

# Regional Aid and its Importance in the Context of Total Public Aid in the European Union

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**Abstract.** The aim of the paper is to make analysis of regional aid volume allotted in the EU member states over the last years. The source analyses of the question have been performed looking into the Treaty on the European Union Functions, verdicts of the European Tribunal of Justice, and other acts of law and regulations which follow the Treaty. The analysis of the regional aid has been made with regard to the implementation of the conclusions of the 2020 Strategy and with the application of the Eurostat data. The paper supports the thesis that, according to the Treaty regulations and the Strategy Europe 2020 recommendations on public aid in the European Union member countries, the regional aid has currently a considerable share in the whole state aid for industries and services within the European Union.

**Keywords:** State Aid, Regional Aid, Structural Policy, Regional Development.

## 1 Introduction

Objectives and principles of regional aid are commonly known and successfully implemented in the European Union member countries. The principles lay legal ground for application of the aid, with much stress put on the issues appearing in less developed regions of Europe. The guidelines include methods for making maps of regional aid, where enterprises can be granted state aid with a proper level of intensity.

Major documents on the issue in the current financial perspective 2014-2020 are as follows:

- Communication from the Commission amending Annex I to the Guidelines on regional aid for 2014-2020 (Mid-term review of the regional aid maps) - Official Journal C231, 25.06.2016,
- Guidelines on regional State aid for 2014-2020. The new Guidelines have entered into force on 1 July 2014. Official Journal C209, 23.07.2013,
- Guidelines on regional State aid for 2014-2020: Acceptance of the proposed appropriate measures pursuant to Article 108(1) of the Treaty on the Functioning of the European Union by all Member States Official Journal C 101, 5.04.2014.

The issues related to the subject of state aid have been referred to many times on different occasions (vast material on numerous consultations is available on the websites of the European Commission). However, unveiling practical aspects and tendencies in the subject is still an interesting question. Empiric analysis and its conclusions also contribute into the existing literature on the issue. This paper refers to and presents the views presented in the material on state aid [see 1, 8, 11, 12, 14, 16], as well as it refers to the based – evidence policy [see 10, 13]. The conclusions presented in this paper can also be added to the existing literature on economic policies and their results [see 17, 18]. The content of the paper may also be considered as helpful at investment decisions made by companies [see 2, 9].

The paper attempts to make analysis of the volumes and ways of application of state aid at the regional level. The analysis has been performed with application of statistical methods and is based on the Eurostat data. The paper supports the thesis that state aid for regions has a considerable share in the total volume of state aid for industries and services in the EU, which is in line with the treaties referring to application of public aid in the EU.

## **2 Importance of Public Aid for Stimulating Economic Development**

Public aid is an instrument of the structural policy of the European Union. The structural policy comprises all measures and instruments in the domain of economy, law, management and other which express certain preferences and are important for economic entities at shaping and implementation of chosen structural goals. The overall objective is to increase economic effectiveness and boost growth. Another important aim is to cut down unemployment. That above can be reached through actions leading to economic modernization or development of innovative processes.

According to the liberal doctrine, the role of the state should be reduced to minimum and allocation of productive resources should be regulated by market forces. Nevertheless, liberal interventionism leaves space for state intervention for correcting market mechanisms. It happens predominantly in cases when the market mechanism does not ensure optimal allocation of resources.

The view supporting state interventionism has been more and more present in the last years, particularly at the end of the first decade of the XXI century, after the outbreak of the financial crisis and collapse of the financial markets in the aftermath of Lehman Brothers bankruptcy. Numerous financial institutions faced difficulties when trying to obtain funding necessary for further operations. The European Union, which normally follows strict rules on public aid application, at that time released aid packages aimed at battling the financial crisis. The aid featured some elements of analogy towards classical approach which stresses that stabilisation of the economic cycle can be successfully influenced by state interventions, active economic policies of the central government, thus changing the cycle through public spending (the theory of J.M. Keynes). However, some aspects of the 2008 crisis handling showed that the modern

public interventionism is characterised by a different level of legal regulations and controlling powers.

Currently, restrictive European regulations stress that public aid coming from member states or from public sources, which distorts or threatens to distort competition through privileges given to some companies, or /and is applied at production of certain goods, should be banned by definition, when such aid influences negatively commercial relations between member states. However, particular socio-economic conditions leave space for many exceptions. Justifiable public aid includes measures aimed at job creation, improvement of regional competitiveness or supporting innovative solutions, as well as at the ventures related to research and development. Public aid must, at the same time, meet certain requirements, i.a.:

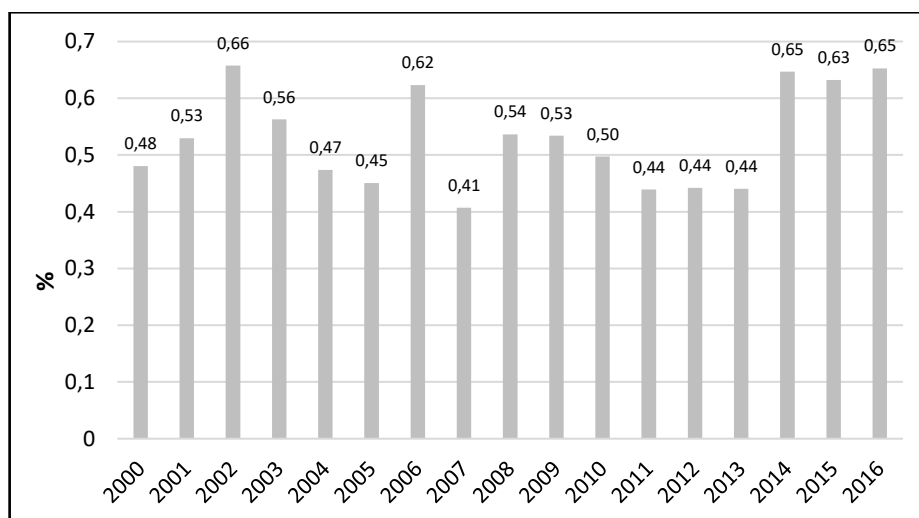
- be applied to a company (or an entrepreneur), as defined by the EU laws on competition,
- be granted by the state or from public financial means,
- be allotted upon more favourable conditions than the ones offered by the market,
- have a selective character for certain company or companies, or production of certain goods,
- not threaten to distort or distort competition and have influence on trade between the European Union member states.

Public aid, i.a., subsidies, preferential loans or tax exemptions are instruments of state interventionist policies. Consequences of pursuing such economic policies can be meaningful and public aid is an adequate tool for stimulating economic development. However, incompetent usage of public aid instruments can lead to market distortions. Having in mind the above, it is crucial to apply aid whose consequences are positive and lead to achieving goals set for economic policies of the countries which use such tools.

### **3 Tendencies in Allotting Public Aid in the European Union Countries**

Support given within public aid framework has crucial importance for development of European economies, especially when it contributes positively into easing economic and social tensions. It is widely admitted that state obligations include active forms of support for businesses, although the scale and methods of such support should be determined by particular scenarios which need to be constantly monitored.

When analyzing information which characterizes public aid (called here as state aid – the term used in the European statistics) over the last years (the “total state aid expenditure”), it needs to be concluded that its overall value has been increasing (see Fig. 1). The biggest amount of aid allotted to enterprises appeared in 2016 (97,298.8 mln EUR, which was 0.7 % of the GDP). In 2016 state aid spending increased in comparison with the 2015 level, both in numbers and in the percentage of the GDP. The percentage increase of state aid for all European Union countries in 2016 was 2.6 percentage points when compared with 2015 numbers (without inflation adjustment).

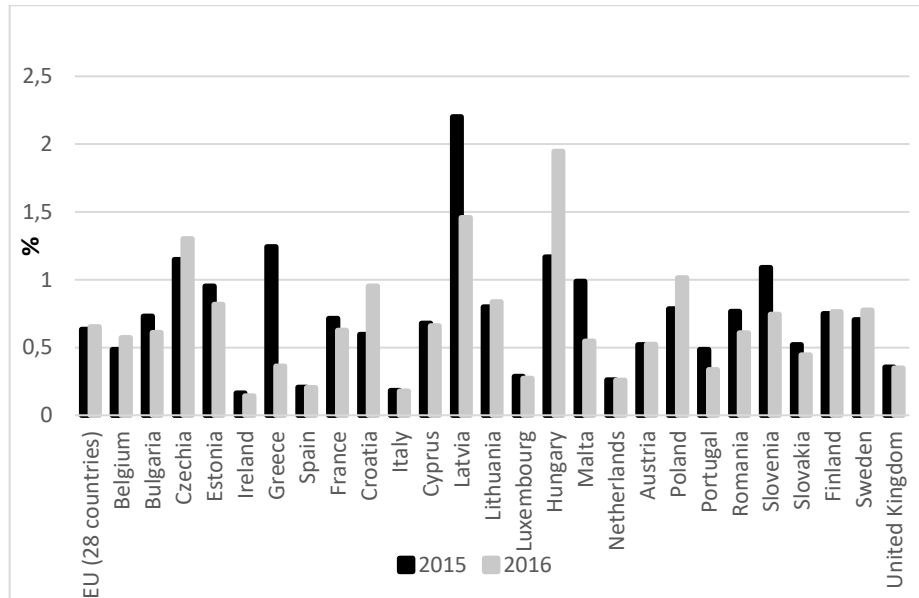


**Fig. 1.** State aid in 2016 in European Union (as % GDP) [15].

Analysis of changes in overall state support shows considerable disproportions among the EU member states (see graph 2). The biggest increase of state aid appeared in Hungary (+ 0.8 p.p. of GDP), Croatia (+ 0.3 p.p. of GDP), Poland (+ 0.2 p.p. of GDP) and the Czech Republic (+ 0.2 p.p. of GDP). In contrast, a considerable decrease of public aid was observed in Greece (- 0.9 p.p. of GDP), Latvia (- 0.7 p.p. of GDP), Malta (- 0.4 p.p. of GDP), Slovenia (- 0.3 p.p. of GDP) and Romania (-0.2 p.p. of GDP).

The changes in the level of state support have followed particular objectives chosen for cohesion policies. It results, in the first place, from reorientation of the European Union policies following the new goals set for the current financial perspective 2014 - 2020 and from implementation of the 2020 strategy being the main document related to the programmes of socio-economic development.

The main reason for increasing state aid in the European Union since 2014 have been larger expenditure on implementation of natural environment protection projects including energy saving. The expenditure is in line with the growing financial input into new projects supporting renewable energy sources in the countries such as Germany, the Czech Republic, Denmark and the United Kingdom.



**Fig. 2.** Total state aid in 2015 and 2016 (as % GDP) [15].

Another reason for increasing amount of public aid within the European Union over the last years has been implementation of projects for the common European interest and for local infrastructure including broadband Internet networks. The increase also covers new projects concerning various goals and tools, from the systems based on local income taxes, up to cross sectoral corporations, being implemented mainly in Belgium, Germany, Hungary and Italy.

Another important reason for more state support in the European Union is bigger expenditure on research, development and innovations. It mainly concerns countries like Italy, Hungary and Poland. Having in mind the contexts of strong global competition and the principles or regulations concerning public aid, they all seem to be flexible enough to justify even a high level of aid allotted in the case of projects requiring support for research, development and innovation.

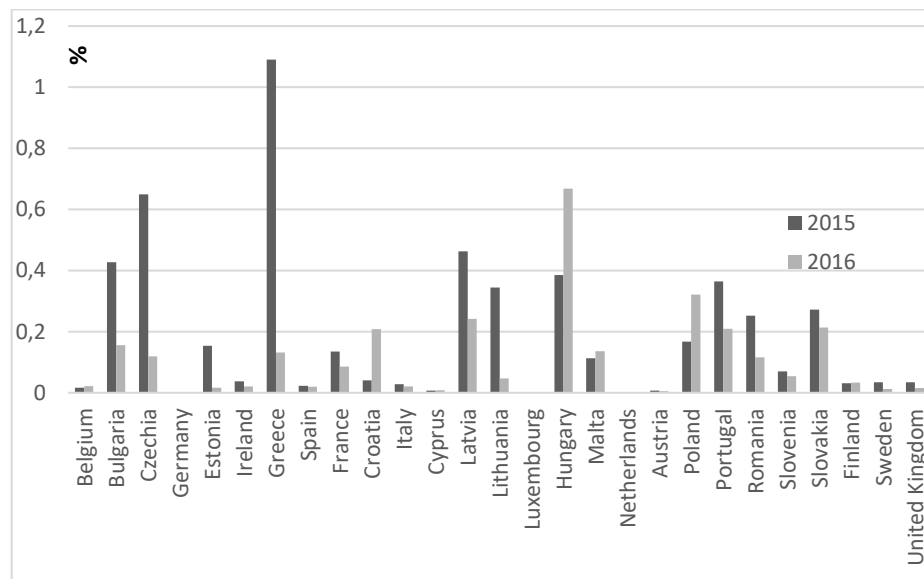
#### **4 Current Conditions and Tendencies in Authorization of Public Financial Support within Regional Aid Policies**

Regional aid is aimed at developing the regions featuring low standard of living and high unemployment and it offers support for projects of pan-European importance, as well as it prevents distortions in member states economies and helps to develop small and middle-size businesses. Regional aid can also enhance natural environment protection ventures supporting research and development, which is described as horizontal aid - the form directed at companies representing particular branches of

economy, and last but not least, it aims at supporting culture heritage of the European Union countries.

Generally speaking, the aid from those countries, accorded under strict conditions, can be divided into three categories, i.e.: regional aid, sectoral aid, and aid for sensitive sectors. Regional aid differs from other forms of horizontal aid by its geographical specifics. The general rule applied by the European Commission in the question of according original aid is determining analytical criteria which show that the overall area of the regions getting the aid must be smaller than three area which do not receive such support.

Regional aid can only play an effective role if it is used sparingly and proportionately and is concentrated on the most disadvantaged regions of the European Union. In particular, the permissible aid ceilings should reflect the relative seriousness of the problems affecting the development of the regions concerned. Furthermore, the advantages of the aid for the development of a less-favoured region must outweigh the resulting distortions of competition. The weight given to the positive effects of the aid is likely to vary according to the applied derogation of Article 107(3) of the Treaty [Official Journal of the European Union C 209/1, 23.7.2013, Art 5].



**Fig. 3.** Overall change in State aid for regional development between 2015 and 2016 in European Union (as % of GDP) [15].

A general analysis of the regional aid in the European Union shows that its volume and character do not feature stable or similar tendencies for all European Union member countries. The total amount of financial support within the regional aid framework decreased in 2016 when compared with 2015 and the reason for this might be connected with re-directing of the European Union aid towards the natural environment protection targets. However, in some selected countries the regional aid has gained importance

over this period. The countries above include Germany (+ 241 mln EUR), Hungary (334 mln EUR), and Poland (+ 652 mln EUR). The drop in the regional aid has amounted to 4 bln Euros and has been observed in Greece (- 1,7 bln EUR), France (- 1,1 bln EUR), the Czech Republic (-882 mln EUR), the United Kingdom (-544 mln EUR) and Portugal 9-267 mln EUR). In case of Greece, the decrease was due to re-classification of the Greek government loan guarantees and taking them away from the area of services for the common economic interest. In case of France, the drop results from lacking the proper registration in 2016 regarding particular tax exemptions for fees paid by employers in the most remote regions. Other changes result, to a large extent, from a transition between means accommodated in accordance with previous legal regulations and with the new guidelines for the regional aid 2014-2020, or they appear due to changes in the socio-economic situation of the regions (the weakest regions have changed strongly).

A good example of growing importance of the regional aid is Poland. The total amount of the aid allotted in 2016 was 1369,7 mln EUR, compared with only 651,7 mln EUR in 2015, showing a hike of 651,7 mln EUR. In 2016, the most of financial support was granted by tax authorities as income tax reductions for entities which run their business in special economic zones, allotted within the existing aid programmes or within complementary programmes. It can be noticed that the aid enhancing passive support (whose consequences cut down budget revenues) comes in line with the active form, which means support through state expenditure. In this case, the most common form of support are subsidies and other irreclaimable financial transfers through state agencies or the Bank for the National Economy (the BGK, in Poland).

## **5 Conclusions**

State aid, well planned and constructed, is aimed at reducing market disturbances and at implementation of public interest goals. It can also contribute into economic growth and improve market reliability. State aid can be an effective tool in achieving goals for economic policies.

Regional aid has been widely applied in the European Union. In the previous financial perspective (2007-2013), regional aid amounted to 45 % of the total volume of public aid in some European Countries, e.g. in Poland. In the current financial perspective, the share of regional aid in total amount of state support, has increased by almost 10% (the example of Poland). When comparing various tendencies, it should be concluded that the sectoral aid volume has decreased in the same time from 19.9 % to 10.3 %, in relation to the total value of public aid.

In the current financial perspective (2014-2020), in many European countries, importance of regional aid has declined in favour of other kinds of public support. A majority of 16 member states - Germany, Sweden, Estonia, Romania, Austria, Finland, the Czech Republic, Bulgaria, Luxembourg, Denmark, Netherlands, Cyprus, Slovenia, Ireland and Croatia have spent public aid mostly for environment protection and energy saving. Research, development and innovation have been prime objectives in Belgium

and Italy, whereas culture has been the main aim in Lithuania and Latvia. Regional aid dominance has been typical for Poland, Hungary and Greece.

It can be concluded that a decrease of aid level for better developed regions will have a negative impact on support for large enterprises (where maximum level of aid threshold cannot be hiked). Such enterprises will then search other sources of public support. On the other hand, a high threshold of aid intensity is going to remain in the least developed regions (for example those located in the eastern part of Poland).

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