area (see 6 above) "premia", the first L 2 mrd. of eligible investment is subsidised at 40 percent; the next L 5 mrd. 30 percent; the next L 8 mrd. 20 percent, and all further eligible investment 15 percent. Virtually no scope for further size discrimination (see 5 Above).	Projects involving investment of more than L 15 mrd. (including existing investment) are not eligible. Firms having assets of more than L 7 mrd. are not eligible in the insufficiently duveloped zones of Central and Northern Italy. In the rest of Italy this limit is at L 4 mrd. No specified discrimination by size beyond eligibility conditions, and virtually no scope for other forms of size discrimination (see 5 above).	No specified size discrimination and given the automatic nature of award no scope for such (see 5 above).	No specified size discrimination in the Mezzogiorno. In Central and Northern Italy the 10 year ILOR exemption is only for small and medium-sized firms, defined in this context as having up to L 2 mrd. current asset value. Virtually no scope for further discrimination (see 5 above).

	Capital Grant	National Soft Loan	Social Security Concession	Tax Concessions
9. Eligible Items	Grants are payable only on fixed investment. Land and working capital are the main ineligible items. The main eligible items are buildings, plant and equipment, mains connections, and on-site vehicles. Off-site vehicles are eligible only if part of production process (e.g. mixer lorries). Replacement is, at least in principle, not eligible.	As grant except that land is eligible as are "technically necessary stocks" up to 40 percent of fixed investment.	Not strictly relevant. The "full" concession is on the earnings bill as for INPS old age pension scheme (i.e. including overtime payments) while the "historical" concessions are in respect of the INPS unemployment scheme (i.e. excluding overtime)	Not relevant, except for the ILOR reinvestment exemption where eligible items for the reinvested profits are as with national soft loans.
10. Eligible Forms of Expenditure	No expenditure form is excluded in principle. Cash and phased payments are clearly eligible. Technical problems impede awards to assets bought on hire purchase. Leasing is eligible, but requires a special application procedure through a state leasing company (FIME-leasing).	As grant.	Not relevant	Not relevant.
11. Further Conditions	Eligibility depends on conformity with national, regional and local economic, urban and physical planning as confirmed in a Ministerial statement, the parere di conformità. Eligibility also requires at least 30 percent own finance by the applicant (excluding priority sector and priority area "premia", see 5 and 6 above, 16 below and national soft loan). Contractual wages must be paid to workers; plant and equipment must be used for five years for the originally stated purpose; any other relevant laws (e.g. anti-pollution) must be respected.	As grant. Outside the Mezzogiorno the project must pass the "disincentive" controls. (See introduction).	Jobs created must be permanent jobs.	For the ILOR exemption on reinvested profits an investment project must be ready to start or already under construction, and the concession is limited to 70 percent of taxable profits. The IRPEG concession is only for newly established firms and requires that the firm has no holdings, plants or subsidiaries outside the Mezzogiorno.
12. Actual Awards	No information on the current system first introduced in 1976. Under the slightly less generous 1971-76 legislation the average grant was 36 percent of eligible investment. Between 1972-75 the number of grants approved and the value of grants involved (L mrd.) as well as the average award (L mrd.) were: 1972 / 1973 / 1974 / 1975 cases: 1,157 / 1,365 / 1,672 / 1,924 awards: 135 / 209 / 376 / 301 average: 0.12 / 0.15 / 0.22 / 0.16	No information on the current system introduced in 1976. Applications approved (L mrd.) total loans involved and average loan under the two predecessor systems (combined) between 1971 and 1975 inclusive were: Law 623 loans in the Centre-North (64% of total awards) and in the Mezzogiorno (36%) / Cassa loans (available in Mezzogiorno only) plus law 623 loans in the Mezzogiorno cases: 18,712 / 4,297 awards: 3,223.9 / 6,322.3 average: 0.1723 / 1.4713 (On previous systems see introduction).	The "full" concession is worth roughly 27 percent of the earnings bill including overtime and adjusts automatically to the rate of employers' INPS contributions. The "historical" concessions range between 8.5 percent and 28.5 percent of earnings bill (excluding overtime) and depend on the actual composition of the firm's labour force according to hiring date of each individual worker. The average concessions as a percentage of earnings bill excluding overtime were: 1972 / 1973 / 1974 / 1975 12.1 / 15.6 / 17.8 / 17.0	No statistical information. The non discretionary nature of the incentive, with rates being fixed, means that actual awards are the same as nominal rates of award.
13. Tax Treatment	Grants are not taxed as long as the grant is kept in a special reserve which is then used for covering losses (this is the standard case). Otherwise the grant is treated as income and thus taxed, though the availability of tax concessions in the Mezzogiorno reduces tax liability.	By reducing debt servicing charges the concessionary element of the loan is taxed in as far as it increases taxable profits - though tax concessions available in the problem areas reduce the tax impact.	Taxed in as far as the concessions reduce labour costs and give rise to higher taxable profits, though tax concessions available in the Mezzogiorno reduce the impact of this.	Not relevant.

	Capital Grant	National Soft Loan	Social Security Concession	Tax Concessions
14. Timing and Phasing	Application must be made before start of project. Application processing by the SCI and Cassa takes some 6 months; plus another month for parere di conformità. Application for payment of grant can be made as parts of the project are completed. Payment of 80 percent of the respective proportion of the grant is usually made 2 months after claim. The residual 20 percent can only be paid after complution of project and verification by the authorities - with a delay of some 4 months between claim and payment.	Application processing period basically as with the grant. Bridging finance at subsidised interest rates is available where immediate start of project is necessary. Loan drawing-down takes place according to need.	Under normal conditions INPS contributions are paid monthly by the firm, roughly one month after wages and salaries are paid.	The exemption/concession period (10 years) starts in the year when taxable profits are first made. The earliest date for application is when the tax declaration for that year is made, i.e. normally one year after the firm's financial year. The incentive is "paid" with normal corporate tax payments. Tax demands come with roughly one year's delay after declaration. Advance payments of tax are being introduced.
15. Topping Up	beyond the "premia" for priority sectors and areas (see 5 and 6 above) there are no possibilities of awards above the fixed rates.	No awards are possible beyond the formal maxima.	No awards are possible beyond the formal fixed rates.	No awards are possible beyond the formal maxima.
16. Addability	Can be cumulated with any other financial incentive (in practice the national soft loan) as long as the combined incentives do not exceed 70 percent of project investment (since 30 percent must be own finance, see 11 above). Note that for the purpose of this limit only the basic grant is considered; the priority sector (see 5 above) and priority area (see 6 above) "premia" are ignored.	As grant. Where no grant is available (outside the Mezzogiorno) the 70 percent ceiling is unlikely to be reached.	Can be combined without limit with any other incentive.	Can be combined with any other incentive. Technically the 10 year ILOR concession cannot be combined with the ILOR reinvestment concession.
17. Clawback	Clawback is possible if the conditions of award are broken. In practice, however, it is rare (3.1 percent between 1960-75). Between 1972-75 the number of cases where grants were clawed back was: 1972 1973 1974 1975 approved applications 1,187 1,380 1,692 1,933 clawback 34 87 35 66 rate 2.86 6.34 2.06 3.41	Clawback is possible if the conditions of award are broken. Monitoring of loans is easier than monitoring of the grant. Nevertheless very little clawback in practice.	Contributions unjustly withheld by employers must be repaid with a surcharge of 500 percent.	The ILOR reinvestment concession is awarded conditionally on the completion of the project. In case of non-completion the sums awarded are clawed back and sanctions may be applied. Not relevant for the other tax concessions.
18. Turndown	Turndown is rare: 4.8 percent of applications between 1960-75, and below 1 percent in recent years. 1972 1973 1974 1975 applications 1,935 4,208 3,177 2,894 turndown 6 18 31 26 rate 0.31 0.43 0.98 0.90	Turndown is very rare after application, but "informal" turndown (involving voluntary withdrawal of application) takes place during initial contact with SCI.	No statistical information. Given the automatic nature of the scheme any turndown could only be for technical reasons.	No information.
19. Cost	Awards agreed/paid out have been (L mrd.): 1972 1973 1974 1975 awards agreed 135 209 376 301 awards paid out 77 94 108 193	The budgetary allocation for payment of interest subsidies is some L 250 mrd. per annum for Mezzogiorno and L 125 mrd. per annum for Central and Northern Italy (both the insufficiently developed zones and the "rest" of the country).	The INPS income foregone through the concessions in the Mezzogiorno has been (L mrd.): 1972 1973 1974 1975 225 317 484 701	No information.

	Capital Grant	National Soft Loan	Social Security Concession	Tax Concessions
20. Jobs Associated	No information on current system introduced in 1976. Under the previous system jobs associated (estimated by applicant) with projects approved for grants (and in most cases other *Mezzogiorno* incentives also) were (L mrd.): 1972 1973 1974 1975 103,278 80,879 69,610 79,603	No information on current system, introduced in 1976. In the Mezzogiorno jobs associated with projects approved for loans from the two previous systems (which would often also have other Mezzogiorno incentives) were: 1972 1973 1974 1975 103,278 80,879 69,610 79,603 Over the same period of time in Central and Northern Italy an estimated total of 80,000 jobs were involved in approved soft loans.	No statistical information. The "historical" concessions, in that they are conditional on net increases of employment, would go at least to those projects which received a grant and/or a soft loan for investments in the Mezzogiorno. Equally, the "full" concession is related to net increases in employment and therefore relate to the same projects as other incentives (see grant and national soft loan).	No statistical information. The 10 year ILOR and IRPEG concessions would, normally, be awarded to the same projects that are in receipt of the grant and national soft loan (see, therefore, national soft loan and grant). The ILOR *reinvestment concession* is awarded to firms all over Italy, but only if carrying out investment projects in the Mezzogiorno. These projects would therefore most probably be included in those in receipt of the grant and/or soft loan, *but it is not possible* to know what proportion they represent.
21. Investment Associated	No information on current system, introduced in 1976. Total investment associated with projects approved for grants (and in most cases other Mezzogiorno incentives also) was (L mrd.): 1972 1973 1974 1975 809 1,176 2,077 1,282	No information on current system, introduced in 1976. Under the predecessor systems total investment associated with projects approved for a loan in the Mezzogiorno (L mrd.) was: 1972 1973 1974 1975 2,932 2,277 2,338 4,723 No information for Central and Northern Italy.	No information.	*No information (but see 20 above).*
22. Anticipated Duration	No basic changes expected until 1981 when new quinquiennial Mezzogiorno legislation is due. Some minor and rather short term changes may be made by CIPE to the list *of eligible industries*. Priority areas have still to be delineated.	No major changes expected at least until 1981 when new Mezzogiorno legislation is due.	"Full" concession relates only to new job created until 31 December 1980. This concession is payable until 31 December 1986. "Historical" concessions are payable until 31 December 1980.	The legislation under which the concessions can be awarded expires on 31 December 1980. Awards made before that date, of course, run their full term.
23. Change Provisions	The principle is that no project should suffer disadvantages from changes. In general all projects with decisions pend*ing can opt for treatment* under new or old scheme.	As grant.	No specified guidelines and no precedents from past experience.	During the last major change (tax reform 1973-74) no particular transitional arrangements were applied. No information on likely future arrangement.
24. Miscellaneous	-	-	-	-

THE INCENTIVE VALUES

As we have seen, there are four main regional incentives in Italy, all of which are awarded more or less automatically if the conditions of award are met, and none of which is unimportant in terms either of cases aided or expenditure. The four incentives are, capital grants awarded by the Cassa per il Mezzogiorno to projects based in the Mezzogiorno; national soft loans available both in the depressed regions of the Centre-North and in the rest of Italy as well as in the Mezzogiorno, but with both rates and conditions of award favouring the Mezzogiorno over the depressed Centre-North and these two areas over the remainder of Italy; concessions on the two main Italian profits taxes, ILOR and IRPEG, available primarily in the Mezzogiorno; and a concession, awarded only in the Mezzogiorno, on the social security liabilities payable to INPS, the body administering the most important social security schemes in Italy.

Only two of these incentives, the capital grant (CG) and the soft loans (NSL) are covered in Table A. The social security concession (SSC) is a labour subsidy and is therefore introduced into the calculations only with the move to the value added denominator in Table B; while the tax concessions are not valued at all within the valuation tables (for reasons mentioned earlier in this report, see p. 45). Rather they are treated in a note to Table B - giving at least some broad indication of their possible value under certain very specific assumptions.

The structure of Table A reflects the three criteria which determine the nominal capital grant rate - project size, project location and project sector. Of these, the first is far and away the most important since it determines the basic award made. The size criterion discriminates in favour of small projects. The grant is calculated with respect to quotas of eligible investment. The first L 2 milliard is subsidised at 40 percent, the next L 5 milliard at 30 percent, the following L 8 milliard at 20 percent, and all further eligible investment at 15 percent. The result of this quota system is that projects of up to L 2 milliard ("small" projects) receive a fixed 40 percent grant; those of between L 2 and L 7 milliard ("medium" projects) receive awards of between 40 and 33 percent; those of between L 7 and L 15 milliard ("large" projects) receive awards of between 33 and 26 percent; and all other projects ("very large" projects) receive awards of less than 26 percent. Rather than work in terms of these ranges we have chosen to base the table on single figures - L 2 milliard for small projects, L 5 milliard for medium projects, L 10 milliard for large projects and L 20 milliard for very large projects.

As we saw in the synopsis tables, project size determines only the basic grant award. If a project belongs to a priority sector the basic award is increased by one fifth. There is also a one fifth premium if it locates in a priority location. Accordingly a priority sector project in a priority location would obtain a grant two-fifths above the basic award. This, too, it taken account of in Table A.

As already noted, the soft loan scheme is a national one, but with strong spatial elements in both conditions and rates of award. For this reason, Table A is subdivided into the Mezzogiorno, the depressed regions of the Centre-North, and the remainder of Italy - the main areas between which the scheme differentiates.

Turning to the figures presented in Table A, it can be seen that, in effective value terms, the capital grant is "worth" very much more than the concessionary element of the soft loan - a maximum (including priority sector and location premia) 33.8 percent after tax, delays and eligible items as opposed to a maximum 12.5 percent for the soft loan scheme. Although for large and very large projects the maximum grant (at effective values of 24.5 and 19.5 percent respectively) is lower than for small and medium projects, this does not mean that the differential value between the grant and the soft loan for these size groups is less - and this because, as the synopsis tables make clear, maximum project and firm size conditions mean that soft loans are concentrated overwhelmingly on small and medium projects. One final point about Table A is that, although it would appear to show that the regional advantage to problem areas of the soft loan scheme is significantly reduced by the possibility of obtaining similar (if slightly less valuable) loans in the rest of Italy, this is somewhat misleading since the soft loan scheme is restricted, outside the problem areas, to modernisation projects only. For setting-up projects and extensions, the Mezzogiorno and depressed Centre-North soft loan percentages are a true measure of the regional advantage conferred by the scheme.

In structural terms, Table B is very similar to Table A, the concentration remaining on the capital grant and national soft loan - although the social security concession is introduced at the value added stage. It will be noted that the soft loan is added to the capital grant only for small and medium projects. The reason for this, as already mentioned, is that, because of size conditions of eligibility, the loans are available in the Mezzogiorno only on projects which, together with existing investment, do not exceed L 15 milliard fixed investment. For setting up projects this means that only small, medium and large projects would qualify for a loan. For other project types the position is less clear, being dependent on the level of existing investment. What can be said is that very large projects will not qualify and that it is unlikely that large projects will qualify - even for an expansion - since it would be unusual for new (project) fixed investment to exceed existing (firm) fixed investment. Even medium and small projects may not be eligible for loan assistance if undertaken by large firms. As a simplification of these somewhat complex considerations, we assume in Table B that only small and medium projects qualify for the loan.

From the table it can be seen that project size is the crucial determinant of the effective value of the Italian incentive package. Limiting ourselves to the capital grant/soft loan combination (the social security concession adds a further 2.8 - 7.9 percent of value added), the small project effective values (46.3 percent of initial capital costs, 41.7 percent of annual capital costs and 12.1 percent of value added) are clearly higher than those for medium projects (on average, 42.2 percent, 38.0 percent and 11.0 respectively) and very much higher than those for both large projects (on average, 24.5 percent, 22.2 percent and 6.4 percent respectively) and very large projects (on average, 19.5 percent, 17.7 percent and 5.1 percent respectively).

If the values in the table are compared with those for the other EC countries (and this is done in Part II of the report) it is apparent that the value of the Italian package is among the highest of the EC. This is true of both small and medium projects even without the addition of the social security and tax concessions and is true also of the other project size groups when these concessions are added. For setting up projects in particular (such projects being assured of the "full" INPS concession for the next 10 years) the Italian package is indeed of high value by international standards.

:TALY

Table A: NOMINAL TO EFFECTIVE PERCENTAGE SUBSIDY.

AREA	INCENTIVE	LEVEL	NOMINAL VALUE	EFFECTIVE VALUE AFTER TAX	DELAYS	ELIGIBLE ITEMS
MEZZO-GIORNO	CG	small: standard rate	40.0	40.0	36.4	24.2
		small: priority sector or location	48.0	48.0	43.7	29.1
		small: priority sector and location	56.0	56.0	50.9	33.8
		medium: standard rate	35.0	35.0	31.8	21.1
		medium: priority sector or location	42.0	42.0	38.2	25.4
		medium: priority sector and location	49.0	49.0	44.6	29.7
		large: standard rate	29.0	29.0	26.4	17.6
		large: priority sector or location	34.8	34.8	31.7	21.1
		large: priority sector and location	40.6	40.6	36.9	24.5
		very large: standard rate	23.0	23.0	20.9	13.9
		very large: priority sector or location	27.6	27.6	25.1	16.7
		very large: priority sector and location	32.2	32.2	29.3	19.5
	NSL	15 year loan (ILOR + IRPEG)	34.6	31.3	31.3	12.5
		15 year loan (ILOR only)	34.6	28.0	28.0	11.2
		10 year loan (ILOR only)	30.3	24.5	24.5	9.8
CENTRE-NORTH DEPRESSED REGIONS	NSL	10 year loan	26.0	18.1	18.1	10.9
REST OF ITALY	NSL	10 year loan	17.3	12.1	12.1	6.1

Table A: NOTES AND ASSUMPTIONS

(a) GENERAL: Discount rate 14.5 percent (EC reference rate 1976).

(b) CAPITAL GRANT (CG)

(i) Nominal value: As percentage eligible investment costs. Standard rate of grant is determined by project size according to a quota system described earlier in the text. We consider project sizes of L 5 milliard for medium projects, L 10 milliard for large projects, and L 20 milliard for very large projects.

(ii) Taxation: Although in principle Cassa grants are treated as income for tax purposes, in practice they are virtually never taxed since firms are able to allocate them indefinitely to a tax reserve for accounting purposes.

(iii) Delays: Claims made on completion of project construction (i.e. on average after 6 months assuming one year construction period and uniformly distributed project expenditure). 80 percent processed within 2 months, the remaining 20 percent 4 months after the completion of project construction. Delay between asset expenditure and grant payment: 8 months for 80 percent of grant; 10 months for remaining 20 percent.

(iv) Eligible items: With EC key of land 5, buildings 30, plant 65 and with working capital assumed to be 30 percent of project capital costs, eligible buildings and plant account for 66.5 percent of all project capital costs.

(c) NATIONAL SOFT LOAN (NSL)

(i) Nominal value: Net grant equivalent of loan subsidy as percent loan award assuming:

	Mezzogiorno Setting up	Mezzogiorno Other	Depressed Centre-North	Rest of Italy
- maximum loan period (years)	15	10	10	10
- maximum principal repayment holiday (yrs)	5	3	3	3
- interest subsidy: as percent EC ref. rate	70	70	60	40
: percentage points	10.15	10.15	8.70	5.80

- interest free periods (years) — No interest free periods are available.
- repayment system — Equal six monthly instalments (total interest due divided by number of instalments).

Note: We assume that maximum loan periods are awarded. We further assume that the loan is drawn down uniformly over the one year project construction period (see (b)(iii) above). It is worth noting that longer repayment holidays do not imply a higher loan value - on the contrary, a long drawing down period means that the concession attached to the loan is not being fully utilised, thus reducing its value.

(ii) Taxation: Effective profits tax rate 30.3 percent (14.7 percent ILOR plus 25 percent IRPEG, both discounted two years - the average delay). New investment in the South pays no ILOR tax on profits arising for 10 years (the normal loan duration). Where this investment is made by a company setting up headquarters in the South the IRPEG concession (equal to 50 percent IRPEG tax) is available on top of the ILOR concession. Taking account of delays in payment of tax, a project in receipt of the ILOR concession would pay an effective rate of profits tax of 19.1 percent; while ILOR plus IRPEG lead to an effective 9.5 percent tax rate.

(iii) Delays: None.

(iv) Eligible investment: Loan as percent eligible investment - 40 percent in South, 60 percent in depressed Centre-North, 50 percent elsewhere. Eligible investment covers most if not all project costs.

Table B: EFFECTIVE SUBSIDIES AS A PERCENTAGE OF VARIOUS DENOMINATORS.

AREA		INCENTIVE COMBINATION	INITIAL CAPITAL COSTS	ANNUAL CAPITAL COSTS	VALUE ADDED
MEZZO-GIORNO	CG	(small, standard)	24.2	21.9	6.4
	CG	(small, standard)+NSL(ILOR+IRPEG)	36.7	33.0	9.6
	CG	(small, standard)+NSL(ILOR only)	34.0-35.4	30.6-31.9	8.9-9.3
	CG	(small, priority)	29.1-33.8	26.3-30.6	7.6-8.9
	CG	(small, priority)+NSL(ILOR+IRPEG)	41.6-46.3	37.4-41.7	10.8-12.1
	CG	(small, priority)+NSL(ILOR only)	38.9-45.0	35.0-40.6	10.2-11.8
	CG	(medium, standard)	21.1	19.1	5.5
	CG	(medium, standard)+NSL(ILOR+IRPEG)	33.6	30.2	8.8
	CG	(medium standard)+NSL(ILOR only)	30.9-32.3	27.8-29.1	8.1-8.4
	CG	(medium, priority)	25.4-29.7	23.0-26.9	6.7-7.8
	CG	(medium, priority)+NSL(ILOR+IRPEG)	37.9-42.2	34.1-38.0	9.9-11.0
	CG	(medium, priority)+NSL(ILOR only)	35.2-40.9	31.7-36.9	9.2-10.7
	CG	(large, standard)	17.6	15.9	4.6
	CG	(large, priority)	21.1-24.5	19.1-22.2	5.5-6.4
	CG	(very large, standard)	13.9	12.6	3.7
	CG	(very large, priority)	16.7-19.5	15.1-17.7	4.4-5.1
		(+SSC)			(+2.8-7.9)
CENTRE-NORTH DEPRESSED REGIONS	NSL		10.9	9.7	2.3
REST OF ITALY	NSL		6.1	5.4	1.6

Note: For reasons explained in the text, no attempt is made to value the ILOR/IRPEG tax concessions in the above table (although their impact on NSL and SSC is shown). It is, however, perhaps worth noting that, if gross profits were in line with taxable profits, then the concessions would be worth 3.3 percent (ILOR) and 5.5 percent (IRPEG) of value added in the 10 years in which they were obtained. Spread over 50 years (but given a 14.5 percent discount rate the results would not be very different over 20 years) the concessions are "worth" 2.5 and 4.1 percent respectively of annual value added.

Table B: NOTES AND ASSUMPTIONS

(a) INITIAL CAPITAL COSTS

A drawing together and summation of the Table A results. As part of the drawing together "priority" awards are shown as a range (from 6/5ths to 7/5ths of the standard award). NSL loan awards aided by an ILOR tax concession are also shown as a range (from a 10 to a 15 year loan).

(b) ANNUAL CAPITAL COSTS (Discount/interest rate: 14.50 percent).

(i) Calculation of weighted annual capital cost factor:

Asset	Assumed Life	Annual Capital Charge Factor	Weight	Weighted Factors
Buildings	50	0.1452	0.210	0.0305
Plant	10	0.1955	0.455	0.0890
Land/Working Capital	-	0.1450	0.335	0.0486
	WEIGHTED ANNUAL CAPITAL COST FACTOR			0.1681

(ii) Calculation of annual subsidy factor:
- CG : 0.1522 (plant/building subsidised)
- NSL : 0.1498 (plant/building/land/working capital subsidised)

Since replacement is not explicitly subsidised, the subsidy life of the plant element of the CG and NSL is taken to be 20 years see p32 above.

(iii) Calculation of annuitising factor ((ii) ÷ (i))
- CG : 0.9054
- NSL : 0.8911

(c) VALUE ADDED

It is assumed that gross profits make up 29 percent of value added. This was the average figure for manufacturing industry in Italy over the period 1970-74. See Eurostat, National Accounts 1970-74 Eurostat Yearbook 2-1975, Statistical Office of the European Communities, 1975, Table 5.

(d) SOCIAL SECURITY CONCESSION (SSC)

The "full" concession (see synopsis) is 27.3 percent of the wage/salary bill of net employment additions post July 1976. The "historical" concession is more complex, its value varying by date of hiring of the project labour force. In 1974, however, it averaged 17.1 percent of wages/salaries. With wages/salaries 68 percent of labour costs the above percentages reduce to 18.6 and 11.6 percent respectively of labour costs. After tax (given receipt of the ILOR concession) these percentages reduce to 15.0 and 9.4 percent. A further reduction is necessary to take account of the limited duration of the concession - 10 years for "full" (until 1986), 4 years for "historical" (until 1980). Spread over 50 years (but given the 14.5 percent discount rate the results would not be very different over 20 years) the respective percentage subsidies reduce to 11.1 and 3.9 percent of project labour costs i.e. 7.9 and 2.8 percent of value added - the range shown in the table. Obviously, though, the value of the concession is further reduced the closer one moves to the "end years".

LUXEMBOURG

THE INCENTIVES

The Luxembourg authorities have at their disposal, under the general frame law of July 1973, six different incentives which can be used for regional development.

First, there are interest subsidies which can be paid to credit institutes and other financial organisations to enable them to provide soft loans for enterprises investing in land, buildings or equipment; undertaking organisation or market studies or research and development for new products or new production methods; incurring expenses through the training, retraining and readaptation of the labour force; and installing anti-pollution plant and equipment. The maximum interest subsidy is 3 percent, with a maximum duration of 5 years, in respect of loans covering up to 75 percent of eligible costs. The interest subsidised loans cannot be combined with the capital grant (see below). For this reason, among others, interest subsidies have been used less and less in recent years, and in 1976 there were no applications for this incentive. Secondly, the Government can offer loan guarantees of up to 40 percent. This incentive has so far not been used. Thirdly, grants can be awarded to cover some of the expenses incurred through: organisation, management or promotion studies; the concentration or merger of firms; and the sale of capital goods to non-EC countries in order to compensate for commercial hazards not covered by the del credere legislation. As with loan guarantees, this incentive has not so far been used. Fourthly, the Government may acquire land or buildings for subsequent sale or rent to enterprises. Again, however, this incentive has not been used.

All of these incentives, then, have either not been used or have been little used. The major incentives, and the ones covered by the synopsis tables which follow, are a capital grant and a tax concession. The capital grant is the basic incentive. It is a discretionary project-related grant having a maximum value of 15 percent of eligible investment - although awards are generally well below this ceiling. Over the period 1974-76, 44 grants were approved having a total value of FLx 219 million. The tax concession is very rarely awarded on its own. When awarded, it is generally in combination with a capital grant. The concession is a fixed 25 percent relief on taxable profits for a period of 8 years. The tax concession and the capital grant together cannot exceed a grant equivalent of 15 percent. Over the period 1974-76 only 8 tax concessions were approved.

The incentives on offer in Luxembourg are not specifically for regional problem areas; and indeed such areas have not been designated. There is, however, a strong regional dimension in that a condition of award is either that the project be conducive to the expansion or amelioration of the economic structure of the Grand Duchy, or that it contribute to a better territorial distribution of economic activity. In this latter context, attention was earlier paid to the North and East with its declining agriculture sector. However, with the steel industry currently going through a major crisis, the focus has increasingly been moving towards the South and West.

	Capital Grant	Tax Concession
1. Basic Details	Discretionary, project-related capital grant, the maximum award being 15 percent of eligible investment.	A discretionary fiscal incentive for new enterprises and production lines, the incentive being a fixed 25 percent relief from taxable profits of the new enterprise/production line for a period of eight years. The benefit of this incentive is lost in those years when the new enterprise/production line makes losses. It is also lost when the applicant company makes losses since the incentive cannot exceed 25 percent of the profit of the applicant comapny.
2. Legal Basis	General frame-law of 28 July 1973, supported by periodic directives.	As capital grant.
3. Administration	Application to Ministry of National Economy and then considered by a consultative Special Commission representing the four "interested" government departments. Commission recommends whether award should be made and rate of award. Final decision is taken by the Minister of National Economy in conjunction with the Minister of Finance. The grant is paid from the budget of the Ministry of National Economy.	As capital grant except that the payment of the concession (which, to repeat, is at a fixed rate) is administered by the tax authorities.
4. Eligible Activities	Although in the law all activities are eligible, in practice aid is restricted mainly to manufacturing. Construction and public utilities are not assisted; agriculture and tourism have their own separate schemes; and services and research and development companies qualify only where they are strongly linked to industry. Para-state industry is not eligible for assistance and state industry does not exist.	Although in the law all activities are eligible, in practice aid is restricted solely to manufacturing. While service and research and development companies with strong links to industry may qualify for capital grants they do not benefit from the tax concession.
5. Activity Discrimination	Between eligible activities, no specified discrimination but the decision whether or not to award and the rate of award (subject to the set maxima) are at the discretion of the authorities, thus giving some scope for discrimination.	As capital grant, except that no rate discrimination is possible since rates are fixed.
6. Spatial Discrimination	Applies throughout the country. No specified spatial discrimination, but scope exists (see 5 above). Until recently the agricultural North and East tended to be favoured but the steel-dominated South is being given increasing consideration as a result of the current problems with the steel industry.	As capital grant, except that no rate discrimination is possible since rates are fixed.
7. Project Type Discrimination	Setting-up projects, conversions and the reorientation and rationalisation of enterprises are specifically eligible for aid. No other project types - extensions, modernisations, reorganisations, takeovers, wholly replacement projects - are explicitly mentioned. They would be aided only if they could be reclassified as, or were part of, one of the eligible project types. Between eligible project types no specified discrimination (but see 5 above).	The key condition is that a new enterprise/production line must be created. Thus setting-up projects are always eligible, while other project types - extensions, modernisations, rationalisation, reorganisation, takeovers and wholly replacement projects - will be eligible only when this condition is met. No specified discrimination between eligible projects (and not possible in terms of rates which are fixed) but decision whether or not to award is at the discretion of the authorities.
8. Size Discrimination	No specified discrimination (but see 5 above). Projects of over FLx 120 mill. must be notified to the EC.	Projects over FLx 120 mill. must be notified to the EC. In addition, the law gives scope for project minimum size limits, but these have not so far been set.
9. Eligible Items	Eligible items include land, buildings and equipment, as well as more intangible investment like, for example, market studies, the development of new products and labour training. Working capital, vehicles and second-hand equipment (unless imported and specialised) are the main generally ineligible items. Short-life and low-value items can be deemed eligible where important within a project cost structure. Replacement is eligible if part of an eligible project type, as are ancilliary buildings (but not, for example, sports grounds) and offices on the premises.	Not relevant.
10. Eligible Forms of Expenditure	Assets bought with cash, or through phased payment, or on hire purchase are eligible as are leased assets.	Not relevant.
11. Further Conditions	Viability is given central importance. It is also required that the project fits into the local economy, helps diversify the national economy, and is capital intensive. Environmental legislation and national economic interests must also be met.	As capital grant.

	Capital Grant	Tax Concession
12. <u>Actual Awards</u>	Project approvals since 1974 have been (FLx mill.): | | 1974 | 1975 | 1976 | | cases | 16 | 14 | 14 | | awards | 104.3 | 58.1 | 57.0 | | average | 6.5 | 4.2 | 4.1 | | percent eligible investment | 5.0 | 6.0 | 8.0 |	No information beyond the number of project approvals - 4, 1 and 3 in 1974, 1975 and 1976 respectively.
13. <u>Tax Treatment</u>	Indirectly taxed whenever profits are made since aided investment can only be depreciated for tax purposes net of any grant received.	Not relevant.
14. <u>Timing and Phasing</u>	Project construction can start before application and decision but application must be made before project construction completed. Application processing period: one month. *Grant claims submitted on completion of project together with evidence of* bill payment. Claim verification period: one month. Grant then paid in lump sum, but with the possibility of advance payments.	Application must be made before the end of the first working year of the new enterprise/production line. Application processing period: one month. If an award is made the firm must keep separate accounts for that enterprise/production line for the duration of the concession so that each year the tax authorities can take the concession into account in assessing taxable profits.
15. <u>Topping Up</u>	No awards possible beyond the formal maximum.	No awards are possible beyond the formal fixed rate.
16. <u>Addability</u>	According to the law, only capital grants and soft loans cannot be added. In practice, only grants and tax concessions are combined. There is no formal limit to such combination but the authorities must notify to the EC all aids going beyond 15 percent of project costs or to projects of more than FLx 120 mill. Three cases have been so notified to (and agreed by) the EC - all involving the FLx 120 mill. limit.	Although in law a tax concession can be offered on its own, in practice when an award is made it is made in conjunction with a capital grant (although award of a grant does not, of course, automatically mean award of a tax concession). Capital grant and tax concession together cannot exceed 15 percent of project fixed capital costs.
17. <u>Clawback</u>	If the conditions of award are broken within a three year period after award, the grant must be repaid in full. In recent years no cases of clawback have been recorded.	Since the award is made each year only after the conditions of award have been met, clawback is not relevant.
18. <u>Turndown</u>	Detailed informal contact before formal application is made, and thus no meaningful turndown rates.	As capital grant.
19. <u>Cost</u>	Annual expenditure has been (FLx mill.): | 1972 | 1973 | 1974 | 1975 | 1976 | | 97.5 | 76.8 | 83.5 | 79.9 | 82.6 |	No information.
20. <u>Jobs Associated</u>	No information on jobs associated with the grant alone. However, between 1960-70 some 600 jobs were created annually by projects aided by all incentives together. The rate fell to 200-300 a year after 1970 with 235 jobs being created in 1976.	See capital grant.
21. <u>Investment Associated</u>	Investment in eligible fixed assets associated with capital grant project approvals was FLx 2093 mill. in 1974 and FLx 963 in 1975.	In 1975 and 1976 projects approved for receipt of a tax concession involved eligible investment costs of FLx 400 and 370 mill. respectively.
22. <u>Anticipated Duration</u>	*Under the 1973 frame-law, grants are payable in respect of investment made until* 1 January 1982.	The concession is available until 1 January 1982.
23. <u>Change Provisions</u>	In the event of change, applications on the way to decision would probably be treated according to the new system.	As capital grant.
24. <u>Miscel-laneous</u>		

THE INCENTIVE VALUES

As we have seen, there are two major regional incentives currently in operation in Luxembourg - a capital grant and a tax concession. The grant is the basic incentive, 44 awards having been made in the period 1974-76 to the value of almost FLx 220 million. In comparison the tax concession is awarded only rarely. Eight tax concessions were approved between 1974 and 1976 and almost always in combination with the capital grant.

Because of inadequate data on profits in aided projects (a common problem with tax concessions) it is not possible to value the tax concession with any acceptable degree of accuracy. It is not therefore covered in Table A. We do however know that the tax concession and capital grant in combination may not exceed the 15 percent maximum nominal rate of the grant. For this reason it is possible to place an upper limit on the capital grant plus tax concession combination in Table B. Neither table, it will be noted, draws a distinction between different types of problem area. Both are for the nation as a whole, and this because both incentives covered, and indeed all "regional" incentives in Luxembourg, are available nationwide.

Turning to the tables in more detail, it can be seen from Table A that the standard grant award range of 5 to 8 percent (the average awards in 1974, 1975 and 1976 were 5 percent, 6 percent and 8 percent respectively) falls well below the upper 15 percent limit - and indeed our information is that the maximum award has never been made. As already mentioned, however, the maximum is of relevance when considering the capital grant/tax concession combination.

From Table B, it is clear that the Luxembourg awards are relatively low - particularly the standard capital grant range. Whereas the maximum grant available (either on its own or in combination with the tax concession) has an effective value of 7.8 percent of initial capital costs, 7.1 percent of annual capital costs and 2.7 percent of value added, the effective value of the standard grant range is from 2.6 percent to 4.2 percent of initial capital costs, from 2.4 percent to 3.8 percent of annual capital costs and from 0.9 percent to 1.4 percent of value added. Indeed, as we shall see in Part II, Luxembourg has incentive values which are among the lowest in the EC countries.

LUXEMBOURG

Table A: NOMINAL TO EFFECTIVE PERCENTAGE SUBSIDY.

INCENTIVE	LEVEL	NOMINAL VALUE	EFFECTIVE VALUE AFTER TAX	DELAYS	ELIGIBLE ITEMS
Capital grant	maximum	15.0	11.8	11.1	7.8
	standard range	5.0-8.0	3.9-6.3	3.7-6.0	2.6-4.2

Table B: EFFECTIVE SUBSIDIES AS A PERCENTAGE OF VARIOUS DENOMINATORS.

INCENTIVE COMBINATION	INITIAL CAPITAL COSTS	ANNUAL CAPITAL COSTS	VALUE ADDED
Capital grant (maximum)	7.8	7.1	2.7
Capital grant (standard range)	2.6-4.2	2.4-3.8	0.9-1.4
Capital grant + Tax concession (maximum)	7.8	7.1	2.7

Note: No direct attempt is made to value the national tax concession for reasons made clear above. It should, however, be noted that this incentive is awarded in practice only in conjunction with a capital grant and that, together, capital grant and tax concession cannot exceed the capital grant maximum level i.e. 15 percent of eligible investment costs.

Table A: NOTES AND ASSUMPTIONS

(a) GENERAL: Discount rate 10.25 percent (EC reference rate 1976).

(b) CAPITAL GRANT

(i) Nominal value: As percentage eligible investment costs.

(ii) Taxation: Effective corporation tax rate 21.4 percent. (The standard nominal rate of tax of 40 percent is reduced by the fact that capital grants are taxed indirectly by reducing the value of aided assets by the value of the grant for depreciation purposes. For depreciation purposes we assume that plant is depreciated, reducing balance, over a 10 year fiscal life and that buildings are depreciated straight line, over a 25 year fiscal life).

(iii) Delays: Grant claims submitted on completion of project construction. Assuming average one year construction period and a uniform spread of project expenditure, average claim submission delay from time of asset expenditure is 6 months. With one month processing delay, grant is paid out, on average, 7 months after asset expenditure.

(iv) Eligible items: Eligible investment assumed to be 70 percent of all project capital costs, it being assumed that (ineligible) working capital is 30 percent thereof.

Table B: NOTES AND ASSUMPTIONS

(a) INITIAL CAPITAL COSTS

The capital grant and the tax concession together face the same upper limit as the capital grant alone. Otherwise, as in Table A.

(b) ANNUAL CAPITAL COSTS (Discount/interest rate 10.25 percent).

(i) Calculation of weighted annual capital cost factor:

Asset	Assumed Life	Annual Capital Charge Factor	Weight	Weighted Factors
Buildings	50	0.1033	0.350	0.0362
Plant	10	0.1645	0.315	0.0518
Land/Working Capital	-	0.1025	0.335	0.0343
	WEIGHTED ANNUAL CAPITAL COST FACTOR			0.1223

(ii) Calculation of annual subsidy factor.

- Capital grant : 0.1106 (plant/building/land subsidised)

Since replacement is not explicitly subsidised, the plant subsidy life is taken to be 20 years - see p 32 above.

(iii) Calculation of annuitising factor ((ii) ÷ (i))

- Capital grant : 0.9043

(c) VALUE ADDED

It is assumed that gross profits make up 38 percent of value added. This was the average for manufacturing industry in Luxembourg over the period 1971-72. See Eurostat, National Accounts 1970-74 Eurostat Yearbook 2-1975, Statistical Office of the European Communities, 1975, Table 5.

THE INCENTIVES

Regional policy in the Netherlands has two distinct elements. On the one hand there are the financial incentives which apply to the Northern Development Area (the provinces of Groningen, Friesland, Drenthe and a small part of Overijssel) and the restructuring area of South-Limburg (the southern part of the province of Limburg); plus selected places in the provinces of Overijssel, Gelderland, Zeeland, North Brabant and Limburg. On the other hand there is a disincentive policy operated in the heavily populated western part of the country: basically, though not wholly, the provinces of North-Holland, South-Holland, Utrecht and the north-western part of the province of Gelderland.

The disincentive operates through the Selectieve Investerings Regeling (Selective Investment Regulation). The SIR Act was passed by parliament in 1974 and put into operation on 1 October, 1975. Only a few sectors are excluded from the scheme: agriculture, residential construction, and public transport, as well as service industries, (public and private) if they perform a local/regional function.

The control system was intended to operate through a system of levies, licences and notifications in respect of new industrial buildings, installations and offices. However, although the licence and notification system still applies, the levies were suspended from 10 June, 1976, though they can be reintroduced when the Minister of Economic Affairs considers this necessary.

The most important regional financial incentive in the Netherlands is the Investerings Premie Regeling (IPR) (Investment Premium Regulation). This capital grant was introduced on 13 January, 1967 to promote the settlement of industrial firms in the Dutch development areas and in the restructuring area of South-Limburg. In the course of the years the IPR has undergone several changes with respect to eligible activites, rates of award and geographic coverage. In its present form, which dates from June 1977, the premium applies to industry and to services of a regional exporting character;

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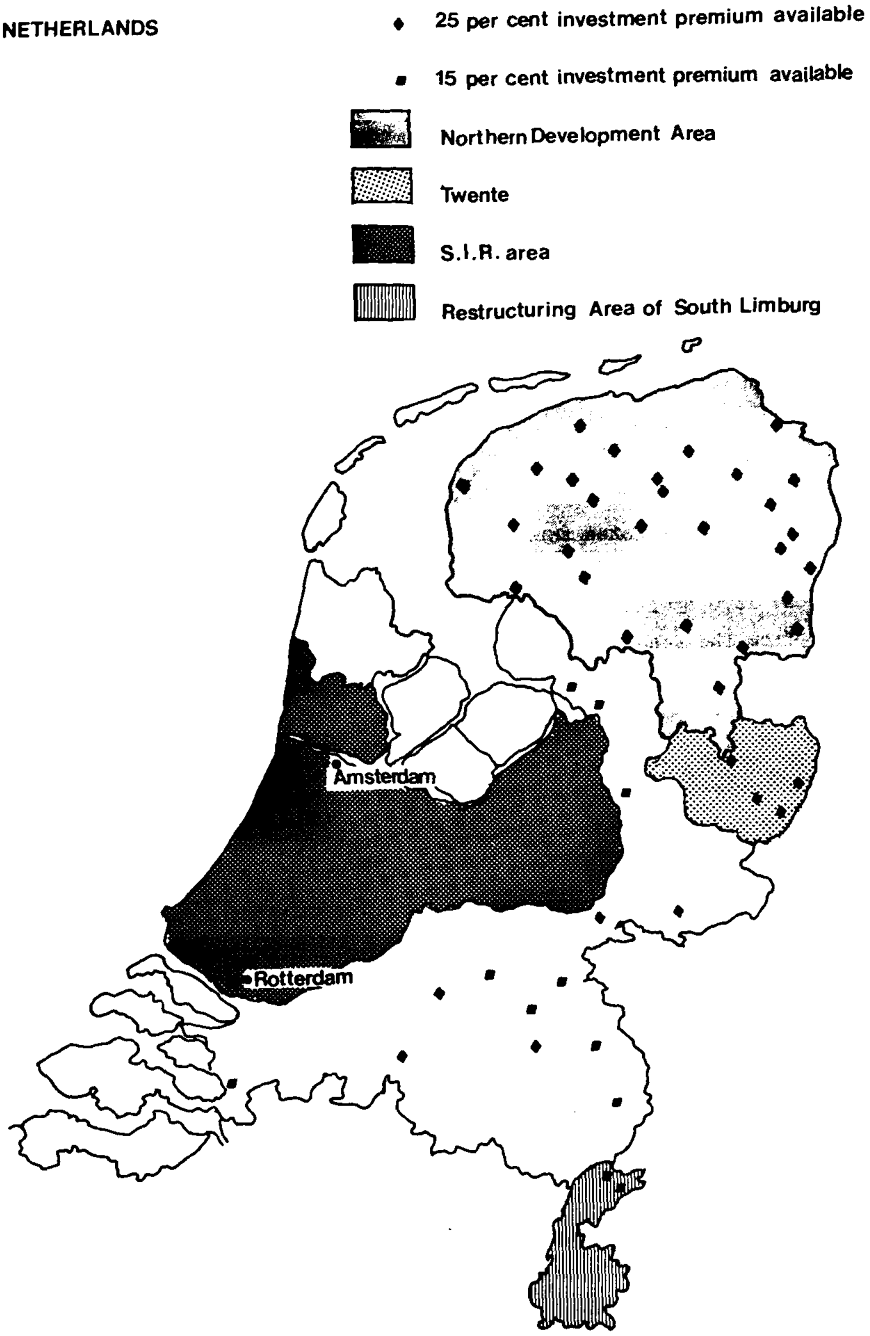

to setting up projects and to extensions. The standard award is a fixed 25 percent of eligible investment up to a maximum award of Fl 4 million (though with discretionary awards possible above this ceiling) except in a few areas where 15 percent is the standard and Fl 2.4 million the maximum award.

The accompanying map shows the geographic coverage of the IPR and the SIR. Twente is marked separately since only industrial extensions are eligible in this area. The map also distinguishes areas where the 25 percent premium applies from those with the 15 percent rate.

Another but relatively small financial incentive in the Netherlands is the Premieregeling Stimulering Ontwikkeling Lelystad. Lelystad is a recently established city in the reclaimed agricultural IJsselmeerpolder 'Oostelijk Flevoland'. From the point of view of physical planning it was considered necessary to develop Lelystad as quickly as possible. To this end, the Lelystad premium was introduced in October 1968. It applies to industrial and regional exporting service setting up projects and involves a premium of Fl 10,000 for every employee employed permanently by the project. These employees must come from outside Lelystad and have to settle and live there. Moreover, at least ten such jobs have to be created. The maximum value of the premium cannot exceed 25 percent eligible fixed investment, or Fl 3.5 million (although with ministerial agreement this limit can be broken). Further conditions of award and the application procedure are similar to those of the IPR. Since its introduction and up to 30 June, 1976, 22 awards have been made to projects involving 1,056 jobs. Because of its limited geographic coverage, it was decided to exclude this premium from the synopsis tables.

Another incentive not covered in the synopsis tables (because, so far, no use has been made of it) is one introduced in 1975 - a concession on the price of land. This concession is awarded by industrial site administrators and is for projects which, because of the price of land, might have chosen an alternative, less favourable, location. This concession is to be applied selectively and is available in the IPR areas and in growth nuclei in the western part of the country.

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An incentive which is, however, covered in the synopsis tables is the Accelerated Depreciation Allowance. This is a largely automatic fiscal concession on industrial and commercial buildings whereby half the cost price, up to a maximum of 25 percent in any one year, can be depreciated arbitrarily, with the other half being depreciated normally. This concession, it must be stressed, applies to a much wider area than the IPR - being available throughout the whole of the Netherlands outside the Randstad. It is a concession which was due to be withdrawn on 1 April, 1977. It continued because of the resignation of the government shortly before this date. Its future is not yet clear*.

The synopsis and valuation tables which follow are concerned with the two major regional incentives in the Netherlands - the Investment Premium and the Accelerated Depreciation Allowance.

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* It should be noted that in May 1978 (i.e. after the reference date of this report) the Accelerated Depreciation Allowance was withdrawn and a new incentive introduced, the WIR (Wet Investeringsrekening), taken in the form of reduced tax payments when profits are made and negative tax payments (i.e. grants) when there are losses. Although the WIR scheme is basically national, there is some regional differentiation in terms of rates of award. In particular, projects in parts of the Northern Development Area and in South Limburg receive an extra 'regional' allowance (on top of the basic rate of the WIR) of 20 percent of building costs and 10 percent of the cost of 'open air installations' (e.g. oil refineries); subject to the ceilings on aid set by the European Commission.

	Investment Premium	Accelerated Depreciation Allowance
1. Basic Details	Project-related capital grant. The standard award is a fixed 25 percent of eligible fixed capital costs up to a maximum grant of Fl 4 mill. except in a few specified municipalities where it is a fixed 15 percent up to a maximum grant of Fl 2.4 mill. For large projects an additional discretionary award can be made for eligible fixed capital costs beyond Fl 16 mill. The maximum additional award is 25 percent of the extra investment (except in the few specified municipalities noted above where it is 15 percent). A little-used alternative to the 25 percent grant (but not the 15 percent grant) is a "mixed premium", which is based on job creation as well as investment expenditure (see 24 below).	An automatic, item-related, fiscal concession on the cost price of industrial and commercial buildings, applicable throughout the country apart from the Randstad. Half of the cost price (up to a maximum 25 percent in any one year) can be depreciated arbitrarily above the normal rate of depreciation while the other half is depreciated normally. If accelerated depreciation is not used in any one year, then normal depreciation applies in that year. In subsequent years the concession is available in respect of half the non-depreciated part of the cost price.
2. Legal Basis	The Investeringspremieregeling (Investment Premium Regulation) was first introduced in January 1967. The present form of the regulation dates from 7 June 1977 (see Investeringspremieregeling regionale vestiging en uitbreiding van industriële en stuwende dienstverlenende bedrijven, in Nederlandse Staatscourant nr. 109, 8 June 1977).	Wet op de Inkomstenbelasting, 16 December 1964, Staatsblad 519, subsequently amended by Acts of 12 February 1969 and 29 August 1975.
3. Administration	Application is made to the appropriate regional development company (or, in those areas where no such company exists, to the relevant provincial government). The regional development company and both provincial and local authorities then advise the Ministry of Economic Affairs. The Ministry decides whether to make an award and (for larger projects) the value of the award. It also administers the payment of the grant.	Concession falls under the jurisdiction of the Ministry of Finance. Day-to-day administration (application, decision, award) is carried out by the appropriate tax authorities.
4. Eligible Activities	In general, industrial activities plus "regional exporting" services are eligible. As a result, the primary sector, tourism, local services and local building contractors are ineligible while manufacturing, "national" services and "national" construction activities (e.g. pre-fabricated houses, doors etc.) are eligible. Government industry is eligible but public utilities (water, gas, electricity companies) are not. Laboratories and similar research departments are regarded as industrial activities if they are of great importance to industrial development.	All activities are eligible.
5. Activity Discrimination	Industrial projects differ from service projects in that they must be located on public industrial sites (although if an existing building is purchased deviation from this condition is possible). As far as rates are concerned there is no discrimination for small projects (under Fl 16 mill.) since rates are fixed. For large projects, as we have seen, there is some scope for rate discrimination. For all projects the decision whether or not to award is at the discretion of the authorities, thus giving some scope for discrimination between eligible industries.	None. Awards are automatic as long as conditions are fulfilled. Rates are fixed. The "up to" provision mentioned in 1. above represents applicant freedom rather than administrative discretion.
6. Spatial Discrimination	The 25 percent premium is available within designated nuclei in the northern development area and the restructuring area of South Limburg except for the municipalities of Roetmond and Melick en Herkenbosch where the 15 percent premium is available for industry and services. The 25 percent also applies to certain municipalities outside these areas, while the 15 percent premium (only for industry) applies to a limited number of other specified municipalities. Beyond these rate differences, the discretionary nature of the award decision (and, for large projects, also the rate decision) could give rise to further discrimination (see 5 above).	The concession is available anywhere outside the Randstad. Within the eligible areas, no scope for spatial discrimination (see 5 above).
7. Project Type Discrimination	Industrial setting-up projects, extensions (but with grants only being paid on net extensions) and transfers from the SIR area (see Introduction) are all eligible as are service setting-up projects and extensions (for differences in eligibility conditions see 11 below). Rationalisations, reorganisations, modernisations, takeover and wholly replacement projects are all ineligible though it is possible to use the premium to assist sectoral restructuring where this has a major regional impact on employment. Beyond this, the discretionary nature of award could give rise to project-type discrimination (see 5 above).	None. The concession is item-(i.e. building) and not project-related.
8. Size Discrimination	Grants are not awarded to projects with fixed capital costs of less than Fl 0.2 mill. Large projects with fixed capital costs of more than Fl 16 mill. receive less than 25 or 15 percent grant. Other discrimination possible through discretion of the authorities as to whether or not to award (see 5 above).	None possible (see 5 above).

<table>
<tr><th></th><th>Investment Premium</th><th>Accelerated Depreciation Allowance</th></tr>
<tr><td>9. Eligible Items</td><td>Eligible items include plant and machinery, buildings, site purchase, transfer taxes and infrastructure provision but exclude R and D costs and feasibility studies. Working capital, vehicles and tools and implements (i.e. small and low value assets) are the main ineligible items. Because of project-type eligibility replacement is also generally ineligible. Second-hand assets and offices built on the premises are eligible.</td><td>Only industrial and commercial buildings are eligible. Dwellings and parts of buildings meant for private use are ineligible.</td></tr>
<tr><td>10. Eligible Forms of Expenditure</td><td>Assets purchased with cash or through phased payments (if an integral part of the delivery arrangement), are eligible. Assets bought on hire purchase are ineligible (except for buildings purchased through an intermunicipal institution), as are leased assets.</td><td>Assets purchased with cash or through phased payments are eligible as are assets bought on hire purchase. Leased assets are ineligible.</td></tr>
<tr><td>11. Further Conditions</td><td>Labour market and sectoral conditions are taken into account in making an award. In addition 35 percent of fixed investment costs must be "own capital" financed. New industrial buildings have to be located on an industrial site of a designated nucleus municipality. Extensions have to result in a sufficient (but unspecified) increase of employment or of productive capacity. There must be no environmental or physical planning objection to the project.</td><td>None of any importance.</td></tr>
<tr><td>12. Actual Awards</td><td>The only published information is cumulative. As at 30 June 1976 the monies paid out by project type were (Fl mill.):
<table>
<tr><th>Project type</th><th>Industrial Setting-up (since 1967)</th><th>Industrial Extension (since 1969)</th><th>Service Setting-up (since 1969)</th><th>Service Extension (since 1975)</th></tr>
<tr><td>cases</td><td>269</td><td>841</td><td>15</td><td>17</td></tr>
<tr><td>awards</td><td>465.7</td><td>550.4</td><td>20.6</td><td>7.0</td></tr>
<tr><td>average</td><td>1.73</td><td>0.65</td><td>1.37</td><td>0.40</td></tr>
<tr><td>percent eligible investment</td><td>15.7</td><td>11.1</td><td>21.1</td><td>25.0</td></tr>
</table>
Note: Timing and phasing of award distorts the above estimates., It should also be noted that the maximum award for industrial extensions was initially 15 percent, then 10 percent, then 15 percent before its current 25 percent.</td><td>No information (but see 19 below).</td></tr>
<tr><td>13. Tax Treatment</td><td>Indirectly taxed whenever profits are being made since aided investment can only be depreciated for tax purposes net of any grant received.</td><td>Not relevant.</td></tr>
<tr><td>14. Timing and Phasing</td><td>Projects can start before a decision is made but only after application. Only investment undertaken after the date of application is eligible. Application processing period: 3-4 months. In theory grant claims can be submitted only when project (or major part thereof) operating. In practice, advances (not exceeding 75 percent of the total agreed premium) available for blocs of at least 25 percent of total fixed investment on evidence that bills have been paid. Ultimate claim verification period: 3 months.</td><td>Application is made as part of the company tax return. Payment of tax (and, hence, receipt of concession) occurs in the year after the end of the financial year in which the industrial building costs are incurred.</td></tr>
<tr><td>15. Topping Up</td><td>No awards are possible beyond the formal maxima.</td><td>No awards are possible beyond the formal fixed rate.</td></tr>
<tr><td>16. Addability</td><td>Not an issue since the grant is virtually the only regional financial incentive available in the Netherlands.</td><td>Can be added to all regional incentives. When added to the investment premium, the value of the premium is reduced since the net present value of the tax to be paid on it increases. This is because the premium is, in effect, brought into income and hence taxable profits more quickly than under the normal depreciation schedule.</td></tr>
<tr><td>17. Clawback</td><td>No clawback conditions after the final payment has been made.</td><td>Not relevant.</td></tr>
</table>

<table>
<tr><th></th><th>Investment Premium</th><th>Accelerated Depreciation Allowance</th></tr>
<tr><td>18. <u>Turndown</u></td><td>The only figures are cumulative (up until 30 June 1976) and are:
<table>
<tr><th></th><th>Industrial Setting up (since 1967)</th><th>Industrial Extensions (since 1969)</th><th>Service Setting up and Extension (since 1969 and 1975 resp.)</th></tr>
<tr><td>applications</td><td>336</td><td>928</td><td>41</td></tr>
<tr><td>turndown</td><td>67</td><td>87</td><td>9</td></tr>
<tr><td>percent</td><td>19.9</td><td>9.4</td><td>22.0</td></tr>
</table>
For setting up projects, the main reasons for turndown are that the financial conditions of award have not been fulfilled or that the sector already suffers from over-capacity; while for extensions, turndown stems mainly from the fact that applicant projects are too small and marginal.</td><td>Little discretion available to the authorities and thus no meaningful turndown figures.</td></tr>
<tr><td>19. <u>Cost</u></td><td>See 12 above.</td><td>No direct information available. It was however estimated that the increase of the accelerated depreciation annual maximum by 5 percentage points had a "financial significance" of Fl 185 mill. in 1975-76. Since the annual concession is a maximum 25 percent it can perhaps be hazarded that the annual "financial significance" of the concession is about Fl 725 mill.</td></tr>
<tr><td>20. <u>Jobs Associated</u></td><td>The figures below are cumulative (up to 30 June 1976), are by project type and are based on applicant estimates.
<table>
<tr><th>Industrial Setting-up (since 1967)</th><th>Industrial Extension (since 1969)</th><th>Service Setting-up (since 1969)</th><th>Service Extension (since 1975)</th></tr>
<tr><td>23,006</td><td>31,466</td><td>1,171</td><td>207</td></tr>
</table></td><td>No information.</td></tr>
<tr><td>21. <u>Investment Associated</u></td><td>Investment in eligible fixed assets associated with grant payment has (up until 30 June 1976 and with base dates as in 20 above) been as follows (Fl mill.):
<table>
<tr><th></th><th></th></tr>
<tr><td>Industrial Setting up</td><td>: 2,964</td></tr>
<tr><td>Industrial Extension</td><td>: 4,980</td></tr>
<tr><td>Service Setting up</td><td>: 98</td></tr>
<tr><td>Service Extension</td><td>: 28</td></tr>
</table></td><td>No information.</td></tr>
<tr><td>22. <u>Anticipated Duration</u></td><td>No specified life.</td><td>No specified life. However, the concession would have been withdrawn on 1 April 1977 had the government not resigned on 22 March 1977. New elections took place on 25 May 1977. As yet, the post-election position is not clear.</td></tr>
<tr><td>23. <u>Change Provisions</u></td><td>Applications received after any change in the incentive would be treated according to the new rules.</td><td>Building costs incurred before the date of any change are treated under the old regulations, while costs incurred after the change are treated under the new regulations.</td></tr>
<tr><td>24. <u>Miscel-laneous</u></td><td>As noted in 1. above, an alternative to the 25 percent grant, but not the 15 percent grant is a, little used, mixed premium. This consists of a grant of 15 percent of eligible fixed investment up to a maximum of Fl 2.4 mill. plus a premium of Fl 12,500 for every permanent job created. The maximum "automatic" award is Fl 5 mill., there then being discretion in the award beyond this maximum. The grant relating to jobs created is paid one year after construction of building. Jobs created must be verified by local labour office.</td><td></td></tr>
</table>

THE INCENTIVE VALUES

As we have seen, the key element of the Dutch regional incentive scheme is the investment premium (IPR). This capital grant, first introduced in 1967, was originally limited to industrial setting-up projects, but then was extended in 1969 to take in both industrial extensions and service industry setting-up projects and, more recently, in 1975 to include service extensions. Since the introduction of the IPR (and up until mid-1976) 269 industrial setting-up projects (involving grant expenditure of Fl 466 million), 841 industrial extensions (expenditure Fl 550 million), 15 service setting-up projects (expenditure Fl 21 million) and 17 service extensions (expenditure Fl 7 million) have been assisted under the scheme.

In June 1977 certain changes were made to the IPR. Amongst other things, a two-tier spatial system of award was introduced. For eligible investment up to Fl 16 million, the standard fixed award rate was set at 25 percent of eligible investment in the main problem areas and 15 percent in other areas (see map presented earlier). In Table A we term these areas, the Development Areas and the Intermediate Areas respectively. As well as distinguishing between these areas, the table also separates out the other non-Randstad areas of the Netherlands since it is only outside the Randstad that the other major Dutch incentive - the accelerated depreciation allowance - is available.

Project size is the crucial determinant of any IPR award. For small projects (up to Fl 16 million) the nominal rate of award, as already noted, is a fixed 25 percent in the Development Areas and 15 percent in the Intermediate Areas. For large projects - perhaps some 10 percent of the total - these percentage rates represent the maximum possible awards, and this because investment beyond Fl 16 million is aided only at the discretion of the administration and then only up to the 25 and 15 percent maxima. Moreover, average awards fall significantly below the possible maxima. For all industrial setting-up projects in the main assisted areas, for example, the average award over the period 1967 - mid 1976 (during which time the maximum rate was a constant 25 percent) was only 15.7 percent of eligible investment. Unfortunately no direct information is available on the average award for large projects alone. Grant expenditure over the 1967 - mid 1976 period was however split fairly evenly between large and small projects.

Given this, we can estimate (again, for industrial setting-up projects) that the "average" award for large projects was in the region of 11.5 percent. This is the figure used in Table A. Although it is certainly of the right order of magnitude, it must be viewed with some caution, not least since - as part of the June 1977 changes - the dividing line between small and large projects was raised from Fl 14 million to Fl 16 million.

While the effective value of the IPR in Table A varies by both size of project and location (ranging from 13.2 percent of initial capital costs for small projects in the Development Areas, to some 7.8 percent for small projects in the Intermediate Areas and perhaps 6.0 percent for large projects, on average, in the Development Areas) that of the accelerated depreciation allowance is fixed. It is fixed, moreover, at a considerably lower level than the IPR being worth, in effective value terms, some 3.6 percent of initial capital costs.

In Table B, which is broken down very much along the lines of Table A, the IPR is valued both alone and in combination with the accelerated depreciation allowance. It can be seen from the table that the value of the two incentives in combination is somewhat less than the sum of their separate values since tax on the building element of the IPR is paid more quickly when an accelerated depreciation allowance is taken up. Indeed, in most instances the receipt of the accelerated depreciation allowance does not have a marked impact on the value of the Dutch package. In general it is the IPR which has the determining role. Thus, where the IPR award is at a relatively low level (as in the Intermediate Areas or, on average, for large projects) the effective values shown in Table B are relatively low - 9.2 percent of initial capital costs, 7.8 percent of annual capital costs and 2.8 percent of value added for the combination IPR (large project average) plus AD, for example; while a higher IPR award - as for instance granted to small projects in Development Areas - leads to markedly higher effective values - 15.9 percent, 13.7 percent and 4.9 percent respectively when the IPR is combined with an accelerated depreciation allowance.

As we shall see in Part II, these levels of award are such as to place the Netherlands in the middle group of EC countries in terms of incentive values.

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Table A: NOMINAL TO EFFECTIVE PERCENTAGE SUBSIDY.

AREA	INCENTIVE	LEVEL		NOMINAL VALUE	EFFECTIVE VALUE AFTER TAX	DELAYS	ELIGIBLE ITEMS
DEVELOP-MENT AREAS	IPR	small project:	fixed rate	25.0	19.2	18.8	13.2
		large project:	maximum	25.0	19.2	18.8	13.2
		large project:	"average"	11.5	8.8	8.6	6.0
		industrial setting up :	average	15.7	12.1	11.8	8.3
	AD		fixed rate	13.0	-	-	3.6
INTER-MEDIATE AREAS	IPR	small project:	fixed rate	15.0	11.5	11.2	7.8
		large project:	maximum	15.0	11.5	11.2	7.8
	AD		fixed rate	13.0	-	-	3.6
OTHER, NON-RANDSTAD, AREAS	AD		fixed rate	13.0	-	-	3.6

Table A: NOTES AND ASSUMPTIONS

(a) GENERAL: Discount rate 9.25 percent (EC reference rate 1976)

(b) INVESTMENT PREMIUM (IPR)

(i) Nominal value: As a percentage of eligible investment costs. It must be stressed that the "average" figures relate only to industrial setting up projects aided up until mid 1976 (when a "small" project was one with eligible investment less than Fl 14 mill, not - as at present - Fl 16 mill.) and are based on the very rough estimate that grant expenditure during that period was split evenly between large and small projects. No direct information on average awards is available.

(ii) Taxation: Effective corporation tax rate 23.2 percent. (The standard nominal rate of tax of 48 percent is reduced by the fact that the investment premium is taxed "indirectly" by reducing the value of aided assets by the value of the premium for depreciation purposes. For depreciation purposes we assume that plant is depreciated straight line over a 10 year fiscal life and that buildings are depreciated straight line over a 30 year fiscal life).

(iii) Delays: If no advance payments, grant claims submitted on completion of project construction (i.e. assuming one year construction period and uniform spread of project expenditure, on average 6 months from time of asset expenditure). Given 3 month average processing period, grant is paid out some 9 months after asset expenditure on average. Advance payments are however available on blocs of 25 percent of project expenditure (i.e. on the above assumptions, quarterly). Given a one month processing period for advance payments, the average delay in grant payment is reduced to about 3 months. Since advance payments are standard, we assume a 3 month delay in Table A.

(iv) Eligible items: Eligible investment assumed to be 70 percent of all project capital costs, it being assumed that (ineligible) working capital is 30 percent thereof.

(c) ACCELERATED DEPRECIATION (AD)

(i) Nominal value: Net present value of tax saving due to accelerated depreciation given an effective tax rate of 48 percent.

(ii) Taxation: Not relevant.

(iii) Delays: Not relevant.

(iv) Eligible items: With the EC key of: land 5, buildings 40, plant 55 and with working capital assumed to be 30 percent of project capital costs, eligible buildings account for 28 percent of all project capital costs.

NETHERLANDS

Table B: EFFECTIVE SUBSIDIES AS A PERCENTAGE OF VARIOUS DENOMINATORS.

AREA		INCENTIVE COMBINATION	INITIAL CAPITAL COSTS	ANNUAL CAPITAL COSTS	VALUE ADDED
DEVELOPMENT AREAS	IPR	(small project, fixed rate)	13.2	11.6	4.2
	IPR	(large project, maximum)	13.2	11.6	4.2
	IPR	(large project, "average")	6.0	5.3	1.9
	IPR	(industrial setting-up, average)	8.3	7.3	2.6
	AD		3.6	2.9	1.0
	IPR	(small project, fixed rate)+AD	15.9	13.7	4.9
	IPR	(large project, maximum)+AD	15.9	13.7	4.9
	IPR	(large project, "average")+AD	9.2	7.8	2.8
	IPR	(industrial setting-up, average)+AD	11.3	9.7	3.5
INTERMEDIATE AREAS	IPR	(small project, fixed rate)	7.8	6.8	2.4
	IPR	(large project, maximum)	7.8	6.8	2.4
	AD		3.6	2.9	1.0
	IPR	(small project, fixed rate)+AD	10.9	9.3	3.3
	IPR	(large project, maximum)+AD	10.9	9.3	3.3
OTHER NON-RANDSTAD AREAS	AD		3.6	2.9	1.0

Table B: NOTES AND ASSUMPTIONS

(a) INITIAL CAPITAL COSTS

In general, the Table A results. Note, though that when the investment premium is awarded in conjunction with accelerated depreciation the value of the premium is reduced to 93.23 percent of its Table A level since tax on the building element of the premium is paid more quickly under the accelerated depreciation regime.

(b) ANNUAL CAPITAL COSTS (Discount/interest rate 9.25 percent).

(i) Calculation of weighted annual capital cost factor:

Asset	Assumed Life	Annual Capital Charge Factor	Weight	Weighted Factors
Buildings	50	0.0936	0.280	0.0262
Plant	10	0.1576	0.385	0.0607
Land/Working Capital	-	0.0925	0.335	0.0310
	WEIGHTED ANNUAL CAPITAL COST FACTOR			0.1179

(ii) Calculation of annual subsidy factor:
- IPR : 0.1034 (plant/building/land subsidised)
- AD : 0.0936 (building subsidised)

Since replacement is not explicitly subsidised, the subsidy life of the plant element of the IPR is taken to be 20 years - see p. 44 above.

(iii) Calculation of annuitising factor ((ii) ÷ (i))
- IPR : 0.8770
- AD : 0.7939

(c) VALUE ADDED

It is assumed that gross profits make up 36 percent of value added. This was the average figure for manufacturing industry in the Netherlands in 1970 and 1972 (comparable data for other years is not available). See Eurostat, National Accounts 1970-74 Eurostat Yearbook 2-1975, Statistical Office of the European Communities, 1975, Table 5.

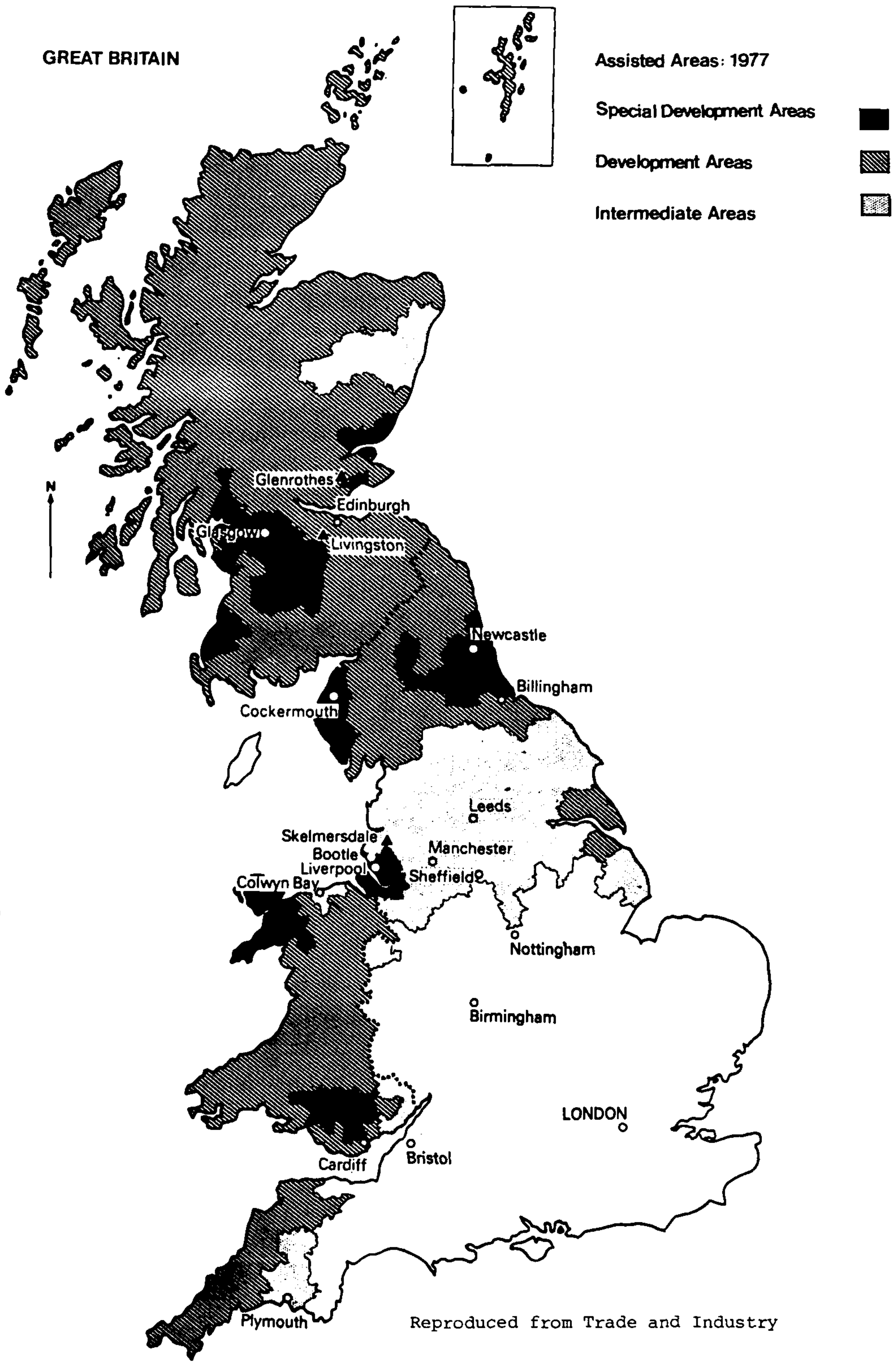
THE
UNITED KINGDOM

THE INCENTIVES

In addition to the special case of Northern Ireland, which we discuss later, there are three main types of designated problem area in the United Kingdom - Special Development Areas (SDAs), where the problem is viewed to be at its most serious, Development Areas (DAs) and Intermediate Areas (IAs). As the accompanying map shows, these areas, taken together, cover the whole of Scotland and Wales, Northern and North-West England, Yorkshire and Humberside, parts of the Midlands and much of the South-West. They contain about 43 percent of employees in Britain, some 20 percent being located in the IAs, with the remainder being spread fairly evenly between the DAs and SDAs. The British incentive package operates within these areas. Before turning to discuss the package in detail it should be noted that, as a complement to it, a system of location controls operates outside the DAs and SDAs amongst other things to encourage mobile industry to move to the problem regions. This system, the Industrial Development Certificate (IDC) system, has had a somewhat varied history since its introduction in 1948 but currently applies to developments over 12,500 sq. ft. in the South-East and 15,000 sq. ft. in all other areas outside the DAs and SDAs.

Within the incentive package itself, the main instrument is the Regional Development Grant (RDG), an automatic, item-related grant on fixed capital expenditure. RDGs are available on new plant, machinery, buildings and works in the SDAs and DAs at rates of 22 percent and 20 percent respectively. In the IAs only buildings and works are eligible for RDG assistance, the rate of subsidy being, as in the DAs, 20 percent. Over time, RDG expenditure has grown rapidly, moving from over £107 million in 1973/74 to more than £212 million in 1974/75 and some £325 million in 1975/76. Recently, however, the scheme has been trimmed back somewhat, coverage being limited broadly to manufacturing whereas previously both mining and construction were also eligible. Nevertheless the regional development grant still represents far and away the most important British regional incentive in expenditure terms.

A key feature of the RDG scheme is that the payment of the grant is virtually automatic to eligible investment on qualifying premises. Selectivity and discretion enter into the British regional incentive system through the assistance available under Section 7 of the Industry Act 1972 - by cost, expenditure amounting to over £ 65 million in 1975/76, the second most important source of regional aid in Britain. Although



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Section 7 assistance is, in theory, very wide ranging it has in practice tended to be mainly in the form either of a soft loan or, and this has increasingly been the case, an interest relief grant (calculated in relation to the notional loan which would have been awarded had a soft loan offer been made). Both these incentives are covered in the synopsis tables.

Despite the fact that they are highly discretionary, both soft loans and interest relief grants - and indeed Section 7 aids in general - are administered with a high level of regional devolution. Within guidelines laid down jointly by Department of Industry headquarters and the Treasury, regional offices of the Department (in Scotland, the Scottish Economic Planning Department, and in Wales, the Welsh Office) can decide whether or not to make an award and also the level of that award (on the advice of the region's Regional Industrial Development Board - a body of experienced local industrialists, trade unionists, commercial and professional people. With respect to the decision whether or not to make an award, the decisive factor is that the project be viable; while regarding the level of award the guidelines stipulate public sector contribution maxima (which vary by type of problem region but normally require the majority of project finance to come from outside the public sector) and cost per job maxima (which set the maximum loan/notional loan levels in terms of jobs created or maintained) the lower of which determines the maximum possible award which can be made.

Although soft loans and interest relief grants are the main forms of Section 7 assistance, other selective aids are worth mentioning. Removal grants, for example, are available on up to 80 percent of the reasonable costs of moving both plant and stocks to an assisted area location, as well as on the net redundancy payments arising from the move. In 1975/76 assistance to the value of over £2 million was approved under the removal grants programme. In addition, there is a service industry grant scheme aimed at encouraging the development of mobile services - services with a genuine choice of location - in the problem regions. As part of this scheme (which, it must be emphasised is restricted to job-creating service projects) grants of £1500 per head are payable in respect of each employee (up to a limit of half the additional workforce) moving with his work to the problem regions. Moreover, for each service industry job created in the problem regions a further grant (again of £1500 per new job created) is available; while the rental or purchase of office premises in the problem regions is subsidised through rent free periods of up to 3, 5 and 7 years in the IAs, DAs and SDAs respectively. Finally the removal of office equipment to the problem regions is aided on the same terms as the removal grant scheme noted above. In 1975/76, when the service industry scheme was both less generous and less extensive than it is at present, 94 offers of assistance were approved to the value of £2.3 million.

Moving away from Section 7 aid, another important component of regional incentives in Britain is the government factory building programme. Over the last 10 years or so expenditure on this programme has averaged some £15 million annually, although the most recent figures have tended to be nearer £20 million. New factories are built in advance of demand in areas of high unemployment and then rented or sold to industrialists. In addition, custom-built extensions are undertaken. Although rents are levied at the "current market value" as set by the local District Valuer, these tend to be below the full commercial rent in the assisted areas and are certainly below equivalent rent levels in the more pressured regions. In addition, rent free periods (of up to 2 years in DAs and 5 years in SDAs) are available, albeit subject to a (not very onerous) cost/job constraint. Despite these rent concessions, the "incentive" element of the factory building programme probably lies more in the fact that the factories are ready for almost immediate entry than in any rent advantages there might be.

The remaining regional incentives in Britian are of minor importance compared with those reviewed so far. Certain training services are provided free to firms in the assisted areas; labour mobility grants are available to aid the movement of both "key workers" and "nucleus labour forces"; and there is also a contracts preference scheme whereby the government favours assisted area producers in its purchasing arrangements. However, even taken together, these incentives represent an insignificant proportion of the total regional incentive bill.

It will be noted that the incentives covered so far have been discussed in the context of Great Britain rather than the United Kingdom. The regional incentives available in Northern Ireland differ from their British counterparts in two major respects. In the first place, there is a greater variety of incentive types on offer (including a labour premium the British version of which, REP, was abandoned in

January 1977); and, secondly, even where the type of incentive is the same, the rate paid in Northern Ireland tends to be higher. Under present circumstances, however, Northern Ireland is, as noted at the outset, very much a special case. It is not therefore covered in the synopsis tables which follow ,these being,in fact, limited to the three major British incentives - regional development grants, Selective Financial Assistance (SFA) loans, and SFA interest relief grants. Information on the regional incentive package in Northern Ireland produced by the Department of Commerce in Belfast is presented in Addendum 2.

	Regional Development Grant	Selective Financial Assistance Loan	Interest Relief Grant
1. <u>Basic Details</u>	An automatic, item-related grant payable on specified types of fixed capital investment in the designated problem regions. A fixed 22 percent of approved capital expenditure is obtainable in the Special Development Areas, with 20 percent being the fixed award in the other problem regions. Both plant/machinery and buildings/works expenditure is eligible in the Special Development and Development Areas. However, in the Intermediate Areas only buildings/works expenditure qualifies for assistance.	Discretionary project-related soft loan of between 5 and 7 years duration. Repayment is six-monthly on a straight-line basis. Maximum principal repayment holiday is 3 years in the Special Development Areas and 2 years in both the Development and the Intermediate Areas. Interest-free periods run concurrently with any repayment holiday awarded. Due to the public sector contribution constraint (see introduction) the maximum loan probably covers about 35 percent of project capital costs. The current interest rate is 3 percentage points below the Department of Industry's "broadly commercial" rate (which, in 1976, averaged 13.0 percent).	Discretionary, project-related capital grant available as an alternative to the SFA loan and calculated in relation to the notional loan which would have been awarded had an SFA loan offer been made (see SFA loan). Where no interest-free period would have been awarded in conjunction with the loan the grant is at 3 percent of the notional loan for up to 4 years. Where an interest-free period would have been awarded, the grant is at what is known as the higher IRG rate (broadly in line with the market rate - 1976 average: 13 percent) for the duration of the interest-free period (i.e. a maximum of 3 years) before reverting to 3 percent of the notional loan for up to a further 4 years.
2. <u>Legal Basis</u>	Industry Act 1972, Part I.	Industry Act 1972, Part II, Section 7.	As SFA loan.
3. <u>Administration</u>	Application is made to one of the four regional development grant offices of the Department of Industry (DI). Cases processed in and grant paid out from these offices in line with detailed administrative guidelines laid down by DI headquarters. Headquarters directly involved only in "problem" cases.	Application is made to the regional office of the Department of Industry (DI) (in Scotland, the Scottish Economic Planning Department; in Wales, the Welsh Office) where the project is located. Apart from very large projects (see 8 below) that office appraises the project and, after seeking the advice of its Regional Industrial Development Board, decides whether or not to make an award and the level of award within joint DI/Treasury guidelines. Despite discretion, awards are relatively standard between regions.	As SFA loan.
4. <u>Eligible Activities</u>	Broadly manufacturing. Agriculture, mining, construction and services are all ineligible. Eligibility is determined at the premise level. To be eligible, the majority of employees on the premises must be engaged in qualifying as opposed to non-qualifying (basically office, storage, distribution and welfare work) activities. Once premises deemed "qualifying" all investment on these premises - including that relating to non-qualifying activities - is eligible for aid. Nationalised industries are eligible (if on qualifying premises).	In principle, mining, manufacturing, construction and mobile services (i.e. services which have a genuine choice of location and, moreover, will create at least 10 new jobs in moving to the problem regions or 25 new jobs in expanding in the problem regions) are all eligible. In practice, however, assistance is overwhelmingly concentrated on manufacturing. Nationalised industries not aided in respect of main line activities but may receive assistance for ancilliary projects.	As SFA loan.
5. <u>Activity Discrimination</u>	None. Awards are automatic as long as the conditions of award are met, and rates are fixed.	No discrimination between eligible activities is specified in the DI/Treasury guidelines (apart from the fact that services must be mobile - see 4 above). Within the guidelines, however, there is scope for discrimination at the regional level in respect of both the decision whether or not to award and the rate of award.	As SFA loan.
6. <u>Spatial Discrimination</u>	Rates of award in the Special Development Areas (SDA), Development Areas (DA) and Intermediate Areas (IA) - covering the whole of Scotland, Wales, Northern and North-West England, Yorkshire and Humberside, parts of the Midlands and much of South-West England - are as follows:- Area — Rate (percent) — Eligible Investment SDA — 22 — buildings, works, plant, machinery DA — 20 — buildings, works, plant, machinery IA — 20 — buildings, works. No further spatial discrimination. Awards are automatic as long as the conditions of award (which are uniform throughout the problem regions) are met, and rates are fixed.	In terms of rate maxima, the guidelines favour SDAs (where the maximum interest-free period/principal repayment holiday is 3 years) over DAs and IAs (where the maximum is 2 years). In terms of the public sector contribution constraint they also favour SDA over DA and DA over IA, although the distinction between these areas is not always rigidly applied. Within the guidelines there is also scope for spatial discrimination at the regional level in respect of both the decision and whether or not to award and the rate of award.	As SFA loan.

	Regional Development Grant	Selective Financial Assistance Loan	Interest Relief Grant
7. **Project Type Discrimination**	None, the grant being on an item rather than a project basis.	Setting-up projects and extensions (i.e. projects creating additional new employment) are treated much more favourably under the guidelines than modernisations and rationalisations (i.e. projects safeguarding employment), and indeed most awards have been in respect of the former project types. Replacement is eligible only if part of an eligible project type. Within the guidelines there is also scope for project type discrimination at the regional level.	As SFA loan.
8. **Size Discrimination**	None, either in terms of eligiblity or rates (see 5 above).	In England, applications of more than £2 million (usually only one or two cases annually) are processed in London rather than by the regional office. No size discrimination in the guidelines, but regions have scope within the guidelines to discriminate between different project size groups.	As SFA loan.
9. **Eligible Items**	Grant is item-related and is restricted to plant, machinary, buildings and works. Working capital is ineligible. To be eligible, plant and machinery must be new, have a minimum value of £100 and a minimum life of two years. Replacement investment is also eligible if it meets these conditions. Vehicles are ineligible (except for on-premise vehicles) as are items of furniture and most pipelines. Buildings and works, too, must be new (buildings must be previously unoccupied), although the cost of adapting old buildings is eligible. Land, ornamental/recreational building and building expenditure of less than £1,000 are all ineligible.	Eligible project costs are defined in a negative way, excluding all revenue payments (with the exception of certain leased items - see 10 below). The cost of land purchase, land development, buildings (including offices) plant and machinery, vehicles and working capital are normally all eligible if justifiable in the context of the project. Low value and short life assets and replacement investment would be eligible only if considered to be "capital" and if part of an eligible project type.	As SFA loan.
10. **Eligible Forms of Expenditure**	Cash payment, phased payment and hire purchase are all eligible forms of expenditure (although for HP the relevant price is the cash price, not the HP price). Leasing, too, is aided since leasing companies can submit claims for grant on the items which they lease to companies on qualifying premises.	Cash payment, phased payment and hire purchase are all eligible forms of expenditure (although for HP the relevant price is the cash price, not the HP price). The cost of plant and machinery leased for a minimum term of four years is also included in eligible project costs.	As SFA loan.
11. **Further Conditions**	There are no significant further pre-conditions of award. The grant is "virtually automatic".	There are three basic conditions of award. The project must be viable; the public sector contribution constraint must be met (i.e. the greater part of funds must come from outside the public sector); and the cost per job limit (see introduction) must not be broken. The first determines whether or not an award can be made, the remaining two the maximum level of that award.	As SFA loan.

12. **Actual Awards**	Not relevant since there is no administrative discretion in the setting of grant rates. They are fixed in each of the problem areas (see 6 above and 19 below).	On average 78.9 percent of loan offers made over the period 1973/74-1975/76 carried with them an interest-free period (of unspecified length). The offers made were as follows (£ mill.):
		
		  1973/74 · 1974/75 · 1975/76
		number of offers: 203 · 113 · 91
		total loan awards: 26.5 · 36.0 · 25.4
		average loan awards: 0.13 · 0.32 · 0.28
			On average, just under two-thirds of IRG offers made over the period 1973/74-1975/76 carried with them an interest free period equivalent (of unspecified length). In 1974/75 (the only year for which such information is available), IRG offers averaged 21.1 percent of the notional loans on which they were based. IRG offers made between 1973/74 and 1975/76 were as follows (£ mill.):
			
			  1973/74 · 1974/75 · 1975/76
			number of offers: 561 · 599 · 560
			total IRG awards: 25.4 · 25.3 · 34.7
			average IRG awards: 0.05 · 0.04 · 0.06

	Regional Development Grant	Selective Financial Assistance Loan	Interest Relief Grant
13. Tax Treatment	The grant is not treated for tax purposes as an income receipt and is therefore not taxed. Assets can be depreciated for tax purposes gross of any grant received.	By reducing debt servicing charges, the concessionary element of the loan is taxed in as far as it increases taxable profits.	The grant is regarded as income and is therefore taxed to the extent that it leads to increased profits.
14. Timing and Phasing	Grant claims can be submitted only after the asset has been provided (i.e. delivered or constructed and is ready for use) or expenditure has been defrayed. Claim processing period: on average 3 months. There is then a further recently imposed administrative delay of 3 months before grant is paid.	Application must be made before project construction starts and can be made up to 12 months beforehand. Application processing period: on average 2-3 months. Once approved, the loan is drawn down on proof of need.	The submission and processing of application is as for SFA loans. The payment of grant is annual, usually over a four year period (4 times 3 percent of the notional loan) if no interest-free period awarded, but up to 7 years (3 times the higher IRG rate and then 4 times 3 percent) if an interest-free period is obtained. Payment of the first instalment can be claimed when one third of project fixed asset expenditure has been defrayed, with subsequent instalments being paid on the anniversary date of the first grant payment.
15. Topping Up	No awards are possible beyond the formal fixed rates.	If special Treasury permission is obtained (on a case-by-case basis) regions may go beyond the guideline maxima. This however happens only very rarely.	As SFA loan.
16. Addability	No asset can be aided through an RDG if it is already subsidised by some other government grant. Moreover, through the public sector contribution constraint (see introduction) receipt of an RDG limits the amount of selective financial assistance which a project can obtain.	Selective financial assistance loans and interest relief grants are alternatives. No one project can receive both. In addition, the maximum loan which can be awarded is affected - through the public sector contribution constraint - by the award of an RDG, and indeed of other public assistance (like, for example, rent free occupation of a government factory).	Interest relief grants are an alternative to SFA loans. No one project can receive both. Moreover, the maximum notional loan which can be awarded is affected - through the public sector contribution constraint - by the award of an RDG, and indeed other public assistance (like, for example, rent free occupation of a government factory).
17. Clawback	Aided assets must remain on qualifying premises for 4 years. Where this does not happen grant must, in theory, be totally repaid. In practice, the amount to be repaid is determined by the number of complete months from the start of the 4 year condition period to the date when the conditions were broken - as long as the conditions were met for at least 1 year.	Selective financial assistance is monitored, but there are no powers to claw back aid if targets (in particular job targets) are not met. An unjustifiable failure to meet past targets would however be taken into account in the consideration of any future claims for assistance.	See SFA loan. Interest relief grant instalments are paid out only if the conditions of award continue to be met.
18. Turndown	No information available. Virtually no discretion available to the authorities in the administration of the scheme and hence no meaningful turndown rates.	Of 546 loan applications fully processed (i.e. either approved or rejected) over the period 1972/73 to 1974/75, 152 (i.e. 27.8 percent) were turned down. Over the same period 524 loan applications were withdrawn. The main reason for turndown was non-viability of the project or the non-creation of jobs.	Of 1,269 IRG applications fully processed (i.e. either approved or rejected) over the period 1972/73 to 1974/75, 71 (i.e. 5.6 percent) were turned down. Over the same period 323 IRG applications were withdrawn. The main reason for turndown was non-viability of the project or the non-creation of jobs.
19. Cost	Grant expenditure since the introduction of the scheme has been as follows (£ mill.): 1972/73 · 1973/74 · 1974/75 · 1975/76 applications processed: 2,005 · 20,710 · 35,966 · 40,675 expenditure: 8.1 · 107.2 · 212.8 · 324.9	Loan expenditure (not the value of the concession attached to the loans) has been as follows (£ mill.): 1972/73 · 1973/74 · 1974/75 · 1975/76 0.36 · 20.45 · 21.13 · 42.60	Grant expenditure (i.e. payments actually made) has been as follows since the introduction of the scheme (£ mill.) 1972/73 · 1973/74 · 1974/75 · 1975/76 0.05 · 2.86 · 9.64 · 16.63
20. Jobs Associated	Job creation is not a pre-condition of an RDG award. No information is available on jobs associated with the grant.	Jobs associated with loan approvals have been as follows: 1972/73 · 1973/74 · 1974/75 · 1975/76 7,915 · 16,175 · 15,637 · 14,378 These figures are applicant estimates and include jobs safeguarded as well as additional jobs created.	Jobs associated with grant approvals have been as follows 1972/73 · 1973/74 · 1974/75 · 1975/76 3,319 · 54,607 · 62,783 · 38,023 These figures are applicant estimates and include jobs safeguarded as well as additional jobs created.

	Regional Development Grant	Selective Financial Assistance Loan	Interest Relief Grant
21. <u>Investment Associated</u>	Capital expenditure covered by RDG applications received in the period 1972/73 - 1975/76 was as follows (£ mill.): 1972/73: 126 1973/74: 722 1974/75: 1,145 1975/76: 1,700	Estimates are not available for the loan alone. For all selective financial assistance, project costs associated with offers made were as follows (£ mill.): 1973/74: number of offers 863; associated project costs 532.6 1974/75: number of offers 817; associated project costs 571.2 1975/76: number of offers 766; associated project costs 687.9	Estimates are not available for the grant alone. See SFA loan.
22. <u>Anticipated Duration</u>	No specified life.	No specified life.	No specified life.
23. <u>Change Provisions</u>	Although there are no explicit guidelines, on the basis of past experience the date of asset provision tends to be crucial in determining whether the old or the new rates apply.	Not explicitly covered in the guidelines. Once a loan offer has been accepted the terms of that offer cannot be changed.	Not explicitly covered in the guidelines. Once an IRG offer has been accepted the terms of that offer cannot be changed.
24. <u>Miscel-laneous</u>			

THE INCENTIVE VALUES

As we have seen, there are three main instruments of British regional incentive policy. Far and away the most important of these is the Regional Development Grant (RDG), with expenditure of some £325 million in 1975/76. In the same year, well over 40,000 RDG applications were received and processed. This however is not the number of projects assisted by RDGs since, as was stressed earlier, the grant is item- and not project-related. But nor is it the number of items subsidised, since it is common to group items for application purposes. The other two important incentives in the British package, Selective Financial Assistance (SFA) soft loans and interest relief grants (IRGs) are alternative forms of aid. Initially, the emphasis was on the former (in 1972/73 for example 78 soft loan applications were approved compared with 38 IRGs) but more recently IRGs have played the dominant role (in the period 1973/74 to 1975/76, over 573 IRG applications were approved annually on average, more than four times the number of soft loan applications approved).

Since the value of both regional development grants and selective financial assistance varies by type of assisted area, Table A distinguishes between the three main types of assisted area in Britain - Special Development Areas (SDAs), Development Areas (DAs) and Intermediate Areas (IAs). It also distinguishes maximum from average selective financial assistance values. There are two areas in particular where discretion enters into the selective financial assistance scheme. One of these is in the determination of the appropriate interest free period/principal repayment holiday to award. The current maxima are three years in the SDAs and two years in the DAs and IAs. No information is available on average awards, not least since the above maxima were only recently introduced. We do know however that the majority of cases (nearly four-fifths of SFA loans and some two-thirds of IRGs) have in the past received some sort of interest free concession and that, in 1974/75 (when the maximum interest free period was 2 years) the average IRG award included the equivalent of just under one year interest free. We have therefore assumed that the average awards are half the possible maxima - 1-2 years in SDAs, 1 year in DAs and IAs.

The second area of discretion is in the determination of loan and, in the case of the IRG, "notional" loan awards (discussed earlier).

In 1974/75 (the last year for which information is available) these averaged 27.3 percent of project costs, and this is the average figure used in Table A. As far as the maximum award is concerned, this is set, in the main, by the public sector contribution constraint (the cost per job limit "bites" only in the most capital intensive cases). With the maximum public sector contribution being about one half, and with other public aids (in particular RDGs) accounting for perhaps 15 percent of project capital costs, we have assumed the public sector contribution-constrained maximum to be 35 percent of project costs.

Turning to the contents of Table A, it can be seen that RDGs are the most "valuable" part of the British regional incentive package in the SDAs and DAs (being worth, in effective value terms, more than double the average selective financial assistance award) but are much less important in the IAs where they are only available on buildings and works. The table also shows IRGs to be slightly more valuable than SFA loans. In terms of award maxima, IRGs have an effective value after tax, delays and eligible items of 8.5 percent of initial capital costs in the SDAs and 6.6 percent of initial capital costs in the DAs/IAs compared to equivalent SFA loan figures of 7.2 and 5.6 percent respectively. It is for this reason - in addition to the prompting of administrators keen to reduce government outlays (or at least make a given level of government expenditure go further) - that IRGs have been of increasing importance in recent years. Indeed it is really only in cases where inadequate external project finance is available that the SFA loan is continuing to play a significant role.

In terms of structure, Table B is in many ways similar to Table A, distinguishing between SDAs, DAs and IAs and between maximum and average selective financial assistance awards. Where the table differs from Table A is (like the comparable tables in the other country sections) in its emphasis on incentive combinations rather than on individual incentives. Where there is a viable project, the standard combination is RDG (which is not of course project-related, but rather is available on an item by item basis) plus selective financial assistance, sometimes in the form of a soft loan but, as we have seen, now much more commonly in the form of an IRG.

There are three main points to arise from the table. First, the difference between the effective value of the British package in SDAs and DAs is small, but between these two types of assisted area and IAs is much more significant. The maximum package value (i.e. RDG plus maximum SFA IRG) is, for example, "worth" 21.5 percent of initial capital costs, 21.7 percent of annual capital costs and 4.8 percent of value added in SDAs compared to 18.4, 18.7 and 4.1 percent respectively in DAs and only 9.2, 7.9 and 1.7 percent respectively in IAs. Secondly, SFA loan and IRG values, although favouring the IRG, are, as we noted in the context of our discussion of Table A, not too dissimilar. In the SDAs for example the percentage point difference between these incentives (in terms of maximum rates of award) is only 1.3 for initial capital costs, 1.1 for annual capital costs and 0.3 for value added. Finally, since the withdrawal of REP, the British package has been significantly reduced in value and is now very much more in line, in effective value terms, with typical package values in, what we call in Part II below, the middle group of EC countries.

UNITED KINGDOM

Table A: NOMINAL TO EFFECTIVE PERCENTAGE SUBSIDY.

AREA	INCENTIVE	LEVEL	NOMINAL VALUE	EFFECTIVE VALUE AFTER TAX	DELAYS	ELIGIBLE ITEMS
SDA	RDG buildings	fixed rate	22.0	22.0	20.7	2.9
	RDG plant	fixed rate	22.0	22.0	20.7	10.1
	SFA loan	maximum	35.5	20.6	20.6	7.2
		average	18.5-27.5	10.7-16.0	10.7-16.0	2.9-4.4
	SFA IRG	maximum	51.0	29.6	24.2	8.5
		average	25.0-38.0	14.5-22.0	12.7-18.8	3.5-5.1
DA	RDG buildings	fixed rate	20.0	20.0	18.8	2.6
	RDG plant	fixed rate	20.0	20.0	18.8	9.2
	SFA loan	maximum	27.5	16.0	16.0	5.6
		average	18.5	10.7	10.7	2.9
	SFA IRG	maximum	38.0	22.0	18.8	6.6
		average	25.0	14.5	12.7	3.5
IA	RDG buildings	fixed rate	20.0	20.0	18.8	2.6
	SFA loan	maximum	27.5	16.0	16.0	5.6
		average	18.5	10.7	10.7	2.9
	SFA IRG	maximum	38.0	22.0	18.8	6.6
		average	25.0	14.5	12.7	3.5

Table A: NOTES AND ASSUMPTIONS

(a) GENERAL: Discount rate 13.0 percent (EC reference rate 1976).

(b) REGIONAL DEVELOPMENT GRANT (RDG)

(i) Nominal value: As percentage eligible investment costs.

(ii) Taxation: Not taxed.

(iii) Delays: Grant claims submitted on provision of the asset. Payment delay 6 months (average 3 months processing delay plus 3 months "imposed" delay).

(iv) Eligible items: With EC key of: land 10, buildings 20, plant 70 and with working capital assumed to be 30 percent of project capital costs, eligible buildings account for 14 percent and eligible plant for 49 percent of all project capital costs.

(c) SELECTIVE FINANCIAL ASSISTANCE (SFA) LOAN

(i) Nominal value: Net grant equivalent of interest subsidy as percent loan award assuming:

- market rate of interest: 13 percent (1976 "broadly commercial" rate average)
- period of loan : assumed 7 years (in practice 5-7 years)
- principal repayment holiday : SDA, maximum 3 years, average 1-2 years; DA/IA, maximum 2 years, average 1 year
- interest free periods : concurrent with the above repayment holidays
- interest rate subsidy : fixed 3 percentage points
- repayment system : loan repaid 6 monthly on a straight-line basis

(ii) Taxation: Effective corporation tax rate: 42.0 percent (standard mainstream corporation tax rate of 52 percent discounted 21 months - the average delay).

(iii) Delays: None. The loan is drawn down in relation to need.

(iv) Eligible items: Loan assumed to average 27.3 percent of project capital costs (1974-75 average for loan and notional loan together). No direct information on maximum possible coverage but, given public sector contribution limits, assumed to be about 35 percent of project capital costs.

(d) SFA INTEREST RELIEF GRANT (IRG)

(i) Nominal value: As percentage of the notional loan which would have been awarded had a loan (see (c) above) been awarded.

(ii) Taxation: Effective corporation tax rate: 42.0 percent (see (c)(ii) above).

(iii) Delays: Grant paid in annual instalments. Claim for IRG can be submitted when one third of project expenditure is made - with the first instalment of grant tending to be paid when one half of project expenditure has been made. Assuming a uniform distribution of project expenditure, we take the first instalment as our base date.

(iv) Eligible items: Notional loan assumed to average 27.3 percent of project capital costs (1974/75 average for loan and notional loan together). No direct information on maximum possible coverage but, given public sector contribution limits, assumed to be about 35 percent of project capital costs.

UNITED KINGDOM

Table B: EFFECTIVE SUBSIDIES AS A PERCENTAGE OF VARIOUS DENOMINATORS.

AREA	INCENTIVE COMBINATION	INITIAL CAPITAL COSTS	ANNUAL CAPITAL COSTS	VALUE ADDED
SDA	RDG (buildings + plant)	13.0	14.3	3.1
	RDG (buildings + plant)+SFA loan(maximum)	20.2	20.6	4.5
	RDG (buildings + plant)+SFA loan(average)	15.9-17.4	16.8-18.1	3.7-4.0
	RDG (buildings + plant)+SFA IRG(maximum)	21.5	21.7	4.8
	RDG (buildings + plant)+SFA IRG(average)	16.5-18.1	17.3-18.7	3.8-4.1
DA	RDG (buildings + plant)	11.8	13.0	2.9
	RDG (buildings + plant)+SFA loan(maximum)	17.4	17.9	3.9
	RDG (buildings + plant)+SFA loan(average)	14.7	15.5	3.4
	RDG (buildings + plant) SFA IRG(maximum)	18.4	18.7	4.1
	RDG (buildings + plant)+SFA IRG(average)	15.3	16.0	3.5
IA	RDG (buildings)	2.6	2.2	0.5
	RDG (buildings)+SFA loan(maximum)	8.2	7.1	1.6
	RDG (buildings)+SFA loan(average)	5.5	4.7	1.0
	RDG (buildings)+SFA IRG(maximum)	9.2	7.9	1.7
	RDG (buildings)+SFA IRG(average)	6.1	5.2	1.1

Note: At the time of its withdrawal at the end of 1976 we estimate that REP was "worth" 2.2 percent of the labour costs of aided firms in SDAs and DAs after tax and payment delays. Had REP remained at this level, the percentages under "value added" in the above table would have been increased by 1.7 percentage points in SDAs and DAs since REP was automatically available to manufacturing industry in these areas. REP was not available in IAs.

Table B: NOTES AND ASSUMPTIONS

(a) INITIAL CAPITAL COSTS

The summation of the Table A results for appropriate incentive combinations.

(b) ANNUAL CAPITAL COSTS (Discount/interest rate: 13.0 percent).

(i) Calculation of weighted annual capital cost factor:

Asset	Assumed Life	Annual Capital Charge Factor	Weight	Weighted Factors
Buildings	50	0.1303	0.140	0.0182
Plant	10	0.1843	0.490	0.0903
Land/Working Capital	-	0.1300	0.370	0.0481
	WEIGHTED ANNUAL CAPITAL COST FACTOR			0.1566

(ii) Calculation of annual subsidy factor:

- RDG building : 0.1303 (both buildings and plant are subsidised
- RDG plant : 0.1843 under the RDG scheme on an item basis i.e. replacement investment is explicitly aided).
- SFA loan; SFA IRG: 0.1363 (plant/building/land/working capital subsidised).

Since replacement is not explicitly subsidised as part of the SFA scheme, the subsidy life of the plant element of the SFA loan and SFA IRG is taken to be 20 years - see p. 44 above.

(iii) Calculation of annuitising factor ((ii) ÷ (i)):

- RDG building : 0.8321
- RDG plant : 1.1769
- SFA loan, SFA IRG : 0.8704

(c) VALUE ADDED

It is assumed that gross profits make up 22 percent of value added. This was the average figure for manufacturing industry in the United Kingdom over the period 1970-73. See Eurostat, National Accounts 1970-74 Eurostat Yearbook 2-1975, Statistical Office of the European Communities, 1975, Table 5.

PART II

COMPARISONS AND POLICY IMPLICATIONS

Part I of this report was country-specific. This part is comparative. Its basic aim is to draw together the information in Part I so as to show the differences and similarities between countries in terms of features covered in the synopsis tables and in terms of the valuation results, and to draw out where possible the policy implications - for the member countries and for the EC. It is in three sections. The first is a comparison of the main incentive features covered in the synopsis tables; the second involves an inter-country comparison of incentive values; and the final section examines the implications of our findings for the EC.

A COMPARISON OF INCENTIVE FEATURES

Seven aspects are covered in this section, each under a separate head. Head number 1 - Discretion - compares the various regional incentive schemes in terms of the extent to which they are discretionary - discretionary in rates and also in the decision whether or not to award. The advantages and problems of discretionary schemes as against automatic ones are also discussed. Head number 2 - Coverage - examines and comments on activity and project-type eligibility for regional incentives, and discrimination between eligible activities and project types. Head number 3 is concerned with Eligible Expenditure - eligible items and eligible forms of expenditure. Within this head, the issue of replacement investment coverage by the incentives is discussed. As we have already seen in the valuation sections of Part I, tax treatment of regional incentives can markedly reduce their effective value. Tax Treatment is the topic of head number 4. Timing and Phasing of Awards is the subject of head number 5 - dealing with application processing delays as well as delays between expenditure being incurred and the payment of the incentives. Head number 6 has the general title of Integration and covers a variety of issues including addability of incentives, cumulability, and the relationship between regional incentives and national incentive schemes. It also discusses the issue of regional autonomy in the award of incentives. Finally, head number 7 is concerned with the Monitoring, Evaluation and Design of regional incentives.

Table 1 : Discretion in Incentives

(a) RATE DISCRETION

Rates Fixed	Little Discretion	Much Discretion
B. accelerated depreciation	F. regional development grant	B. capital grant
D. municipality loan	G. special depreciation *	B. interest subsidy
F. special depreciation	G. ERP soft loan	D. company soft loan
F. local business tax concession	IT. national soft loan	D. investment grant
G. investment allowance		G. investment grant
IR. export profit relief *		IR. capital grant
IR. investment allowance *		L. capital grant
IT. capital grant		N. investment premium
IT. social security concession *		UK. soft loan
IT. tax concessions		UK. interest relief grant
L. tax concession		
N. accelerated depreciation *		
UK. regional development grant *		

(b) DECISION DISCRETION

Slight/Technical	Marked
F. regional development grant	B. accelerated depreciation
F. local business tax concession	B. capital grant
F. special depreciation	B. interest subsidy
G. investment allowance	D. company soft loan
G. ERP soft loan	D. investment grant
G. special depreciation *	D. municipality loan
IR. export profit relief *	G. investment grant
IR. investment allowance *	IR. capital grant
IT. social security concession *	L. capital grant
IT. capital grant	L. tax concession
IT. national soft loan	N. investment premium
IT. tax concessions	UK. soft loan
N. accelerated depreciation *	UK. interest relief grant
UK. regional development grant *	

Country Key: B. = Belgium
D. = Denmark
F. = France
G. = Germany
IR. = Ireland
IT. = Italy
L. = Luxembourg
N. = Netherlands
UK. = United Kingdom

Note : Non-project-related and item-related incentives are asterisked.

DISCRETION

Discretion in award can take two forms - discretion on the part of the authorities in the decision whether or not to award, and discretion in the rate of award. In Table 1 we have tried to indicate, for each incentive included in the synopsis tables, the scope of these two forms of discretion. The table also shows whether or not the incentive is project-related, since this is often associated with discretion. From the table it can be seen that, at least in terms of rates, there is little or no discretion for many incentives. This is particularly true of the tax concessions and various accelerated depreciation allowances but it also applies to most of the soft loan schemes. Item-related grants, too, tend to be in terms of fixed rates for obvious administrative reasons. Indeed it is only in respect of the project-related grants that rate discretion is at all marked. These grants, however, form a very important part of individual incentive packages.

The chief drawback of a discretionary system is that it significantly reduces the visibility of the incentives on offer in that industrialists are unsure about whether or not they will receive an award and the level of that award. Moreover it can favour particular types and sizes of firm (especially those with influence and expertise) - not necessarily those most in need of aid or most suited to the problem regions. For smaller firms discretion, often combined with complexity, must be a serious impediment to the consideration of incentives in investment or location decisions. Indeed, in general, there would seem to be strong grounds for arguing that schemes should be made as simple and predictable as possible if firms are going to be able to assess the strength of the schemes and incorporate them into the decision process. There is little information available as to when and at what stage of the investment decision incentives are considered (and in what way) by those firms which do take them into account. One would suspect, however, that where they are going to be incorporated, they enter in at an early stage of the investment appraisal - and certainly before the firm has submitted its application. And yet, where this is the case, firms need to have a clear idea of the prospects of getting incentives and of the likely rate of subsidy. Without this, they will either undervalue the incentives or not incorporate them at all. Simplicity and predictability are thus essential requirements for regional incentives. One could also add that, at the international level, uncertainty and unpredictability in respect of the eligibility and award of particular incentives make it difficult for firms to compare these incentives, and incentive packages in general, between countries. This, at least, makes for imperfect competition between countries in terms of regional incentives - a situation which few would argue is desirable.

But, lack of automaticity can have further drawbacks. In particular it can lead to a lengthening of the time required by administrators to make award decisions. For a firm undertaking an investment or location decision, speed can be of extreme importance. Delays in deciding on the award of an incentive can therefore only mean that incentives are either ignored by the investor or are "deflated" in order to take into consideration the risk of not receiving an award or of receiving only a token award.

Of course, there will always be the argument that discretion enables the award to be tailored to the needs of the region and the applicant, and avoids the "wasting" of public money - a criticism frequently levied against automatic schemes (although it should be noted that these are often less expensive to administer). Discretion is thus seen as a way of applying a "marginal" system of award. The detailed information which we have from a few countries operating discretionary systems does not however lend itself to this argument. Even where incentives have "up to" clauses (i.e. discretion in rates) the result is often that applicants are given awards which are close to the maximum, or are standard, or are token. But this is understandable. Administrators are in a difficult position when making decisions on incentive awards in "up to" situations. They are fearful of making an award at a rate which is so high that it sets a precedent for the future, or one which is so out of line with past awards that the decision can be subject to public questioning. The outcome, anyway, would seem to be a tendency on the part of administrators to standardise rates of award. But if this is the case then we would argue that it should be overtly recognised that systems will behave according to the people involved in their administration as much as the objectives which are set. We therefore feel that simple fixed rate awards (with topping up facilities as extra "icing" if this is seen as needed) have much to commend them.

Simplicity and automaticity need not, of course, mean a single rate of award. What has interested us is that a number of countries have been combining simplicity with selectivity - with fixed and overt rates (or rates in small bands) being set for specified areas, specified industries, and specified project types, even though as we shall see shortly, such overt discrimination is often not easy to introduce. This "matrix approach" has the advantage for the industrialist that it makes for predicitability, while also forcing the policy-maker to decide explicitly on his priorities - both strong arguments for making an overt matrix approach more common practice.

Of course, there will always be a need to cater for special cases and to give the administrator the scope for "fire fighting". This can be accommodated within the matrix approach by allowing the matrix rates to be topped up in special, not necessarily specified, circumstances. The matrix then becomes a basic rate matrix, allowing the industrialist to incorporate what will be a minimum award into his calculations.

COVERAGE

Activities

In terms of activity coverage, regional incentives are very similar in the EC countries, being concentrated overwhelmingly on manufacturing. Even those incentives which are not explicitly limited to the manufacturing sector tend to be applied almost exclusively in that sector. From the synopsis tables it can be seen that non-manufacturing activites are aided only rarely. Agriculture, for example, is almost never eligible for assistance unless "industrialised" in some sense (e.g. processing activities). Construction, too, is normally ineligible unless it is concerned with industrialised construction systems (e.g. pre-fabricated parts). Extractive industries are more borderline, qualifying, for example, for depreciation allowances on plant and machinery and industrial buildings but being ineligible for a number of the major grant schemes.

Services, like the rest of the non-manufacturing sector, also tend to be relatively neglected. Only France, Ireland and the United Kingdom have regional incentive schemes aimed specifically at the service sector in the problem regions, while the general regional incentive schemes tend not to have a service element within them. Of the grants and soft loans/interest subsidies covered in the synopsis tables only United Kingdom selective financial assistance, the French regional development grant, the Danish company soft loan and investment grant, the Belgian interest subsidy and capital grant and the German ERP soft loans are available to services and then normally only to mobile or potentially mobile services (the main exception being the ERP soft loan which is available to all non-primary effect industries). Moreoever, awards to the service sector tend to be rare - not surprising in the case of the UK and France where there are, as already noted, specific service sector schemes. True, the various capital and depreciation allowances often do not explicitly exclude services. They are, however, of only limited relevance to a service sector which, for the most part, uses little plant and machinery and rents the buildings which it occupies.

Why services should be neglected in the regional incentive systems of the Community countries is uncertain, particularly since service activities are often of a type (e.g. female employment and/or high grade employment) which is much needed in the regions. Moreover, even small local services represent an essential base for development. To argue that such services follow other developments and do not therefore need a stimulus assumes that demand is all that is needed for development - a point which if applied rigorously to the manufacturing sector would also exclude many applicants there from eligibility since many surveys of the location decisions of manufacturing industry indicate that locational expansion is largely a consequence of market opportunities in the region or area of location.

Perhaps more interesting than the coverage of the service sector in regional incentive schemes is the poor impact of these schemes on service development where services are covered. The inevitable question is whether this reflects the nature of service industries (with their incremental rather than disjointed form of expansion, the importance of immobile key female workers, their flexibility in the use of premises) or whether it, alternatively, reflects the inappropriateness of the incentives on offer. Our work has done little to throw any light on this issue. It does seem to us, however, that service coverage within the general schemes is often likely to be inappropriate, not least since the service cost structure (particularly in respect of labour costs, leasing and renting) is very different from that of manufacturing (such as to lower the value of the incentives on offer). There is much more research which needs to be done before it will be possible to decide on an appropriate service industry incentive. While hard information on investment decisions and location experiences and requirements of manufacturing is often poor (though improving) that for services is very limited indeed. However, given the downward or stagnant trend in manufacturing employment, and the growth of the service sector, the needs and scope for trying to design policies and regional incentives for services is clear.

Apart from the treatment of the service sector, which is somewhat uneven, the activity coverage of the EC country regional incentives is, as we have seen, broadly similar. A further similarity between the various incentives is that specified rate discrimination between eligible activities is quite rare. Indeed it is found only in Italy (where the grants awarded by the Cassa are one-fifth higher for priority sector projects). Of course, discretionary systems do offer scope for activity discrimination, but there is no way of determining the extent to which it is used.

The reason for the general lack of specified discrimination along industrial or sectoral lines is not immediately obvious. It may reflect a conclusion by policy-makers that, with present information, it is not possible to decide overtly on which industries are most suited to the problem areas or the view that all industry attracted to the problem regions is 'good'; or perhaps it is simply due to the political problems of specified discrimination of whatever form.

Experience in the EC countries does seem to suggest that overt discrimination is difficult to incorporate into schemes. This is true not only of activity and industry discrimination but also applies to problem area spatial discrimination in any form other than very broad banding. Highly discriminatory growth area policy, for example, has in recent years given way to one of dispersed concentration rather than concentration per se, with large numbers of growth areas often being designated in countries which operate such a strategy. Specified discrimination within regional incentive schemes in favour of growth areas is now rare, and, where it is found, the discriminatory element is often slight. The general point anyway is that the EC country experience (and it would seem to be a political fact of life) indicates that overt activity and spatial discrimination with regional incentives is very difficult to introduce.

Project types

Like activity eligibility, project type eligibility is fairly similar between the various incentives and countries. As would be expected, setting up projects are eligible in all the countries while extensions are similarly widely covered except for the Danish municipality soft loan (because of the nature of the incentive) and in Luxembourg unless the project involves a new production line. Rationalisation projects are also generally eligible (although often with the proviso that jobs must be maintained or safeguarded), the exceptions being the Danish municipality soft loan, the Luxembourg incentives, the Dutch investment premium and, with some qualifications, the main French incentives. A similar picture holds for reorganisation and modernisation projects - though this probably reflects more the problems of distinguishing between rationalisation, reorganisation and modernisation than any calculated intention since, apart from setting-up projects, classification by project type is quite a major problem. Indeed there is often a considerable overlap between the various project types. Extension projects, for example, generally also involve an element of rationalisation or modernisation in the establishment as a whole.

We made the point above that overt discrimination between eligible activities was not common. Project-type discrimination also occurs only rarely. Only the Federal Republic of Germany's investment grant, the regional development grant in France and (but only to a very limited degree) the Danish company soft loan have specified rate discrimination between eligible project types - generally in favour of setting up projects. The discretionary schemes could, of course, operate a system of covert discrimination but there is no information available to allow us to judge on the extent of this.

That there is so little explicit project-type discrimination is surprising. Although, as noted earlier, political factors may account, at least in part, for the lack of spatial or industrial rate discrimination they are unlikely to operate in respect of project type. Moreover, if incentives are aimed at compensating for short run dislocation costs or are attempting to overcome inertia then (despite the difficulties of classification) one really would expect much more project type discrimination, particularly in favour of setting-up projects.

ELIGIBLE EXPENDITURE

Eligible items of expenditure for regional incentives can, as we saw in our discussion of incentive values in Part I, have a marked impact on effective values. In as far as there are large differences between countries in the treatment of eligible items the relative effective value of incentives could also be affected. In point of fact the similarities between countries are greater than the differences. Land is an eligible item of expenditure for most grants and soft loans in the EC countries. The exceptions are the investment allowance of the Federal Republic of Germany (probably reflecting its fiscal origins), the regional development grant in the United Kingdom (reflecting its item-related nature) and the capital grant in Italy. Obviously, in that land is not depreciable, it is not eligible for the accelerated and special depreciation schemes. Buildings are an eligible item within all schemes (except the plant-based Irish investment allowance) and the term usually also includes the cost of mains and other "works". Plant and machinery is always eligible except for building specific incentives like the Danish municipality soft loan, the Dutch accelerated depreciation allowance and the French special depreciation allowance. Vehicles are, for the vast majority of incentives, not eligible unless they are on-site and/or have a highly production-specific character. Some countries exclude low value items and "short life" items (with short life being defined in a variety of ways, generally not less than one year but the definition can include items with lives of up to five years - as is the case with the German ERP soft loan). Indeed, in general soft loans are not available on assets with a life less than the duration of the loan.

The major excluded items in most schemes are stocks and working capital. Stocks are eligible only for the Italian national soft loan and the so-called ILOR investment tax concession, while working capital qualifies only for selective financial assistance in the United Kingdom. There seems therefore to be a general reluctance to subsidise stocks and working capital; and yet, given that these can form a substantial proportion of project costs, the value of incentives is cut considerably by their exclusion, and especially the exclusion of stocks. Admittedly, other sources of finance can nearly always be secured for the financing of stocks; but the prime objective of incentives is not simply to substitute for commercial capital but to substitute for it at a lower cost. Moreover, given that many firms in the problem areas will have to carry higher stocks (because of distance to suppliers or markets) there would seem to be good grounds for taking a more generous view towards working capital, or at least a part of it, in the list of eligible items. If nothing else, there seems to us to be grounds for trying to aid, perhaps with a grant on interest payments on stock loans, setting up projects (and perhaps extensions although one could see administrative problems here) for the first few years before full output is obtained, and when stocks are disproportionately high relative to output.

It is almost impossible to discuss the issue of eligible items for incentives in an EC context without raising the issue of the eligibility of replacement investment. Much ink has been spilled on the issue of regional incentives aimed at replacement investment and the acceptability of this form of incentive in the context of the coordination of EC regional policy. The United Kingdom, whose policy explicitly supports this kind of investment (as does the Irish investment allowance) has been in the forefront of the debate. Perhaps fools rush in where angels fear to tread but our view on this issue is two-fold. First, most studies of investment appraisal systems used by industry would suggest that small value investment (which would characterise most replacement investment) is rarely subjected to any quantified investment appraisal, which could mean that awards on replacement may not be influencing investment decisions. This in itself would argue that, for the purposes of the current EC coordination solution with its emphasis on the location of investment, the issue of replacement coverage is not a major one. There is, however, a second point and this is that replacement is not inevitably excluded from the regional incentive schemes in operation in the various EC countries. In the case of setting up projects and projects where a change of product is required replacement is, of course, unlikely to get through. However in other cases - even where countries specifically try to exclude it - replacement can and, on the basis of our informal interviews, does get aided in some countries as long as it is part of an eligible project - even pure replacement. But, and this is the key point, most replacement is not pure replacement - technological progress being what it is, identical machines are rarely bought to replace existing ones; and where a machine involves technological change then there is a very good chance indeed for such investment getting through, within an eligible project, in many of the schemes in the EC countries. In other words, the differences between countries and their treatment of replacement would seem to be the extent to which countries are overt in their policies towards it and on the scale to which replacement is aided rather than on a black and white picture of replacement/no replacement coverage. Given this, and given the problem of excluding replacement entirely from awards, we see little justice in singling out for criticism the overt replacement schemes. Since replacement is anyway not an issue when viewing the international location of firms (there is little evidence of firms valuing incentives very highly, let alone particular features of incentives like replacement coverage - and a firm would be irresponsible to assume in its location decision that regulations on replacement would continue in the future) the importance of the issue diminishes considerably from the viewpoint of current regional policy coordination.

We have so far been concerned with eligible items of expenditure, but it is worthwhile briefly commenting on the position in respect of eligible forms - cash, phased payments, hire purchase, and leasing. Even though an asset may in itself be deemed eligible, the form in which it is financed can, in some countries and in some schemes, debar it from eligiblity for the purposes of an incentive award. Cash and phased payments are, as might be expected, eligible forms of expenditure. The position in respect of hire purchase and leasing is more varied. Table 2 shows the position for grants and soft loans. The general picture is that for most countries and most incentives, assets purchased under hire purchase and leasing arrangements are not generally eligible - or if they are eligible, only particular forms of leasing or hire purchase are acceptable. On the issue of whether assets purchased under hire purchase or leasing should be eligible, our view would be that there seems little reason to discriminate against these forms of finance and

Table 2: The treatment of hire purchase and leasing.

		ELIGIBLE FORMS OF EXPENDITURE	
COUNTRY	INCENTIVE	HIRE PURCHASE	LEASING
Belgium	capital grant		X
	interest subsidy		X
Denmark	company soft loan		
	municipality soft loan		
	investment grant		
France	regional development grant	X[1]	X[1]
Germany	investment allowance	X[2]	X[2]
	investment grant	X[2]	X[2]
	ERP soft loan		
Ireland	IDA capital grant	X	X
Italy	capital grant		X[3]
	national soft loan		X[3]
Luxembourg	capital grant	X	X
Netherlands	investment premium		
United Kingdom	regional development grant	X	X
	soft loan	X	X
	interest relief grant	X	X

<u>Notes</u>: 1. The investor must own the assets or have a contractual option on ownership.

2. Assets must appear in the applicant's balance sheet.

3. A special application is required through a state leasing company.

that incentives should be awarded for assets in projects which are financed in this way. We see little difference in principle between a project which is partly financed by say a bank and one which is "financed" by a leasing company. The only major difference is that these assets often do not pass into the balance sheet (a requirement in some countries for eligibility) but apart from the need for this for clawback purposes (which is anyway rare in most countries) there seems little reason why a waiver clause for leased assets or those bought under hire purchase could not be introduced to cover this point. There are policing and administrative problems involved in deeming assets under hire purchase or leasing arrangements as eligible but in that there are a number of countries which allow assets financed in this way to be eligible, the problems would not appear to be insurmountable.

It must be said that for most industry, the exclusion of hire purchase or leasing from eligibility is not of major significance (although by all accounts leasing in particular is of growing importance as a form of company finance), but for some sectors it is important - in particular the service sector. For this reason alone, then, there could be grounds for a review of present practices. More than this, a generous attitude towards leasing within regional incentive schemes could encourage the development of leasing companies in the problem areas - bringing with it not only benefits in terms of job creation but also, more important, indirect benefits for the area as a whole beyond those firms and projects in receipt of regional incentives.

TAX TREATMENT

A major factor which influences the relationship between nominal and effective values of incentives is, as we have seen in Part I, their tax treatment. It also introduces an element of opaqueness for the industrialist. The taxing of incentives is in fact widespread in the EC countries. The concessionary element of all soft loan schemes is taxed since the concession, ceteris paribus, results in an increase in taxable profits. All employment premia are similarly taxed through the increased taxable profits which they generate. Fiscal concessions are not generally taxed except in one circumstance - that is, if the tax on which the concessions are made is deductable for the calculation of tax liabilities in respect of another tax. Grants, however, do tend to be taxed either

Table 3: The taxation of capital grants

COUNTRY	GRANT	METHOD OF TAXATION "DIRECT"	"INDIRECT"	NOT TAXED
Belgium	capital grant		x	
Denmark	investment grant	x[1]		
France	regional development grant	x[2]		
Germany	investment allowance			x
	investment grant		x	
Ireland	IDA capital grant		x[3]	
Italy	capital grant	x[4]		
Luxembourg	capital grant		x	
Netherlands	investment premium		x	
United Kingdom	regional development grant			x
	interest relief grant	x		

Definitions:

"Direct" taxation means that the grant is regarded as income and hence passes directly into taxable profits. "Indirect" taxation means that the value of aided assets is reduced by the value of the grant for depreciation purposes thus indirectly increasing income and hence taxable profits.

Notes:

1. Grant regarded as income but can be brought into income any time within ten years after it is received. This delay is normal and markedly reduces the impact of taxation.

2. Grant regarded as income but is brought into income in line with the depreciation schedule of aided assets (except for the land element of grant which is brought into income in ten equal instalments). This method of taxation is broadly equivalent to "indirect" taxation.

3. Only the building element of grant is taxed.

4. Grant regarded as income but possibility of allocation to a tax reserve means that it is rarely taxed in practice.

by entering directly into income and hence taxable profits or, more commonly, because firms are not allowed to depreciate for tax purposes that part of the asset to which the grant relates. In Table 3 we show how grant schemes are taxed in the various countries.

It can be seen from the table and its accompanying notes that only the investment allowance in the Federal Republic of Germany and the regional development grant in the United Kingdom are not taxed; that the capital grant in Italy is in practice rarely taxed; that the Danish investment grant is normally taxed only after ten years; and that for IDA grants in Ireland only the building element of grant is taxed (and then "indirectly"). In the remaining cases, the standard procedure is for the grants to be taxed "indirectly" since aided assets can only be depreciated for tax purposes net of any grant received. The principal exception to this is the interest relief grant in the United Kingdom which is "directly" taxed, and this because it is meant to be broadly equivalent to the concessionary element of UK selective financial assistance soft loans.

The extent to which incentives are actually taxed depends, of course, not only on the formal position but also on whether firms make taxable profits. In some countries, many companies are not making taxable profits in the current economic conditions and in this sense the incentives are taxed only once removed in that where forward transfer of losses is possible they diminish losses and thus reduce the losses which can be carried forward to be set against future tax liabilities. In many cases, a new project will anyway not make profits in the initial years and this will diminish the tax burden on the incentive, although this point should not be exaggerated since taxes are levied on companies and not projects and it would thus be the case that only where the project was a major part of the firm's activity (and was making losses) that it would give rise to firm losses. Where taxable profits are being made, the exemption of incentives (and particularly grants) from taxation would obviously increase the effective value of incentives considerably - between a fifth and a half depending on the rate of corporation tax and how the incentives are drawn into taxable income. Incentives taxed directly as income have their effective value reduced more than those taxed simply because the assets aided can only be depreciated net of any aid received.

Table 4: Timing and phasing of grant claims.

GRANT CLAIMS CAN BE SUBMITTED:	BELGIUM CG	DENMARK IG	FRANCE RDG	GERMANY IA	GERMANY IG	IRELAND CG	ITALY CG	LUXEMBOURG CG	NETHERLAND IPR	UNITED KINGDOM RDG	UNITED KINGDOM IRG
- before asset expenditure					X					X	
- only after asset expenditure		X				X					
- only after given proportion of project expenditure	X		X				X		X		X
- only after all project expenditure								X			
- only in financial year after year of expenditure				X							

Key: CG - capital grant; IG - investment grant; RDG - regional development grant; IA - investment allowance; IPR - investment premium; IRG - interest relief grant.

Note: This table is necessarily simplified. The reader is referred to the synopsis tables for more details.

TIMING AND PHASING OF AWARD

Tax treatment is one factor which can lower the effective value of incentives. Timing and phasing of award is another, even though of more minor importance. Table 4 brings together in summary form our synopsis information on the timing and phasing of grant claims. In particular, the tables tries to show when, in relation to asset expenditure, grant claims can be submitted. From the table, it can be seen that claim submission ranges from before the asset is invoiced to after completion of project construction. The most common procedure, however, is that grant claims are made either in line with expenditure or on the basis of blocks of expenditure (though in this latter case advance grant payments are often available). It is an obvious point that systems which do not allow claims to be made in line with expenditure inflict liquidity problems on firms - problems often made worse by delays in the payment of grant (although the claim processing period is generally reasonably short, ranging from one to three months on average). At least some countries could - at little or no cost to the exchequer - increase the effective value of their grants by adopting a more generous approach to the timing and phasing of both grant claims and payment.

For fiscal concessions, the delays between expenditure and receipt of award can be very long indeed since these concessions are generally only "paid" in respect of profits generated by aided investment. Given the standard delays in the payment of corporation tax, anything up to two or more years can lie between asset expenditure and receipt of a fiscal concession on that expenditure. It is difficult to see an easy solution to these delays in the sense of cutting them back - except a greater effort by the authorities (and some countries already do this) to vary advance payments of tax (where such payments exist) to take account of fiscal concessions. The fact that there are often significant delays before receipt of fiscal concessions is probably one reason why they are rarely offered on their own within incentive packages, but rather tend to "top up" the more basic capital grants and soft loans. For their part, soft loans do not normally suffer from major delays - being drawn down generally in line with need. In this sense, they have an advantage over grants and fiscal concessions - an advantage which has, perhaps, been underrated by many observers.

We have so far been concerned with timing and phasing in the payment of incentives. There is, however, a related issue which is concerned with the timing and phasing of decisions on applications, and involves the question of whether or not application is required before the start of the project. The picture among the EC countries is a varied one but generally projects which have already started cannot then apply for an incentive. The major exceptions are the depreciation allowances in all countries (for which normally no formal application is made before the submission of tax claims to the appropriate tax office), the investment allowance in the Federal Republic of Germany (which anyway has fiscal roots), the item-related regional development grant in the United Kingdom, and the Luxembourg capital grant. The Danish incentives also belong to this list, although application is preferred before project construction starts, as perhaps does the French regional development grant where a letter of intent giving no more than 6 months notice of application allows the investor to commence the project before formally submitting his application.

The intriguing question, of course, is whether, when projects can start before application, the incentive can be viewed as influencing the investment decision and, thus, whether such "retrospective awards" are merely windfall gains. The answer depends on a variety of factors - and, in particular, on the automaticity of the incentive (and many of the schemes that do allow projects to start before application are fairly automatic) and on the extent to which the system allows informal contacts and discussions before formal application. Our own view would be that, to avoid the dangers of retrospective awards, application should be required before project start, at least for the discretionary schemes. Of course, this does not guarantee that the incentive will be incorporated into the investment decision, but it gives a slightly greater chance of incorporation. Ideally, one might argue that the project should not start until a decision has been reached (and fewer countries insist on this than insist on application before project start). But given the processing time of applications (and this varies considerably between countries, from one month to one year) this is probably not acceptable unless countries could cut back substantially on application processing times - and on other grounds there may be good reasons for trying to do this. Requiring firms to wait for the decision before project start would, again, not guarantee incorporation into the investment decision, but would at least increase the chances of this being done. Unless somebody can design a system which ensures incorporation of incentives into investment decisions, there is not a lot more that can be done in this area.

There is one final point which deserves to be made in the context of timing and phasing, and this concerns the way in which grant awards are determined or fixed. In some countries, grants are agreed in percentage terms on the basis of anticipated expenditure and the fixed sum resulting is then the amount for which the applicant is eligible. In others, grants are fixed in percentage terms and are then paid out on the basis of incurred, not expected, costs (with some safeguards to protect against major overspending). The former approach can reduce grant "values" if firms tend to underestimate project costs (and even in non-inflationary days this seems to have been common). The alternative system of paying on the basis of actual costs does of course have its dangers - especially in making firms perhaps less cost conscious; but it would surely be a foolish firm that relaxed its cost consciousness merely because it had been awarded an incentive. It does seem to us, therefore, that the system of paying the grant on the basis of actual expenditure (even though this may make for some budgetary difficulties for the administration) rather than anticipated expenditure has the considerable advantage of holding the value of the incentive; and we would suspect that it would have more appeal (given firms' inflationary fears) than any numerical appraisal would suggest.

INTEGRATION

A standard problem in the operation of any policy with a variety of instruments to attain its objectives is integration between instruments. Regional incentive policy is no different from other policies in this respect. Even though the incentives may have broadly the same objective, they sometimes have different delineations and definitions of eligible industries, eligible items of expenditure, eligible forms of expenditure, conditions of award etc. It seems to us that in many countries some standardisation of conditions and other features between schemes is needed (even without proposing a separate administrative body - or at least a separate contact and/or design body -

for all regional incentives, a proposal which is worthy of active consideration). Such standardisation would be to the advantage of the industrialist since he will often want to evaluate regional incentives as a package rather than individually.

This issue of the package approach to incentive policy brings us to another aspect of integration, and this concerns the addability of incentives. We have already seen in Part I that incentives are frequently not addable - either covertly or overtly - and that where they are combined the award of one can detract from the value of another such as to give a misleading impression of the size of the incentive package as a whole. Moreover, most countries impose cumulability limits on incentive combinations - sometimes in the form of public sector contribution constraints and at other times (and this is normally the reverse side of the same coin) through "own finance" limits.

But, perhaps more interesting, are some of the side effects of adding incentives and viewing them as packages. We have found cases where the issue of addability has so blunted the value of incentives that an objective of the policy maker (e.g. to favour setting up as opposed to extension projects) has not been fulfilled. On a more general level we have a number of examples in countries where the objectives of selectivity in the main schemes have been seriously blunted when incentives are viewed as a package. Our view would be, anyway, that there are substantial prospects for standardising and integrating schemes such as to allow a better appreciation by applicants of the package on offer and its likely effects.

A further point on the integration of schemes needs to be made and this is that even for their own purposes governments are not always clear on the addability of incentives. Most countries have systems for limiting total public contributions (although these differ markedly between countries not only in terms of values but also in terms of definition) and yet these systems do not always cover all incentives. Sometimes this is because of the problems of including particular incentives into the formula for the calculation of maxima, but on other occasions it seems to reflect arbitrary decisions. If there is a real interest in controlling the maximum public contribution or the maximum aid awarded then there is a lot of distance still to go in many countries in terms of incorporating the whole of the incentive package. The simple exercise of reviewing the position in this respect would be of value in illustrating to the policy-maker more clearly the offsetting nature of some of the incentives when combined together.

The problem of integrating or coordinating regional incentive schemes is made more difficult by a variety of tiny incentives in some of the EC countries. A lot of these small incentives were introduced long ago, have often been reduced in value by inflation, and are frequently poorly integrated into the major schemes. In some cases, the impression we have is that these schemes are almost forgotten anachronisims. One indication of this is that they are not always considered when own capital requirements or public sector contribution limits and similiar maximum conditions are being calculated. Many of the schemes are poorly documented and publicised. Since in addition they are often old and have only been adjusted ad hoc over time they tend to be complicated and can be expensive to administer. Indeed, some must cost more to administer than they pay out in benefits. Our view would be that there is a need to review such schemes either with the objective of integrating them into current incentive packages or of scrapping them. Many countries have incentives which are probably candidates for withdrawal or, given the psychological and political problems of dropping incentives, being phased out. On the other hand, wild cutting would be undesirable. Some of the minor schemes still fulfil a useful function for particular sectors, firms or areas. All that we are saying is that these schemes need to be examined to check on the justification for their continuance.

The integration and coordination of schemes could grow as a problem in the future with the trend in many countries towards greater regional autonomy in the award of incentives. So far, however, our evidence is that, although regional devolution of the administration of awards is becoming common, control is generally still strongly exercised from the centre. Since the policy is often financed from the centre, and the people involved in incentive administration tend to have a loyalty to the centre (career prospects are often centre-orientated) this control is likely to continue. On the other hand, as regions increase in political power the pressure for regionally-operated and initiated measures will grow.

Such devolution is, of course, not necessarily a "bad thing" even in economic terms; and in many instances, given the regional and local aspirations (and knowledge) in many countries it is to a large extent inevitable. But what it can do is to increase the risk of wasteful outbidding between regions. That some outbidding will take place is to be expected - it is one of the inevitable consequences of the devolution of power. We would argue, however, that there is a need for some system of coordination - certainly involving centralised information on awards and with maxima being set for projects (and with all incentives being included in these maxima). Although the setting of such maxima is technically difficult, it is necessary if any coordination is to take place. To ease the problem of getting such proposals accepted some flexibility will no doubt be required, such that regions can go over the maxima with the permission of the central coordinating body (as in the Federal Republic of Germany). The coordination of regionally awarded incentives is going to be a major issue in a number of countries, particularly in the current and foreseeable economic conditions with a shortage of mobile projects. Certainly it is no answer simply to ban regionally-operated schemes since the experience of many of the EC countries is that local and regional aspirations will, in one form or another, win through. The task of the centre therefore is to adjust to the trend and to try to evolve systems of control which will avoid at least the worst side effects.

One final point must be made on the issue of integration although it does take us outside our immediate remit. Many administrators have commented to us that perhaps the most serious problem of integration, even within countries, concerns integration with other, non-incentive, aspects of regional policy and with national policies - whether these latter concern incentives or not. Examples to illustrate the problem in this context are not rare. While, for example, regional incentives are being operated to encourage regional development in particular areas, the other arms of policy are closing railway lines or turning down infrastructure improvement schemes. While regional incentives are operated to give preferential treatment to the problem areas, sectoral or national incentives are introduced which cut down substantially on the net advantage conferred by the regional incentives *per se*. Such problems of overlap and contradiction are probably of growing importance since there seems to be a general trend towards a greater use of micro-policy, perhaps because of the inadequacies of macro-policies in the current economic conditions. From the viewpoint of the net advantage conferred by regional schemes this is a worrying trend since our impression is that the regional schemes have not been adjusted accordingly. In a number of countries, micro-policies have been introduced for sectors and for the nation as a whole which have very similar characteristics to the regional incentives. This is particularly true in the area of soft loans where, in many countries, although the regions superficially enjoy soft loans of a very generous character, similar soft loans (admittedly often slightly less generous) are paid to much industry in the non-problem areas. In other cases, but these are few, national schemes can indirectly mean little benefit for the regional scheme. A national accelerated depreciation scheme, for example, can reduce to virtually zero a regional fiscal incentive since even for the nation as a whole the consequence of the national scheme is that profits are virtually free of tax.

Of course, if micro-policies have been introduced with the clear intention of diminishing the regional advantage of the regional incentive schemes, then there are no grounds for criticism. In a number of cases, however, it would seem that they have been brought in with no clear assessment of what they would do to the power and effectiveness of the regional incentives, or indeed without any great consideration of their regional implications. It is vital that the regional dimension be taken into account in the design and formulation of all national schemes and policies. Indeed, in many cases, there would be advantages if they had a distinct regional element. There are many who would argue, and it is a viewpoint with which we would agree, that unless regional policies per se are supplemented by regionally-oriented national policies, no major step forward will be possible in regional development.

MONITORING, EVALUATION AND DESIGN

There is one feature of the regional incentives in the Community countries which was not covered in Part I of this report (which was concerned with current policy) and this is the changeability of policy over time. In all countries, policies have, over the post-war period, changed frequently and often radically. Some policies have gone round in circles. In one country, for example, the regional incentive policy has switched from one of spatial spread to concentration, and then back to spread - all in 12 years. In another, a policy hailed initially as the saviour of the backward regions was scheduled for scrapping a few years later, but in the event was doubled in value (subsequently, less than three years thereafter, to be withdrawn a few months after new revised rates were announced and just before they were to be introduced). Such changeability certainly reduces the visibility of policy (and thus its effectiveness) and can, if not handled correctly, inflict costs on firms.

Many location surveys have argued that the changeability of policy is seen by firms as one of the main shortcomings of the regional incentive system - and one which results in the incentives being severely "discounted" in any investment or location decisions. On these grounds alone, there are reasons for arguing for more stability. But, of course, policies can never be held indefinitely; nor would this be desirable, practical or feasible. But, given changeability, the least that is required are clear systems to protect applicants in the event of policy changes. Most countries have such schemes, but, as the synopsis tables will have made clear, the systems are quite wide-ranging. Indeed in some countries incentive change is treated only in an ad hoc manner. In line with our general philosophy of the need for simple and overt systems we would argue that such ad hoc approaches have serious disadvantages. If we were to choose from the various possibilities we would suggest that firms which have already applied for the incentive be awarded the "old scheme" rates irrespective of whether these are better or worse. It was, after all, on the basis of the scheme existing at the time of application that the firm made its investment or location decision. If incentives are meant to influence the investment or location decision of the firm, then to make a more generous award merely because the scheme has changed results only in a windfall profit for the firm and does not affect the decision. In any event, we would argue strongly that the systems used in the event of an incentive change should be overt and widely known if firms, fearful of change, are not to discount the incentives. Moreoever, it is surely desirable that the change be implemented quickly after announcement if, when systems are made more generous, firms are not to hold back their plans and applications.

There are a variety of reasons for the changeability of policy; political as well as economic. But, in addition, we would argue that changeability reflects the lack of a firm base on which many policies are founded - and deficiencies in the monitoring, evaluation and design of incentives.

Monitoring of firms and projects awarded regional incentives is less than we expected and, when done, the information is often spread (and not shared) between administrative groups responsible for the various incentives. At times, it almost seems as if the awarding authorities did not want to know the outcome. This, incidentally, would not be as surprising as it might seem at first sight since monitoring can lead to problems of deciding on appropriate action. A firm, for example, which has not fulfilled its agreed employment targets could have been placed in this position because it had become more efficient than anticipated. The inevitable question is whether it should be penalised for such efficiency. On the other hand, a failure to meet employment targets may come about because the firm has encountered problems in the implementation of its project; and the question which arises here is whether its possible collapse would be precipitated by clawing back the incentive awarded. In practice, in most countries, clawback is rare. But monitoring has other uses beyond that of enforcing the law and checking on abuses. It has extremely useful feedback advantages for the authorities when they are required to check on the realism of applications and to assess the impact and results of policy, i.e., in policy evaluation.

There is, in most countries, an apparent lack (though with a few major and impressive exceptions) of hard evaluation of the effectiveness of schemes - the jobs and investment created (as opposed to the quite different issue of jobs and investment associated), the quality and stability of the jobs involved, and the general worthwhileness of policy. In one country, (our view is that it would apply to most others also), a parliamentary enquiry into regional policy made the point that "regional policy has been empiricism gone mad, a game of hit and miss played with more enthusiasm than success. We do not doubt the good intentions, the devotion even of those who have struggled over the years to relieve the human consequences of regional disparities. We regret that their efforts have not been better sustained by the proper evaluation of the costs and benefits of the policies pursued". The lack of research on the issue of effectiveness, is particularly unfortunate since in the current and foreseeable economic climate there is a real need for continuing proof of the cost effectiveness of regional incentives and regional policy generally if these policies are to be continued or strengthened.

But monitoring and research are needed not only for scheme evaluation, they are also needed in the design of schemes. Without comprehensive and structured information on the results of current policies and the features and needs of recipient firms, it is difficult to design appropriate incentives. Monitoring would go some way towards meeting design needs; but not the whole way. There is a remarkably large dark area of ignorance concerning the actual use to which incentives are put by firms. This is an area where further research is particularly urgent. In general incentives tend to be "designed" and proposed with little detailed analysis, and on the back of little research.

But research takes time (and the recommendations which fall out are not always acceptable, or even feasible!) and the inevitable question is what can be done in the meantime. One possibility which appeals to us, and to a degree has already been implemented in at least one country (and is implicit in many of the package schemes in other countries) is that, given the different (and often unknown) needs of firms, industries and sectors, 'incentive options' should be offered. Thus, if a firm wants to take its incentives wholly in the form of grants, or any other of the incentives on offer, then it would be allowed to do so. In brief, the proposal would be to permit a firm to "trade-in" those incentives for which it is eligible for that type or types which it considers itself to need. The outcome would be that firms would receive those incentives which were best suited to their own position, thus increasing the likelihood of the incentives actually having an impact on decisions. Such an approach would also provide the administrator with invaluable feedback on firm preferences, and this in itself would help in incentive design. The approach would require more flexible budgeting than is to be found in many countries (and at least multi-year budgets). In addition there are technical problems of calculating conversion ratios between incentives, but this kind of problem has beeen faced by the regional authorities in other contexts and would not appear to be insurmountable.

Throughout this section we have argued the need for more evaluation and a better design of incentives. Unless this is done, regional policy, particularly in the current economic climate, runs the risk of being cut back. Regional incentives as an arm of regional economic policy take up substantial resources. Expenditure has, as we have seen, been growing in the Community countries and has now reached very high levels. In total (and limiting the calculations to the major regional incentives), some 1,150 million U.S. dollars worth of investment grants were approved in 1975, together with subsidised loans to the value of 5,270 million dollars and various tax and social security concessions to the value of some 1,220 million dollars. Moreover, on top of this there were various fiscal concessions awarded which cannot in general be quantified. Expenditure at such levels must, we would argue, warrant more attention to evaluation and design than would appear currently to be applied.

Table 5: Effective Subsidies as a Percentage of Various Denominators - maximum rates and maximum incentive combinations by top priority region in each country

COUNTRY	MAIN PROBLEM REGION	INCENTIVE COMBINATIONS	EFFECTIVE PERCENTAGE SUBSIDIES: INITIAL CAPITAL COSTS	ANNUAL CAPITAL COSTS	VALUE ADDED
Belgium	Development Zones	CG+IS+AD	11.3	10.1	3.3
Denmark	Special Development Regions	CSL+IG	15.4	13.8	5.2
France	Award Zone 1	RDG+SDA	13.5	12.2	3.7
Germany	Zonenrandgebiet	IA+IG+SDA	18.2	15.5	5.3
Ireland	Designated Areas	IDA grant + IA	34.7	32.1	10.0
Italy	Mezzogiorno	CG+NSL	46.3	41.7	12.1
		(+SSC)			(+2.8-7.9)
Luxembourg	-	CG+TC	7.8	7.1	2.7
Netherlands	Development Areas	IPR+AD	15.9	13.7	4.9
United Kingdom	Special Development Areas	RDG+IRG	21.5	21.7	4.8

<u>Incentive keys:</u>

Belgium: capital grant (CG); interest subsidy (IS); accelerated depreciation (AD)

Denmark: company soft loan (CSL); investment grant (IG)

France: regional development grant (RDG); special depreciation allowance (SDA)

Germany: investment allowance (IA); investment grant (IG); special depreciation allowance (SDA)

Ireland: Industrial Development Authority (IDA) grant; investment allowance (IA)

Italy: capital grant (CG); national soft loan (NSL); social security concession (SSC)

Luxembourg: capital grant (CG); tax concession (TC)

Netherlands: investment premium (IPR); accelerated depreciation (AD)

United Kingdom: regional development grant (RDG); interest relief grant (IRG)

<u>Note</u>: For the derivation of these figures, and a discussion of the incentives covered, see country-specific valuation tables.

A COMPARISON OF INCENTIVE VALUES

So far we have concentrated, for the most part, on the conclusions and implications arising from a comparison of the key incentive features noted in the synopsis tables in Part I. We have not, however, considered the Part I valuations in any detail, and it is to these that we now wish to turn. But before doing this it is necessary once again to stress a number of important points made initially in the context of the general valuation introduction (see pps. 32-45 above) - namely, that we are measuring the intensity of policy (i.e. the value of an incentive to those projects in receipt of that incentive), not its scale; that we are concerned only with the regional advantage which incentives confer; and, above all, that our prime objective is the comparison and ranking of regional incentives individually and as packages.

In Table 5 some of the main valuation results from Part I are brought together in summary form. The table presents, in terms of the three standard valuation denominators (initial capital costs, annual capital costs and value added), the effective subsidy value of the maximum combination of incentives in the top priority region of each of the Community countries, assuming the maximum incentive award has been made in each case (subject, of course, to the "addability" constraints of each incentive package).

From the table it can be seen that the incentive packages in the EC countries fall into three broad groups. The top group is clearly made up of the Italian and Irish packages, and this despite the fact that neither export profits tax relief in Ireland nor the IRPEG and ILOR tax concessions in Italy are directly included in the table due to the problems of valuing these concessions in a way comparable with that used to measure the value of the main financial concessions. Given that Ireland and Italy have perhaps the most serious and intractable regional problems in the Community, the high-ranking of their incentives is, however, understandable, and not particularly surprising.

Table 6 : Effective Subsidies as a Percentage of Various Denominators - maximum rates and maximum incentive combinations in all designated problem regions by country.

COUNTRY	PROBLEM REGIONS	INCENTIVE COMBINATIONS	EFFECTIVE PERCENTAGE SUBSIDIES: INITIAL CAPITAL COSTS	ANNUAL CAPITAL COSTS	VALUE ADDED
Belgium	Development Zones	CG+IS+AD	11.3	10.1	3.3
Denmark	Special Development Regions	CSL+IG	15.4	13.8	5.2
	General Development Regions	MSL+CSL	5.8	5.0	1.9
France	Award Zone 1	RDG+SDA	13.5	12.2	3.7
	Award Zone 2	RDG+SDA	10.0	9.0	2.7
	Award Zone 3	RDG	5.7	5.2	1.6
Germany	Zonenrandgebiet	IA+IG+SDA	18.2	15.5	5.3
	Non-Zonenrandgebiet	IA+IG	10.3	8.7	3.0
Ireland	Designated Areas	IDA grant + IA	34.7	32.1	10.0
	Non-designated Areas	IDA grant	24.2	22.4	6.9
Italy	Mezzogiorno-priority	CG+NSL	46.3	41.7	12.1
		(+SSC)			(+2.8-7.9)
	Mezzogiorno-non priority	CG+NSL	36.7	33.0	9.6
		(+SSC)			(+2.8-7.9)
	Depressed Centre-North	NSL	10.9	9.7	2.3
Luxembourg	-	CG+TC	7.8	7.1	2.7
Netherlands	Development Areas	IPR+AD	15.9	13.7	4.9
	Intermediate Areas	IPR+AD	10.9	9.3	3.3
United Kingdom	Special Development Areas	RDG+IRG	21.5	21.7	4.8
	Development Areas	RDG+IRG	18.4	18.7	4.1
	Intermediate Areas	RDG+IRG	9.2	7.9	1.7

Incentive keys: See Table 5 above.

Note: For the derivation of these figures, and a discussion of the incentives covered, see country-specific valuation tables.

At the other extreme, though obviously not as clearly separate from the middle group of countries as Ireland and Italy, come Belgium and Luxembourg. That the Belgian package does not belong to the middle group is perhaps not immediately obvious, since the values for Belgium in Table 5 are not so very different from those for the French package. However, to the extent that the French local business tax concession is not included within the French incentive package in Table 5 (for reasons noted within the French country valuation in Part I) the table understates the value of the French scheme. Moreover, and again for reasons explained in Part I, Table 5 overvalues the regional advantage of the Belgian package by ignoring the very similar nation-wide aids in Belgium which "eat into" the regional differential.

Finally, the remaining countries in Table 5 fall into a middle group. Less important than the ranking of countries within this group is the fact that - with the possible exception of the United Kingdom package - the spread of incentive values within the group is not large, especially bearing in mind that the French figures are probably understated. In terms of the initial capital cost denominator the range is from 13.5 percent (France) to 21.5 percent (UK); in terms of annual capital costs it is from 12.2 percent (France) to 21.7 percent (UK); and in terms of the value added denominator, it is from 3.7 percent (France) to 5.3 percent (Germany). We return later to the implications of this relatively narrow spread of values. For the moment, however, the United Kingdom position is worth noting since it brings out two important points in the table - the fact that only for the United Kingdom package is the "annual capital cost" percentage higher than the "initial capital cost" percentage (and this because item-related replacement is subsidised as part of the UK regional development grant scheme); and the fact that in the United Kingdom (and indeed it is also true of Italy) gross profits make up a relatively low proportion of value added (and this primarily because of the impact of inflation on the gross profits figures).

So far, our discussion has been solely in terms of the overall maximum values of the various incentive packages. In practice, the incentive rate maxima in most countries are differentiated by type of problem region. In Table 6 we show the rate maxima (again for the maximum incentive combinations) in all designated problem regions in the Community countries.

It can be seen from the table that, in general, incentive packages in our middle group of countries are far less valuable outside the "top priority" problem regions than within them. This is particularly true of the packages on offer in the Danish General Development Regions, French Award Zone 3 and UK Intermediate Areas - all of which are worth less than half of the "top priority" area packages in their respective countries and all of which amount, in effective value terms, to less than 2 per cent of value added. But it is also true, if to a slightly lesser extent, of the Dutch Intermediate Area, German non-Zonenrandgebiet and French Award Zone 2 packages, these being worth between 10 and 11 per cent of initial capital costs (2.7 to 3.3 percent of value added). It is far less true of the UK Development Area package. Indeed this package is worth over 85 per cent of the package on offer in the UK Special Development Areas - not entirely surprising since the basic problem area distinction in the United Kingdom is between Development Areas (including Special Development Areas) and Intermediate Areas.

As far as Ireland and Italy are concerned it can be seen that, apart from the obvious exception of the depressed areas of the Centre and North of Italy, package values outside the top priority problem regions remain high by international standards and indeed are above those found in the top priority areas of the other Community countries. Even after taking account, therefore, of differences by type of problem region, the gap between our top and middle group of countries remains clear. That between the middle of bottom country groups is however blurred by the existence of far less valuable maximum incentive combinations outside the top priority regions in the middle group of countries.

It may be felt that since the foregoing discussion of the results presented in Tables 5 and 6 is wholly in terms of incentive package maxima, it does not get to grips with the reality of the situation in the respective countries. It takes no account, for example, of the relationship of average to maximum values; nor does it give any indication of the probability of obtaining (and hence the relative importance of) the maximum incentive combinations shown in the tables (although both of these topics have already been considered in the country-specific sections of Part I). We now turn to consider these factors in more detail.

By way of introduction, and bearing in mind that the combination of incentives in any given country can have an important bearing on the value of that country's incentive package, Table 7 shows (in terms of our three standard denominators) the maximum effective subsidy value of individual incentives, broken down by incentive type. It can be seen from the table that, in effective value terms, capital grants are the most important element of the incentive package in all Community countries - ranging from 2.7 per cent of value added in Luxembourg to almost 9 per cent of value added in Ireland and Italy. By comparison both soft loans/ interest subsidies (ranging from 0.9 to 3.2 per cent of value added) and accelerated depreciation allowances (ranging from 0.6 to 2.0 per cent of value added) are far less valuable. In general, capital grants are the prime factor determining incentive package values.

Moving on to consider the available incentive packages in detail, we begin with our top group countries - Italy and Ireland. The important point to make about the Italian figures in Tables 5 and 6 is that they relate only to small projects, projects of less than Lire 2 milliard eligible investment. In the Mezzogiorno project size is the crucial variable in determining the value of incentives. It sets not only the level of the basic capital grant awarded but also (together with firm size) helps to determine whether a national soft loan can be offered. For very large projects, for example, (those over Lire 15 milliard eligible investment) the basic capital grant is at least 35 percent lower than for small projects. Moreover, there is no possibility of very large projects obtaining a national soft loan. The result is that for such projects (and indeed for certain large projects - those of between Lire 7 and 15 milliard eligible investment) the effective subsidy value of the combination capital grants and national soft loans is much lower than shown in Tables 5 and 6 - 13.9 percent of initial capital costs, 12.6 percent of annual capital costs and (before taking account of the social security concession) 3.7 percent of value added for very large projects, for instance.

In Ireland, too, the Table 5 and 6 maxima may give a somewhat overstated impression of the value of the incentive package since average IDA grant awards for setting-up projects and major extensions are significantly lower than the administrative maxima shown in the tables. In the period April 1973 to December 1975, for example, setting-up/major extension awards averaged just over half the administrative maxima.

Table 7 : Effective Subsidies as a Percentage of Various Denominators - maximum rates of individual incentives.

COUNTRY	INCENTIVE	EFFECTIVE PERCENTAGE SUBSIDIES: INITIAL CAPITAL COSTS	ANNUAL CAPITAL COSTS	VALUE ADDED
	(A) CAPITAL GRANTS			
Belgium	: capital grant	9.5	8.5	2.8
Denmark	: investment grant	14.5	13.0	4.9
France	: regional development grant	11.8	10.7	3.2
Germany	: investment allowance	4.6	3.9	1.3
	: investment grant	11.3	9.6	3.3
Ireland	: IDA capital grant	30.2	28.0	8.7
Italy	: capital grant	33.8	30.6	8.9
Luxembourg	: capital grant	7.8	7.1	2.7
Netherlands	: investment premium	13.2	11.6	4.2
United Kingdom	: regional development grant	13.0	14.3	3.1
	: interest relief grant	8.5	7.4	1.6
	(B) INTEREST SUBSIDIES/SOFT LOANS			
Belgium	: interest subsidy	4.7	4.2	1.4
Denmark	: company soft loan	2.6	2.3	0.9
	: municipality soft loan	4.7	3.9	1.5
Germany	: ERP soft loan	5.8	4.9	1.7
Italy	: national soft loan	12.5	11.1	3.2
United Kingdom	: SFA soft loan	7.2	6.3	1.4
	(C) ACCELERATED DEPRECIATION			
Belgium	: accelerated depreciation	3.7	3.3	1.0
France	: special depreciation	2.3	2.0	0.6
Germany	: special depreciation	6.9	5.9	2.0
Ireland	: investment allowance	2.1	2.6	0.8
Netherlands	: accelerated depreciation	3.6	2.9	1.0

Note: For the derivation of these figures, see country-specific valuation tables.

During this period the average value of the Irish package for export projects was 18.7 per cent of initial capital costs, 17.3 per cent of annual capital costs and 5.4 per cent of value added.

Like those for the Italian package noted above, these figures are not out of line with those presented in Table 5 for our middle group of countries. It should not, however, be concluded from this that Italy and Ireland should be allocated to this middle group. As already pointed out on more than one occasion, the Table 5 and 6 results take no direct account of the award of export profits tax relief in Ireland or of the availability of the ILOR and IRPEG tax concessions in the Mezzogiorno - incentives which place Ireland and Italy firmly back into a separate top country group.

In the passing, it is perhaps worth pointing out that these 'difficult-to-value' incentives have often been criticised because of the problems inherent in their measurement; and that they all have a limited life at present - as indeed does the INPS social security concession in Italy. However, and this is an important point, without these aids the average Irish and Italian incentive packages are no longer clearly in the top group, a position which most would argue the severity of their regional problem demands. It is, moreover, doubtful if more easily measurable aids could recoup the loss of these more opaque measures - unless pushed to very high levels indeed.

At the other end of the scale from Ireland and Italy we have already seen that, in Belgium, the regional differential is less than the absolute value of the regional incentive package. To this we should add that the Belgian figures in Tables 5 and 6 are maxima. Average awards are about three-quarters of the figures shown in Tables 5 and 6. In Luxembourg, too, the average or typical award falls well below the maxima. Only 8 cases (less than 20 percent of the total processed) received a tax concession in the period 1974-76; while of those awarded a grant alone not one obtained the maximum rate, and indeed the average offer was in the region of half the maximum.

Turning now to the middle group of countries, the five incentive packages to be considered fall into two broad categories - those where the average award falls well below the Table 5 and 6 figures and those where rates of award tend to be fixed such that values in practice do not differ markedly from those shown in the tables. Within the first category come the Danish, German and (with some reservations) French packages; within the latter, the Netherlands (again with qualifications) and the United Kingdom.

In Denmark, it will be clear from the country valuation in Part I, that the prime determinant of the value of the incentive package is whether or not an investment grant is awarded and the value of that grant. The investment grant, it will be recalled, is available only in the Special Development Regions. At a minimum (i.e. assuming all company soft loan awards are restricted to the Special Development Regions, which is obviously an extreme assumption) about half of those projects assisted through a company soft loan in the Special Development Regions also received an investment grant over the period 1972/3-1975/6, the average value of the investment grant award being about three-fifths of the maximum. In those cases where an investment grant is obtained the Danish regional incentive package belongs firmly to the middle group of countries, having an average effective value of 10.0 per cent of initial capital costs, 9.0 per cent of annual capital costs and 3.4 per cent of value added. Where no investment grant award is made (and, as already noted, this was the case for about half the projects in receipt of a company soft loan) then the value of the Danish package is very much lower - being worth, for example, 5.5 per cent of initial capital costs, 4.7 per cent of annual capital costs and 1.8 per cent of value added when both average municipality and company soft loans are obtained.

In Germany, the position is somewhat similar, the figures in Tables 5 and 6 being highly dependent on the award of a maximum investment grant. In practice the (1976) average investment grant in the Zonenrandgebiet (and average awards were even lower outside this area) was only 8.8 per cent of eligible investment when awarded in conjunction with an investment allowance and 8.5 per cent of eligible investment when no investment allowance award was made, compared with possible maxima of 17.5 per cent and 25 per cent respectively. Moreover, only about one fifth of eligible cases actually obtained an investment grant. Both these factors have a not insignificant impact on the Table 5 and 6 values. Outside the *Zonenrandgebiet* in particular, awards tend to be low when no investment grant is obtained since special depreciation allowances are not available. Awarded on its own, the investment allowance is worth only 4.6 per cent of initial capital costs, 3.9 per cent of annual capital costs and 1.3 per cent of value added. Within the *Zonenrandgebiet* the German package falls much more within the middle range of effective values, the "standard" combination of investment allowance and special depreciation allowance being worth 11.5 per cent of initial capital costs, 9.8 per cent of annual capital costs and 3.3 per cent of value added. When an average investment grant is obtained on top of this these figures rise to 14.9, 12.7 and 4.3 per cent respectively.

In France, the crucial factor conditioning the level of a regional development grant award (other than location and project type) is the capital intensity of the project being assisted - awards generally being at fixed percentage rates subject to both area and project-type cost per job limits. As we noted in the introduction to the French valuation, the average award - as opposed to the award for the average project - tends to be considerably lower than the figures shown in Tables 5 and 6. We estimated that the actual average award under the current regional development grant scheme is probably less than 12 per cent of qualifying investment. Moreover, although there are no specific figures for average awards in each of the three zones of award, the best possible estimates (based on average awards by *region* in 1975) suggest that there is little variation in the average grant by zone. If the average award in the maximum zone is assumed to be about 12 per cent of qualifying investment the figures shown in Tables 5 and 6 for the regional development grant and special depreciation allowance in combination reduce to roughly 7.7 per cent of initial capital costs, 6.9 per cent of annual capital costs and 2.1 per cent of value added. It must not be forgotten, however that, on top of these incentives, the local business tax concession is also available in the French problem regions.

In the Netherlands, as in Italy, project size is of central importance in determining the level of the investment premium, the basic Dutch regional incentive. For small projects (with eligible investment up to Fl 16 million) the nominal rates of award of the investment premium are *fixed* at 25 per cent and 15 per cent in Development and Intermediate Areas respectively such that the Table 6 figures (showing the Dutch package to be worth 15.9 per cent of initial capital costs, 13.7 per cent of annual capital costs and 4.9 per cent of value added in the Development Areas and 10.9, 9.3 and 3.3 per cent respectively in the Intermediate Areas) are representative of the position in practice. For large projects, however, (accounting for perhaps 10 per cent of the total number of cases processed) the 25 and 15 per cent rates represent maxima below which standard awards normally fall. Indeed, on average, large projects tend to obtain less than half the percentage award received by small projects. Given this, large projects in the Netherlands have very much lower effective values - the Development Area "average" being just 6.0 per cent of initial capital costs, 5.3 per cent of annual capital costs and 1.9 per cent of value added.

In the United Kingdom, the main element of the incentive package, the regional development grant, is both automatic and at a fixed rate. In terms of averages, therefore, the Table 5 and 6 figures remain broadly representative of the United Kingdom position. In effective value terms, the combination of regional development grant and interest relief grant is worth, on average, 18.1 per cent of initial capital costs, 18.7 per cent of annual capital costs and 4.1 per cent of value added in the Special Development Areas, 15.3 per cent, 16.0 per cent and 3.5 per cent respectively in the Development Areas and 6.1 per cent, 5.2 per cent and 1.1 per cent respectively in the Intermediate Areas.

To summarise the position, it is clear that even in terms of average awards and standard incentive combinations the Irish and Italian packages are significantly more valuable than those found in the other Community countries. The distinction between our previously identified middle and bottom groups is, however, less clear. Indeed in particular problem regions and for particular incentive combinations it disappears completely.

Before moving on to discuss the implications of the various valuation results presented above, it must of course be stressed that these results are based on assumptions and that they will vary as these assumptions vary. However, as long as the tables are seen in their intended light - that is, as comparisons of the value of incentive schemes between countries (as these schemes affect comparable projects) - then the variation in relative scheme values is slight. Thus while working capital levels will vary from high to low from project to project, they are unlikely to show marked variation between countries for broadly comparable projects. Moreover, whether the typical working capital level is above or below the assumed 30 per cent level (which our evidence suggests is typical) influences the relative value of only selective financial assistance in the United Kingdom and national soft loans in Italy - neither of which is of major importance in effective value terms within their country packages - since working capital is not aided by any other incentives. Similarly, the assumptions made in relation to the annual capital cost denominator are sensitive, as far as the ranking of incentives is concerned, only in the case of UK regional development grants and the Irish investment allowance since only for these incentives is item-related replacement subsidised.

The general point, then, is that variation of the valuation exercise assumptions will not have a significant impact on the ranking of the various incentive schemes. Where changing the assumptions does have an effect, however, is on the absolute value of incentives and incentive packages, and on their value at the project level. Indeed, from project to project there are likely to be quite major valuation differences.

To take a simplified (we ignore the impact of taxation and delays in payment), but in no way extreme example, a 20 per cent grant on initial fixed capital costs would have an effective value of 10 per cent of initial capital costs (assuming 50 per cent working capital), 8 per cent of annual capital costs (assuming an annuitising factor of 0.8) and 0.8 per cent of value added (assuming gross profits to be 10 per cent of value added); while an identical nominal grant would have an effective value of 18 per cent of initial capital costs (assuming 10 per cent working capital), 21.6 per cent of annual capital costs (assuming item-related replacement is subsidised and the annuitising factor is 1.2) and 10.8 per cent of value added (assuming gross profits to be 50 per cent of value added). Clearly, incentives "worth" 0.8 per cent of value added and 8 per cent of annual capital costs will have a different impact from those "worth" 10.8 per cent of value added and 21.6 per cent of annual capital costs. Project level variations on this scale thus have obvious (and serious) implications for the _ex ante_ control of incentive awards and, in particular, for any EC co-ordination solution - requiring project-based and not scheme-based control. We return to the problem of EC co-ordination policy in the next section.

For the moment, there are two final points which we want to make about the valuations. The first is that, _within_ the three groups which have been identified (at least in terms of award maxima) it would seem to us that the narrow range of incentive scheme values is such that regional incentives _per se_ (and, of course, in practice, they can never be divorced from the context - both national and regional - in which they operate) are unlikely to have a major impact on _international_ investment and location decisions. Even between the three groups, it could be argued that incentives have only a limited impact given the peripheral nature of both Ireland and the _Mezzogiorno_, and the relatively minor effective value differences between the middle and low group country packages.

Our second point concerns whether or not incentives of the value we have calculated are likely to have a marked impact on international competition and trade, or on investment and location decisions within a country. The honest answer is that we do not have much to say here. We would certainly be wary, in the context of this report, of using our vaulation figures to take a line on this; they have anyway, as was stressed above, been calculated primarily for international ranking and comparative purposes.

In respect of competition and trade it could of course be argued that the _maximum_ values which we have calculated of less than five percent of value added (say, some two percent of total production costs) for the middle and bottom group of countries are unlikely to provide any major competitive or pricing advantage for those in receipt of the incentives - particularly since no account has been taken in our calculations, (not least because of lack of information), of incidence (i.e. the proportion of the incentives used to increase factor rewards rather than reduce prices) or of dislocation costs (although many observers would claim that these are substantial) Moreover, as we have seen, average values tend to fall well below the maxima. But there again, it needs to be stressed that _for particular projects_ incentives can assume high levels in relation to value added or total production costs and that even a one or two percent advantage could be important for firms in particular marketing conditions.

Moving from the impact of incentives on pricing to their effect on investment and location decisions within countries the picture is no less uncertain. On the one hand it could be argued that investment and (even more so) location decisions are so problematic - with high margins of error and a large number of unknown and unpredictable factors within them - that it is unlikely that incentives of the values noted earlier would be incorporated within the decision process, never mind turn a "no-go" project into a "go" project. On the other hand the argument could run that, moving away from the valuation averages, incentives can indeed have a high value for individual projects; that investment at the margin would anyway be influenced by values of the scale discussed earlier; and, further, that incentives have, in any case, a "value" beyond our calculations - in, for example, providing liquid funds at a key stage and giving a safety net to projects. But the truth of the matter is that until more is known about the investment decision-making process within firms we have no way of judging whether values of 5 or 10 or 20 percent are likely to have an impact on investment, and indeed location, decisions.

SOME IMPLICATIONS FOR THE EUROPEAN COMMUNITY

So far in this report we have largely focussed on the member states, describing their regional incentives, comparing the effective values of their principal incentives and drawing a number of conclusions about their regional incentive policies. In this section we wish briefly to consider some Community issues on which our work has a bearing. We do this under the three headings of "co-ordination", "harmonisation" and "own policy".

COORDINATION

By "co-ordination" we mean the regulation by DG IV (Directorate General for Competition) of the member states' regional incentive policies by setting maximum limits to the value of regional incentive assistance which may be given for a particular investment project.

The operational goals of co-ordination are not easy to identify. We understand the general goals to be the containment of any distortions of trade which could arise because the member states offer regional incentives which might influence the location decisions of firms and which might distort trade flows between the member states. The goals of the policy concern, therefore, both location and trade.

DG IV currently employs fixed capital investment as its control denominator - which is in keeping with the, admittedly still scanty, empirical evidence that some form of rate of return on capital criterion (which is essentially an extension of the fixed capital denominator) is a key criterion in investment and location decisions. On the other hand, this denominator can give rise to a bias against labour intensive projects - a feature which, given the fact that a shortage of job opportunities is a prime feature of the problem areas, has been considered by many to be unwelcome. In response to this bias and in order to facilitate the accommodation of labour-related aids in the current valuation methodology, DG IV has been working on a revised co-ordination solution. Proposals, which are still (at late summer 1977) tentative, have been outlined in Opaque Aids Papers II (IV/58/77-E) and III (IV/126/77-E).

In the revised co-ordination solution the nominal ceiling on aid involves the present percentage limit in terms of net grant equivalent of fixed capital investment <u>or</u> a specified amount per job, the amount varying like the percentage limit between the four regions into which the Community is divided for co-ordination purposes. Calculations which we have made suggest that the revised solution would provide a fair proxy for project-level variations in the factor mix in value added and would hence remove the bias against labour intensive projects which characterises the present valuation method. Indeed, our calculations suggest an over-compensation for very labour intensive projects, i.e., they would receive a greater advantage than capital intensive investment.

In general, therefore, we believe that the revised proposals represent a valuable step forward. At the same time, however, two features must cause some concern. The first is the assumption implicit in the use of a fixed amount per job that labour costs between the member states are at comparable levels. However, Community statistics show that even at the sectoral level differences of over 100 per cent are not uncommon. Similarly large discrepancies at the project level would imply a bias in favour of projects locating in the low labour cost countries of the Nine (though other factors might tend to cancel out the labour cost advantage, at least partially). If further investigation were to confirm an undesirable bias a possible remedy would be to express aid values in relation to labour in terms of actual (estimated) project labour costs.

The second point about the revised co-ordination solution is that certain member states are apparently concerned that aids expressed in terms of labour costs could exceed total investment costs for more labour intensive projects. DG IV has accordingly asked whether a maximum ceiling should not be imposed in addition to the nominal ceiling (<u>ibid</u>. p. 26). It has proposed a possible ceiling for the 20 per cent zone of 80 per cent, i.e., four times the nominal ceiling. But the same formula would yield ceilings of 100, 120 and 400 per cent in the other three co-ordination regions, thus only partially solving the problem. If, alternatively, a ceiling of 100 per cent (i.e., equal to the total investment) were fixed for the other three zones, this would represent a reversion back towards the old bias in favour of capital intensive projects, thus defeating the object of the exercise. There is no easy solution to this problem - which is an important one not only in its substantive implications but also because it underlines very clearly an element of goal conflict inherent in co-ordination.

This conflict may not be immediately apparent from what has gone before. But it should be evident when it is recalled that the investment-related denominator is appropriate to the goal of containing incentive outbidding and that the labour-cost-related denominator proxies the factor mix in value added and is therefore a relevant denominator for regulating trade distortion effects. If, therefore, as outlined in the previous paragraph, the labour-cost-related denominator is to be constrained so as to preclude awards exceeding total investment costs, the further implication is that the goal of containing trade distortion effects is being sacrificed in favour of regulating incentive outbidding. Hence our belief that co-ordination, as currently conceived, contains an inherent element of goal conflict.

Our discussion of co-ordination up to this point has been limited to the objectives and effects of the policy. In addition, we have one point to make about the implementation of the policy. This is to stress the need for project-based co-ordination. While it has always been intended that the policy should be applied at the project level (cf. Communication of the Commission to the Council on General Regional Aid Systems SEC (71) 3885 final of October 27, 1971) it is not certain that all of the member states have done so all of the time.

It would appear, for example, that the policy has sometimes been applied at the scheme level rather than at the project level, by calculating whether maximum levels of assistance awarded to average projects would exceed Community limits. But project-related co-ordination is absolutely essential for, as we have indicated earlier in this report, there can be marked differences in incentive values at the project level because of the considerable variation in the cost profiles of individual projects. When the policy is applied at the scheme level, by contrast, it is insensitive to this variation - and is anyway of, doubtful practical relevance because, as we have also seen earlier in this report, the differences at the scheme level in the value of incentives between the member states are, except in certain peripheral regions, small and unlikely to have any significant impact on investment location decisions. In order to ensure project-based co-ordination we would propose that DG IV should scrutinise from time to time the amounts of assistance actually awarded for a randomly selected number of projects.

Co-ordination is closely linked to "harmonisation", which is the second facet of Community regional incentive policy on which our work has a bearing.

HARMONISATION

In broad terms, the "harmonisation" policy of DG XVI (Directorate General for Regional Policy) includes ensuring that the regional incentives offered by the various member states are generally consistent with the development priorities of the different problem regions in the Community.

It is evident that there is a close relationship between "co-ordination" and "harmonisation": co-ordination has a marked harmonisation component, namely the closer alignment of the value of regional incentives in the member states. This implies that there will need to be particularly close cooperation between DG IV and DG XVI as harmonisation proceeds. Indeed, there could well be grounds for a review of competences - even though the Directorate General for Competition would obviously continue to be involved in the trade implication of regional incentive awards.

This general issue of the relationship between coordination and harmonisation to one side, our work has a number of further implications for harmonisation. Once Regional Development Programmes and bi-ennial reporting on the socio-economic development of the Community have been fully implemented and have allowed measurement of the scale and intensity of regional problems in the Community - and we have no recommendations to make in this respect other than to emphasise strongly how indispensible this preliminary step is to any meaningful attempt at harmonisation - work will have to begin on identifying those features of the member states' regional incentive policies most in need of greater alignment, and on how a greater alignment can be achieved.

As we have seen earlier in this report, there is a significant degree of similarity already existing between the policies operated by the member states. Moreover, harmonisation does not require policies which are identical as much as policies which are equivalent. For both of these reasons, harmonisation is not necessarily the formidable task which it might at first appear.

We would envisage harmonisation proceeding in two stages. The first stage would be an agenda-setting exercise in which the member states and the Commission would discuss the key features of regional incentives on the basis of their respective experience. Earlier sections of this report have indicated areas where such debate could be useful: discretion versus automaticity; the merits of different forms of assistance (grants versus loans versus fiscal concessions); broad-banding versus growth pole approaches to spatial discrimination; multi-level administration and problems of co-ordination; the relationship between regional incentives and other forms of economic development incentives. These issues appertain to the general principles of regional incentive policy. More detailed facets of existing national policies which would merit discussion from the viewpoint of harmonisation - and again covered in earlier sections of this report - would be: aids on working capital; the eligibility of hire purchase and leasing; aids for tertiary investment; aid for rationalisation, reorganisation and modernisation projects; the timing and phasing of payments; tax treatment of incentives; and indeed many other of the features covered in the synopsis tables in Part I. The merit of this kind of agenda-setting exercise is twofold. It provides a forum within which experience can be shared to mutual advantage and in so doing can allow, secondly, consensus - if indeed there is felt to be a need for greater harmonisation in respect of the particular issue under discussion - to emerge. This then leads directly into the second stage of harmonisation, which is the setting of priorities for harmonisation and the working out of objectives on which the regional incentive policies of the member states should converge over a shorter or longer period of time.

Any discussion of harmonisation of the member states' policies raises again the issue of the complexity involved in the comparison of these policies for the investor. This leads to the first of our "own policy" proposals, i.e., promotion policies which could be operated by the Community using its own funds.

OWN POLICY

The potential mobility of new investment in the Community is inhibited, and could even be distorted, by a lack of comprehensive, comparable and up-to-date information on location factors in the nine member states of the Community. We believe that a Community initiative to make available such information could contribute much to the development of the problem regions and the proposal along these lines in the Commission document (Guidelines for Community Regional Policy, COM (77) 195 final, para. 55) must be a welcome one - even if, in our view, it is too modest. We should like to see the establishment of a European Regional Documentation Centre. This Centre, to maximise its effectiveness, should not merely supply information but should also actively encourage the choice of problem region locations by firms, perhaps by undertaking location studies for investors, but certainly by putting them in contact with appropriate national agencies. The Centre's objective should be not only to encourage existing Community investors into the problem regions but also to attract new investment from outside the Community into those regions. The information required by the Centre could be obtained, in part at least, within the framework of Regional Development Programmes and the system of biennial reporting.

In addition to providing information the Community can also provide direct financial assistance to firms. Even now, of course, there are several Community sources of aid for regional development. Chief among these is the European Regional Development Fund. So far, however, its resources have been very limited (and have been further diminished by inflation) and have been spread over very wide areas and over a very broad range of project types. In brief, a small Fund has dissipated its effectiveness by seeking to do too much. We see little prospect of betterment in the near future (for proposals here see Guidelines for Community Regional Policy, ibid.) not least because the budgetary allocation seems likely to remain small and because the geographical spread could be even wider with the introduction of "specific action regions". We would prefer to see the Fund concentrate its interventions. Until such time as global Community regional development priorities have been set (and in line with which one presumes the Fund would devote the major part of its resources) this could be done by limiting Fund assistance - as far as direct assistance to investors is concerned - to setting-up projects in the national priority regions. We would argue that aid should be limited to setting-up projects since these generally involve the greatest dislocation costs for the investor; the national priority areas might be defined as those where the highest levels of aid are currently available (reflecting the fact that, from the individual country standpoint, these are the extreme problem areas). Consistent with our oft-repeated preference for incentives which are simple and automatic, we would argue that Fund assistance should be given automatically to every project in the defined regions and of the defined type which receives national assistance; we would in fact propose that the Fund "top up" national assistance by a specified percentage margin.

Obviously, the value of the Fund contribution would be eroded if member states adjusted upwards the value of their incentives in other regions, or reduced the value of aid in the regions receiving Community supplements. To avoid these problems, there would have to be agreement that the member states would continue to supply aid at the usual levels. This should not be difficult to ensure for the automatic rate schemes in the member states which, as we have seen, are in the majority; nor need it be that difficult to ensure for the discretionary rate schemes since, as we have also seen, the awards are in practice often at "standard" rates. Moreover, by ensuring that aid is paid as of right for specific (named) projects in relatively small areas, there is every reason to believe that local economic and political self-interest can be relied upon to ensure that a substantial degree of "additionality" is achieved. We might finally note that the proposal effectively gives the Fund protection against inflation (although at the price of requiring a more flexible form of financing it) and, moreover, that it gives a greater degree of visibility to the Fund's interventions.

The Fund is, of course, still in its infancy and over the years it may well, indeed should, come to expand the scope of its operations by taking on new functions. In the present austere economic climate it is rather difficult to conceive of new policies being adopted in the short term. Such new policies would anyway probably be premature before the Community has developed a global regional policy strategy. But it is not difficult to think even now of directions in which the Fund might develop. The awarding of exchange rate subsidies (i.e., meeting the exchange risk associated with providing and servicing loans denominated in foreign currencies) in conjunction with European Investment Bank loans to firms - which is not to be confused with the current Commission proposal for interest rate subsidies - is one possible new departure worthy of attention. Similarly, an idea which could have considerable substantive as well as symbolic merit would be the establishment, within or alongside the Fund, of a European Industrial Estates Corporation which, particularly in the frontier regions of the Community, could provide a significant contribution to regional development, not merely by the provision of industrial estates but by providing further stimulus to the member states to co-ordinate more closely their infrastructure programmes in these regions.

Our proposal in Part I of this report that there are grounds for the member states to allow recipients of aid to "swap" incentives for which they are eligible could give rise to national budgetary problems. The Fund's resources could be used to allieviate, through loans and possibly in certain priority regions only, the budgetary problems which these swap arrangements imply - at least and particularly in the early years when these constraints would be at their greatest.

We could also envisage a role for the Fund in supporting, through grants, some of the promotion activities (and perhaps particularly investment prospecting activities abroad) of the priority regions. Moreover, given that location studies are rarely eligible items of expenditure for incentives in most countries, the Fund could undertake to partially re-imburse firms for location studies aimed at a priority area location and for sending delegations to visit such locations.

Many national incentive schemes do not include social, health and welfare investment by firms as eligible items of expenditure. The Fund could usefully assist such investment (e.g. sports facilities, worker accommodation, facilities for the firm's retired workers) in the priority areas, thereby contributing generally to the quality of life of the labour force in those areas and simultaneously reducing the demands on and supplementing the often deficient social infrastructure of the problem regions.

If the view were to be taken that the Fund might most usefully intervene by "filling the gaps" in most of the member states' existing incentive schemes, there are a number of features at which such assistance could be directed: leasing and leasing companies; stock-holding projects by firms; vehicles as an eligible item of expenditure; many service activities. Another gap would be filled by making available funds to allow more and larger advance payments to be made by member states to recipients of regional incentives.

Many of these ideas may seem somewhat extravagant, partly because they imply resources which are massive compared to those currently available to the Community for promoting regional development by incentives to firms and partly because they might seem to fly in the face of political realities. On the first point, we would like to see the Community being supplied with more funds to allow it to intervene directly in the promotion of the problem regions not least because this would facilitate the implementation of a European regional policy. There is a wealth of evidence from inter-organisational studies to demonstrate that co-operative policies such as "harmonisation" and "co-ordination" are more assured of success when sanctions can be imposed and that among the more effective sanctions are financial sanctions. On the second point, namely that some of our proposals might seem to fly in the face of political realities, we would only comment that anyone who wishes to advance novel policies - and a European regional policy is still a novel policy in search of acceptance - must be something of a dreamer in the first instance, prepared to voice "unthinkable" ideas.

However, whatever the substantive merit of our policy proposals they do bear witness to the view that there remains much that could - some would say "should" or even "must" - be done at the Community level to promote the regions in need. It is our earnest hope that this report will assist not only a greater appreciation of the rich variety of regional incentive policies and practices in the countries of the Nine, but that it will serve equally as a reminder that much remains to be done in understanding and meeting the needs of the problem regions of the Community.

ADDENDUM 1

SENSITIVITY OF EFFECTIVE VALUE CALCULATIONS

Addenda Table 1: Effective Subsidies as a Percentage of Value Added given various capital : labour keys - maximum rates and maximum incentive combinations by top priority region in each country.

COUNTRY	MAIN PROBLEM REGION	INCENTIVE COMBINATIONS	EFFECTIVE PERCENTAGE SUBSIDIES AS A PERCENTAGE OF VALUE ADDED ASSUMING CAPITAL:LABOUR KEYS OF:		
			REPORT, TABLE 5	5:95	54:46
Belgium	Development Zones	CG + IS + AD	3.3	0.5	5.5
Denmark	Special Development Regions	CSL + IG	5.2	0.7	7.5
France	Award Zone 1	RDG + SDA	3.7	0.6	6.6
Germany	Zonenrandgebiet	IA + IG + SDA	5.3	0.8	8.4
Ireland	Designated Areas	IDA grant + IA	10.0	1.6	17.3
Italy	Mezzogiorno	CG + NSL	12.1	2.1	22.5
		(+SSC)	(+2.8-7.9)	(+3.7-10.5)	(+1.8-5.1)
Luxembourg	-	CG + TC	2.7	0.4	3.8
Netherlands	Development Areas	IPR + AD	4.9	0.7	7.4
United Kingdom	Special Development Areas	RDG + IRG	4.8	1.1	11.7

Incentive keys: See Table 5 in the report (page 226).

Note: For a derivation of the report, Table 5, results and a discussion of the incentives covered, see the country-specific valuation tables in Part I of the report.

The Services of the Commission requested that we show the impact of a high and a low gross profits : value added key on our Table 5 results using the value added denominator. For this purpose they suggested we use the most extreme capital : labour keys found at the industry level in Eurostat, National Accounts 1970-74 Eurostat Yearbook 2-1975, Statistical Office of the European Communities, 1975, Table 5 applied uniformly to all countries. These extremes are 5:95 (United Kingdom, transport equipment) and 54:46 (Ireland, chemical products). The results are shown, together with the value added column taken from Table 5 of the report, in Addenda Table 1.

From the table, it can be seen that the application of these extreme keys changes the absolute value of the various incentive packages significantly. This of course is wholly in line with what is said on many occasions in the main body of the report. The table does little more than reinforce our point that "project level variations on this scale ..... have obvious (and serious) implications for the ex ante control of incentive awards" (report page 237-238). But for our purposes more important is that the international ranking is not significantly affected by the application of common capital : labour keys. The only change is that the United Kingdom moves up the ranking, and this because in the United Kingdom "gross profits make up a relatively low proportion of value added" (report page 229). The report also made the point that "with a common gross profits : value added key the ranking of incentive packages is obviously identical to that thrown up by the annual capital cost denominator (except perhaps where labour subsidies are paid)" (report page 45). A comparison of Addenda Table 1 and Table 5 in the report confirms this, and indeed shows that even the ranking of the Italian package, with its social security concession, is unaffected by the capital : labour key chosen.

Addenda Table 2: Effective Subsidies as a Percentage of Annual Capital Costs given various plant life assumptions - maximum rates and maximum incentive combinations by top priority region in each country.

COUNTRY	MAIN PROBLEM REGION	INCENTIVE COMBINATIONS	EFFECTIVE PERCENTAGE SUBSIDIES AS A PERCENTAGE OF ANNUAL CAPITAL COSTS ASSUMING PLANT LIVES OF (IN YEARS)				
			5	8	10	12	15
Belgium	Development Zones	CG+IS+AD	7.8	9.4	10.1	10.6	11.1
Denmark	Special Development Regions	CSL+IG	10.7	12.9	13.8	14.4	15.1
France	Award Zone 1	RDG+SDA	9.8	11.4	12.2	12.6	13.1
Germany	Zonenrandgebiet	IA+IG+SDA	11.0	14.1	15.5	16.6	17.9
Ireland	Designated Areas	IDA grant+IA	26.7	30.6	32.1	33.2	34.1
Italy	Mezzogiorno	CG+NSL	32.9	39.3	41.7	43.5	45.3
Luxembourg	-	CG+TC	5.6	6.6	7.1	7.4	7.7
Netherlands	Development Areas	IPR+AD	10.2	12.6	13.7	14.4	15.2
United Kingdom	Special Development Areas	RDG+IRG	21.4	21.6	21.7	21.7	21.9

Incentive keys: See Table 5 in the report (page 226).

Note: For a derivation of the results based on a 10 year plant life assumption and a discussion of the incentives covered see the country-specific valuation tables in Part I of the report.

The Services of the Commission also requested that we show the impact of varying the 10 year plant life assumption used in moving from the initial capital cost denominator in Table 5 of the report to the annual capital cost denominator. For this purpose we have chosen lives of 5, 8, 12 and 15 years. The results are shown, together with those taken from Table 5 of the report (where, as already noted, a 10 year plant life assumption was used) in Addenda Table 2. The table simply confirms our point that "alternative asset life assumptions are possible but would not affect the ranking of the various incentive schemes unless there were marked differences between countries in asset lives" (report page 43).

Addenda Table 3: Effective Subsidies as a Percentage of Annual Capital Costs given various rates of inflation - maximum rates and maximum incentive combinations by top priority region in each country.

COUNTRY	MAIN PROBLEM REGION	INCENTIVE COMBINATIONS	EFFECTIVE PERCENTAGE SUBSIDIES AS A PERCENTAGE OF ANNUAL CAPITAL COSTS ASSUMING INFLATION RATES FOR REPLACED PLANT OF (SEE KEY BELOW)				
			(1)	(2)	(3)	(4)	(5)
Belgium	Development Zones	CG+IS+AD	10.1	9.9	9.3	8.4	8.2
Denmark	Special Development Regions	CSL+IG	13.8	13.6	12.8	11.5	11.4
France	Award Zone 1	RDG+SDA	12.2	12.0	11.3	10.4	10.1
Germany	Zonenrandgebiet	IA+IG+SDA	15.5	15.2	13.6	11.9	12.7
Ireland	Designated Areas	IDA grant+IA	32.1	31.9	30.5	28.3	26.3
Italy	Mezzogiorno	CG+NSL	41.7	41.3	39.0	35.6	31.8
Luxembourg	-	CG+TC	7.1	7.0	6.6	6.0	5.9
Netherlands	Development Areas	IPR+AD	13.7	13.4	12.5	11.0	11.3
United Kingdom	Special Development Areas	RDG+IRG	21.7	21.7	21.6	21.5	21.4

Inflation keys: (1)= zero (i.e. as in Table 5 in the report)
(2)= 10 percent price increase in 10 years
(3)= 5 percent annual increase in price
(4)= 10 percent annual increase in price
(5)= X percent annual increase in price where X equals the discount rate in each country.

Incentive keys: See Table 5 in the report (page 226).

Note: For a derivation of the report, Table 5, results and a discussion of the incentives covered, see the country-specific valuation tables in Part I of the report.

Finally, the Services of the Commission requested that we show the impact of inflation on the results contained in Table 5 of the report when moving from the initial to the annual capital cost denominator. In particular they asked that we take account of the fact that, under inflation, replaced equipment will cost more than the equipment it replaces, since they felt that this would change relative rankings, and especially the ranking of the United Kingdom with its regional development grant. They were, however, unable to suggest an appropriate rate of inflation for the exercise. We have therefore chosen four separate rates - 10 percent inflation over 10 years, 5 percent annual inflation, 10 percent annual inflation and rates of inflation in each country equal to that country's discount rate (see the country-specific valuation tables in Part I of the report). The results are shown, together with those taken from Table 5 of the report, in Addenda Table 3.

From the table it can be seen that the ranking of the incentive packages does not change from column to column. Only if there were major differences in inflation rates between countries, and this over a long period of time, might the ranking change (as made clear in the report, page 36), but even then the table suggests that, *ceteris paribus*, any change would not be marked. Even so, we want to stress our doubts about the meaningfulness of Addenda Table 3. While we have done the calculations at the request of the Services of the Commission we do not believe that inflation can be taken into account in such a simplified manner involving, in particular, such a heavy input of *ceteris paribus*. Inflation has a variety of effects which would be relevant to a serious calculation of its impact on incentive values - effects, for example, on asset lives, subsidy lives, factor mixes and discount rates. We have no model, and know of none which exists, which would enable comprehensive account to be taken of inflation. Moreover, any relevant calculation should incorporate anticipated rates of inflation in each of the individual countries. Such forecasts do not exist. For obvious reasons, we were not prepared in the report - and are not prepared here - to speculate in this area.

ADDENDUM 2

NORTHERN IRELAND : FINANCIAL INCENTIVES TO INDUSTRY

Note : This addendum was prepared by the Department of Commerce in Belfast. It describes the Northern Ireland package as at summer 1977 (the reference date of this report), using broadly the same format as the report itself. It should be noted that the Northern Irish incentive package was significantly improved in August 1977.

Northern Ireland is designated by the Industry Act 1972 as an Assisted Area of the United Kingdom. Because of its severe economic problems, stemming essentially from its weak economic structure, the industrial incentive package in Northern Ireland is more comprehensive and flexible than in other areas of the United Kingdom. This paper outlines the various incentives which are available.

There are 2 main schemes of financial assistance available to industry in Northern Ireland. Standard capital grant assistance, which is the Northern Ireland analogue to Regional Development Grants in Great Britain, is a standard item-related grant on fixed capital expenditure. Capital grants are available on new plant, machinery, buildings and works at a rate of 30 percent. Capital grant expenditure has increased from £16.9 million in 1969/70 to £27.9 million in 1976/77. In common with the RDG Scheme in Great Britain, the capital grant scheme was trimmed back in April 1977 with the exclusion of both the mining and construction sectors. A synopsis of the capital grants scheme is attached (Synopsis Table 1). Northern Ireland can also offer loans or interest relief grants to companies receiving grant aid under the capital grants scheme. These loans are available for major re-equipment and re-housing schemes and are offered on a discretionary basis up to a limit of 75 percent of the fixed capital cost of the project, net of grant.

The other major form of incentive is selective financial assistance, which is offered under the Industries Development legislation. This form of assistance is basically related to the creation and safeguarding of employment through attracting new investment and encouraging existing companies to expand or to maintain their employment. Unlike capital grants, selective assistance is not automatic, but is made available at the discretion of the Department. This provides an element of flexibility in the scheme and allows scope for negotiating or bargaining with a company. One of the attractive features of this Northern Ireland incentive system is therefore that the package of assistance to a company can be specially 'tailored' to meet its particular needs.

The main forms of selective financial assistance are:-

(i) selective capital grants on buildings, plant and machinery. These grants are modulated according to Industrial Development zones and the rates range from 30 percent to 40 percent according to zone;

(ii) medium term loans at commercial or concessionary rates of interest, sometimes with an interest-free period and/or deferments of capital repayment;

(iii) interest relief grants to offset interest charges on loans or other borrowings raised through banking and other financial institutions;

(iv) per capita employment grants to offset the initial start-up costs of a project;

(v) provision of factories (on rental or amortised terms) and sites;

(vi) removal grants of up to 100 percent on the costs of moving an undertaking into Northern Ireland;

(vii) key worker housing grants and loans.

The scheme of assistance is wide ranging with the main elements being selective capital grants, loans, interest relief grants and employment grants. These incentives are covered in Synopsis Table 2.

Selective financial assistance is administered centrally in Northern Ireland by the Northern Ireland Department of Commerce (DOC). Within guidelines laid down jointly by the DOC, the Department of Finance for Northern Ireland and HM Treasury, the Department of Commerce, on the advice of an Industries Development Advisory Committee, can decide whether or not to make an award and the level of that award. With respect to the former, the decisive factor is that the project be viable; while regarding the level of award the guidelines stipulate a Government contribution limit and cost per job maxima, which vary acoording to industrial development zones and which set the limits on the amount of assistance which can be given to a particular project.

Apart from the incentives mentioned in the synopsis tables there are other selective industries development aids which are worth mentioning. The public provision of factories and sites is a significant instrument in Northern Ireland's industrial incentive package. Since 1945 the Government has built some 130 advance factories and over the last 5 years or so expenditure on this programme has averaged £4.3 million annually. New factories are built in advance of demand in areas where they are most needed at any particular time and then rented, sold or 'amortised' to industrialists. In addition, custom built extensions are undertaken. Rents are levied at the 'current market rental', assessed by the Commissioner of Valuation, and rent-free periods of up to 3 years may be offered in the outer ID zone. Special purpose factories are also leased on an 'amortisation' or repayment basis ie. the cost of the factory less any grant given is repaid at the current Government or concessionary interest rate over a period of 15 - 20 years.

The remaining incentives, namely removal grants and key worker housing grants and loans, are of relatively minor importance. Removal grant assistance over the last 5 years averaged £0.25 million.

In addition to the wide range of industrial incentives, the Government has attached and continues to attach importance to measures which seek to increase the level of skills available in Northern Ireland. Since the mid-sixties the Government has developed a network of strategically located Training Centres and today there are 14 GTCs providing over 3,000 places for adults, young persons and apprentices in the construction and engineering fields. In addition the opportunity is also available for training, by attachment to industry, in skills which are not easily taught in a GTC setting. Government also encourages the development of skills within industry through a range of generous grand-aid schemes (e.g. the Training on Employers Premises Scheme makes available a grant of £15 per week per worker) to enable employers to provide adequate training for their workers. In addition Northern Ireland is the only region of the United Kingdom which retained the Selective Employment Premium, a weekly wage subsidy (£2.00 for employees over 18) which is available to companies in the manufacturing sector in Northern Ireland.

SYNOPSIS TABLE 1

STANDARD CAPITAL GRANTS

1.	BASIC DETAILS:	A standard item related grant payable on specified types of fixed capital investment. A fixed 30% of approved capital expenditure is available. Both new plant and machinery and new buildings/works expenditure is eligible.
2.	LEGAL BASIS:	Industrial Investment (General Assistance) Act 1966 as amended by the 1970 and 1971 Amendment Acts. The current rate of grant was fixed at 30% by SR and O No 214, 1972.
3.	ADMINISTRATION:	Application is made to the Department of Commerce, Northern Ireland, where cases are processed and grant is paid out in line with detailed administrative guidelines.
4.	ELIGIBLE ACTIVITIES:	Broadly manufacturing including ship repairing and certain activities in the extraction trade (e.g. stone crushing). To be eligible a company must be carrying on a process in the manufacture of an item.
5.	ACTIVITY DISCRIMINATION:	See 4 above.
6.	SPATIAL DISCRIMINATION:	All qualifying investments in Northern Ireland are eligible for a 30% grant on expenditure on new building works and new plant and machinery.
7.	PROJECT TYPE DISCRIMINATION:	See 4 above.
8.	SIZE DISCRIMINATION:	None.
9.	ELIGIBLE ITEMS:	Grant is item-related and is restricted to new plant, machinery and new buildings and works. Working capital is ineligible. There are no <u>de minimis</u> rules on the value of eligible equipment, but machinery must have a minimum life of 2 years. The eligibility of expenditure on the replacement of parts is dependent on whether the part can be identified as an entity in its own right. Replacement parts which improve the productivity of the complete machine may qualify for grant. Grant is paid only on the difference between the cost of the new part over the actual cost of replacing the original with a like part. Vehicles are ineligible (except for fork-lift trucks or certain vehicles used in quarries where an eligible trade is carried on) as are items of furniture and most pipelines. Building and works too must be new. The purchase of previously un-occupied buildings will qualify for grant only on the actual cost of construction. Land and ornamental/recreational building expenditure are ineligible.

10. ELIGIBLE FORMS OF EXPENDITURE: Cash payment phased payment and hire purchase are all eligible forms of expenditure (although for HP and other forms of extended credit only principal repayments qualify). Grants may also be paid to leasing companies on eligible items which they lease to companies on qualifying investments.

11. FURTHER CONDITIONS: The other main conditions relate to the repayment of grant in cases where buildings are not completed and where buildings and plant and machinery cease to be used or are not put to the purpose described in the application. See 16.

12. TAX TREATMENT: The grant is not treated for tax purposes as an income receipt and is therefore not taxed. Assets can be depreciated for tax purposes gross of any grant received.

13. TIMING, PHASING: Grant claims are normally submitted after the asset has been provided, although grant may be paid on progress payments. Claim processing period is variable.

14. TOPPING UP: No award is possible beyond the formal fixed rate.

15. ADDITIONALITY: No asset can be aided through a CG if it is already subsidised by another Government grant.

16. CLAWBACK: See 11. Aided assets must remain on qualifying premises for 3 years in the case of PME and 5 years in the case of buildings. Where this does not happen, grant must be repaid, except in cases where items are sold to another purchaser in an eligible activity and the latter purchaser accepts the conditions attaching to the original grant for the balance of the control period.

17. REJECTIONS: No information is available on the numbers of applications rejected.

18. COST: Grant expenditure since 1969/70 has been as follows:-

Year	No. of firms	Amount of Grant Assistance (£m)
1969/70	1464	16.9
1970/71	1546	17.6
1971/72	1519	13.9
1972/73	1086	7.9
1973/74	963	8.8
1974/75	1223	15.3
1975/76	1286	30.1
1976/77	1503	27.9

19. **JOBS ASSOCIATED:** Job creation is not a precondition of a CG award. No information is available on jobs associated with the grant.

20. **INVESTMENT ASSOCIATED:**

	£m.
1969/70	42.2
1970/71	45.1
1971/72	31.8
1972/73	26.3
1973/74	32.6
1974/75	56.0
1975/76	103.1
1976/77	105.8

21. **ANTICIPATED DURATION:** No specified life.

SYNOPSIS TABLE 2

SELECTIVE ASSISTANCE

1.	BASIC DETAILS:	Selective Capital Grant (SCG). Discretionary project - related capital grant, at rates ranging from 30% to 40% on fixed capital investment. Both plant and machinery and buildings/works expenditure is eligible. Concessionary Loan (CL). Discretionary project-related soft loan of between 5-10 years duration. Repayment in 6 monthly intervals on a straightline basis. Maximum principal repayment holiday is 3 years. Interest free periods run concurrently with any repayment holiday awarded. The concessionary interest rate is 3 percentage points below the current Government interest rate (which in 1977 averaged 12½%). Interest Relief Grant (IRG). Discretionary project-related grant available as an alternative to the concessionary loan and calculated in relation to the interest rate charged by a bank or lending institution up to a maximum rate equal to the broadly commercial rate of interest plus a grant at the fixed rate of 3% for up to a further 4 years. Employment Grant (EG). Discretionary project-related per capita grant payable on the number of additional jobs created or maintained by an investment project. The grants are usually earned over a labour build-up period and cannot be paid until earned. They are normally paid in 6 equal half yearly instalments on the average employment in the preceding half yearly period.
2.	LEGAL BASIS:	SCG. Industries Development (NI) Acts 1966 and 1971, as amended by section 15 of the Industries Development (NI) Order 1976. CL, IRG, EG as for SCG.
3.	ADMINISTRATION:	SCG. Application is made to the Department of Commerce, where the project is appraised and which, after seeking the advice of the Industries Development Advisory Committee, decides whether or not to make an award and the level of award within joint DOC/Department of Finance for Northern Ireland/Treasury guidelines. CL, IRG, EG as for SCG.
4.	ELIGIBLE ACTIVITIES:	SCG. In principle mining, manufacturing, construction and mobile services i.e. service sector projects shown to have a genuine choice of location within the UK and to hold prospects of net employment in Northern Ireland. In practice, assistance is concentrated on manufacturing. CL, IRG, EG as for SCG.

5. ACTIVITY DISCRIMINATION:

SCG. No discrimination between eligible activities is specified in the guidelines (apart from the fact that services must be mobile - see 4 above).

CL, IRG, EG as for SCG.

6. SPATIAL DISCRIMINATION:

SCG. Rates of award vary according to ID Zones

Inner Area	30%
Intermediate Area	35%
Outer Area	40%

The cost per job maxima also vary between Zones.

CL. The concession is available in all areas. No discrimination between Industrial Development Zones is specified, but projects locating in areas of high unemployment will receive more generous assistance than those locating elsewhere.

IRG, EG as for CL.

7. PROJECT TYPE DISCRIMINATION:

SCG. Rates of award are determined by spatial rather than by project type considerations.

CL. New projects and expansions of existing companies which result in additional employment are treated more favourably than job maintenance cases. Projects which introduce new products and skills into Northern Ireland, thus diversifying the industrial base, will also be treated more favourably.

IRG, EG as for CL.

8. ELIGIBLE ITEMS:

SCG. The costs toward which assistance may be provided are the fixed capital and working capital costs, including initial losses. Fixed capital costs include expenditure on land, site preparation, buildings plant, machinery and vehicles.

CL, IRG, EG as for SCG.

9. ELIGIBLE FORMS OF EXPENDITURE:

SCG. Cash payment, phased payment and hire purchase are all eligible forms of expenditure. In the case of a hire purchase arrangement grant is only paid on the capital repayments element. Grant is not payable on leased machinery.

CL, IRG, EG as for SCG.

10. FURTHER CONDITIONS:

SCG. There are 3 basic conditions of award. The project must be viable, the Government contribution limit must be met and the cost per job limit must normally be respected. In cases where it is thought essential to exceed the cost per job limit, the award may be negotiated with HM Treasury. The first condition determines whether an award can be made, the remaining two the maximum level of the award.

CL, IRG, EG as for SCG.

11. ACTUAL AWARDS: SCG. See 18 below.

CL. IRG, EG as for SCG.

12. TAX TREATMENT: SCG. The grant is not treated for tax purposes as an income receipt and is therefore not taxed. Assets can be depreciated for tax purposes gross of any grant received.;

CL. By reducing debt servicing charges, the concessionary element of the loan is taxed in as far as it increases taxable profits.

IRG. The grant is regarded as income and is therefore taxed to the extent that it leads to increased profits.

EG. As for IRG.

13. TIMING AND PHASING: SCG. Application must be made before project construction starts and can be made up to 12 months beforehand. Application processing period: on average 2-3 months. The normal practice with plant, machinery and equipment is to pay grant after its installation and grants are usually paid at quarterly intervals. Building grant is also payable at quarterly intervals based on certified expenditure.

CL. The submission and processing of applications is as for selective capital grants. Once approved the loan is offered on an annuity basis with equal repayments of loan and interest at 6 monthly intervals. Loans are drawn down on basis of need.

IRG. The submission and processing of applications is as for selective capital grants. The grants are paid out on the amount of interest actually incurred by a company on its borrowings. Payments are usually made six-monthly.

EG. The submission and processing of applications is as for selective capital grants. The grants are usually earned over a labour build-up-period and cannot be paid until earned. They are normally paid in 6 equal half-yearly instalments on the average employment in the preceding half-yearly period. Where employment grants and loans are given, the Company may be permitted to extinguish its repayment of loan in total or in part by employment grants as they are earned.

14. TOPPING UP: SCG. No awards are possible beyond the formal fixed rate. If special Treasury permission is obtained it is possible to go beyond the cost per job maxima specified in the guideline. These cases are, however, exceptional.

CL, IRG, EG as for SCG.

15. ADDITIONALITY: SCG. It is theoretically possible to offer all forms of assistance as a 'package' of incentives to a project, subject to the cost per job and Government contribution maxima.

CL, IRG, EG as for SCG.

16. CLAWBACK: SCG. All projects in receipt of assistance are monitored. Periodic inspections are made to ensure that the requirements of offers have been fulfilled and payments may be withheld or reduced if progress is considered to be unsatisfactory.

CL, IRG, EG as for SCG.

17. TURNDOWN: SCG. The figures below show the total number of applications processed in the last 2 financial years. Figures in brackets show applications approved

1975/76	1976/77
51(50)	107(104)

CL, IRG, EG as for SCG.

18. COST: Expenditure since 1975/76 has been as follows (£ million)

	1975/76	1976/77
SCG.	12.98	12.50
CL.	7.53	1.64
IRG.	.61	1.44
EG.	1.73	2.62

19. JOBS ASSOCIATED WITH APPROVALS IN YEAR: SCG. Estimates are not available for this grant. For all selective financial assistance jobs associated with offers were (includes jobs promoted and maintained)

1975/76	1976/77
16,566	19,503

CL, IRG, EG as for SCG.

20. INVESTMENT ASSOCIATED WITH OFFERS: SCG. Estimates are not available for this grant. For all selective financial assistance, project costs associated with offers are not readily available.

21. ANTICIPATED DURATION: SCG. No specified life.

CL, IRG, EG as for SCG.

22. CHANGE PROVISIONS: SCG. Not explicitly covered in the guidelines. Offers may be amended even after the original offer has been accepted.

CL, IRG, EG as for SCG.

STUDIES/PROGRAMMES

published so far or in preparation in the Regional Policy Series(1):

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Non-production activities in UK manufacturing industry
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CB-NS-78-006-EN-C – No. 6
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1978, 130 p. (DE, EN, FR). UKL 3; USD 5.80; BFR 180.

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1978, 126 p. (DE, EN, FR, NL). UKL 3; USD 6; BFR 175.

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Les travailleurs frontaliers en Europe
(DE, FR, NL).

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(1) The abbreviations after each title indicate the languages in which the documents have been or will be published: DA = Danish, DE = German, EN = English, FR = French, IT = Italian, NL = Dutch.

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1978, 62 p. (DE, EN, FR). UKL 1.30; USD 2.60; BFR 80.

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Regional development programmes Denmark
1978, 68 p. (DA, DE, EN, FR). UKL 1.50; BFR 90; USD 2.90

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Regional development programmes Belgium 1978-1980
(DE, EN, FR, NL).

CB-NS-79-015-EN-C – No. 15
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A comparative study
(DA, DE, EN, FR, IT, NL).

CB-NS-79-016-EN-C – No. 16(2)
Regional development programmes
Federal Republic of Germany, including Berlin(West) 1979-1982
(DE, EN, FR).

CB-NS-79-017-EN-C – No. 17(2)
The regional development programmes
(DA, DE, EN, FR, IT, NL).

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DA = Danish, DE = German, EN = English, FR = French, IT = Italian, NL = Dutch.

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European Communities — Commission

Regional incentives in the European Community — A comparative study

A report by the International Institute of Management, Wissenschaftszentrum, Berlin to the Federal German Ministry for Economics, the Land of Hesse and the European Community

Luxembourg: Office for Official Publications of the European Communities

1979 — 270 p. — 17,6 x 25 cm

Collection Programmes, Regional Policy Series — 1979 — 15

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ISBN 92-825-1215-0

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The study is in two parts. Part I is a survey of the key features and values of the major regional incentives in the individual European Community countries. It is both country-specific and largely descriptive, in contrast to Part II which is comparative and analytical — involving a comparison of incentive features and values between countries and a drawing out of the policy implications for individual member states and for the European Commission.

The study is foreseen to be published in Danish, German, English, French, Italian and Dutch.

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