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Expenditure and Trend in State Aid for Regional Development in the European Union in the Years 2004–2010

INTRODUCTION

The issue of state influence on the economy is a subject of endless theoretical discussion. The researchers' standpoints oscillate between an argument against protectionism and government regulation and active participation of a state in the market. This debate takes into account all issues referring to different forms of public assistance given by state authorities to selected groups of companies.

State aid in the light of theory of economic policy is an instrument of structural policy which aims at intervening to enhance the positive or mitigate negative structural changes in the economy [Klamut, 2006, p. 230]. Structural policy cannot ignore the laws of the market but should support and complement them [Ćwikliński, 2003, p. 145]. It is designed to entail the activity to remove obstacles to the full, smooth functioning of the market mechanism and to create of an alternative mechanism in situations where relying solely on the rights of the market leads to very high societal costs. The costs of state intervention may be an additional criterion for the scale of intervention in some economic processes. The state should therefore intervene only in the cases and areas where there is a clear evidence that market mechanism is an expensive solution [Szpringer, 1996, p. 37].

These observations can be applied directly to state aid used primarily to increase the efficiency of the economy with a possibly limited negative impact on the free market. In the market economy the government's task should be reduced to creation of so-called competitive climate motivating entrepreneurs to activity but also to support and accelerate the structural processes [Postuła & Werner, 2006, p. 316].

The aim of this paper is to provide a general overview of the concept, objectives, level and trend in state aid granted by Member States (hereafter: MS) in the period 2004–2010 with particular emphasis on aid earmarked for regional development.

CONCEPT OF STATE AID IN EU'S COMPETITION POLICY

The Treaty on the Functioning of the European Union [*Consolidated...*, 2010] (hereafter: TFEU) states in its principles that MS are to adopt economic policy conducted in accordance with the rule of the market economy. Preferential public assistance – state aid – can distort the market which in turn can result in lower competitiveness for business, less innovation and ultimately higher prices for consumers. There is a need for effective state aid control granted by MS in order to maintain a level playing field for free competition in EU and to guard against subsidy races and national protectionism.

Therefore the cornerstone of EU's policy on state aid has become the definition contained in the article 107(1) TFEU which states that any aid granted by MS or through state resources in any form which distorts competition by favoring certain undertakings or production of certain goods shall in so far as it affects trade between MS be incompatible with the internal market.

Based on the quoted provision it can be concluded that the concept of state aid is not directly defined in EU's competition law. It should be emphasized that the lack of clear definition of state aid is intentional and results from a need to [Craig & Burca, 2008, p. 1087]:

- exclude the situation where too rigid definition of TFEU would be evaded in different ways by MS;
- enable the supervisory authorities of EU, namely the European Commission (hereafter: the Commission) and European Court of Justice, to make their own interpretation of this concept in a broad and flexible way.

It is therefore not possible to create an exhaustive list of instruments and types of state aid. E.g. the forms of state aid may include [Dudzik, 2002, p. 34]: grants, tax exemptions, guarantees, interest rate subsidies on bank loans, redemption penalties, sale or putting into use of property owned by the State Treasury on terms favorable to companies than those offered on the market.

State aid can also be defined as a benefit which the entrepreneur receives and which could not obtain in the normal course of business. Donors are the public authorities and other bodies administering public funds, including public companies. The beneficiaries of state aid become companies without distinction of who their owners are. Usually state aid is a provision of free or paid below its market value which is also referred to the expenditure side of the state or the provision of reducing government revenue [Schina, 1987, p. 13].

Due to the fact that the rules of admissibility of state aid are based on the prohibition of its use, as generally incompatible with the common market, it means that state aid may be granted only under the exceptions to this prohibition. These exceptions can be divided into cases in which state aid:

- is automatically compatible with the internal market under article 107(2) TFEU;

- may be considered as compatible with EU rules under article 107(3) TFEU which encompasses some exemptions of a discretionary nature.

Under the classification based on the criterion of the scope of state aid we can distinguish two major state aid categories:

- horizontal aid – creating favorable conditions for carrying out the pro-efficiency changes by stimulating a degree of innovation and modernization of enterprises and enhancing the development of entrepreneurship or reducing the unemployment rate. According to the Commission's methodology this support includes i.a. regional aid referring to problems occurring in regions that are disadvantaged by promoting the economic, societal and territorial cohesion of MS and EU as a whole and contributing in this way to achieve the objectives of the Europe 2020 Strategy [*Europe 2020...*, 2010];
- sectoral aid – given to these sectors of the economy which face economic difficulties. Aid may be in this case: defensive – aimed at restructuring processes in a sector by limiting the growth of production or offensive – stimulating increased production in the sector that is unable to cope with using its own resources to the growing demand for the products.

STATE AID IN EU-27 IN ABSOLUTE AND RELATIVE TERMS

Total state aid granted by all MS in 2010 amounted to € 457.5 bln or 3.7% of EU-27 GDP [*State aid scoreboard...*, 2011, p. 5]. Of this total, € 383.8 bln (3.1% of EU-27 GDP) related to crisis measures reported by MS. If the crisis measures are excluded, total state aid amounted to around € 73.7 bln in 2010 (0.6% of EU-27 GDP). Aid to industry and services represents 82.8% of total state aid, that is € 61.0 bln or 0.9% of EU-27 GDP. Aid to agriculture amounted to € 10.3 bln (or 14.0% of total aid) and transport – € 2.3 bln or 3.1% of total aid.

Table 1. Total amount of state aid to EU-27 in 2010

State aid	Volume [billion €]	Share	
		[%]	[% GDP- EU-27]
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
A) INDUSTRY AND SERVICES	61.0	100.0/82.8of tot.	0.50
1. Horizontal:	51.9	85.0	0.42
– Regional development	14.8	24.3	0.12
– Environmental protection & energy saving	14.4	23.6	0.12
– Research & Development & Innovation (R&D&I)	10.9	17.9	0.08
– Small and medium-sized enterprises	2.6	4.2	0.02
– Employment	2.8	4.6	0.03

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
– Training	0.8	1.3	0.01
– Risk capital	0.8	1.3	0.01
– Culture	1.7	2.8	0.01
– Social support to individual consumers	2.1	3.5	0.02
– Promotion of export and internationalisation	0.2	0.4	-
– Heritage conservation	0.2	0.3	-
– other	0.6	0.8	-
2. Sectoral:	9.1	15.0	0.08
– Coal mining	2.8	4.6	0.03
– Financial services	1.4	2.3	0.01
– Ship building	0.2	0.3	-
– Rescue & restructuring	0.5	0.8	-
– other	4.2	7.0	0.04
B) Sectors	12.7	17.2 of tot.	0.10
– Agriculture	10.3	14.0	0.08
– Fisheries & aquaculture	0.1	0.1	-
– Transport	2.3	3.1	0.02
Without crisis measures (A+B)	73.7	100.0 of tot.	0.60
Crisis measures (C)	383.8	-	3.10
Total state aid (A+B+C)	457.5	-	3.70

Source: own study based on data from Commission.

State aid earmarked for horizontal objectives accounted for 85% of total aid to industry and services in 2010. The remaining 15% was aid directed at specific sectors: coal mining (4.6%), financial services (2.3%), ship building (0.3%), steel industry (0.03%) and other services.

The largest proportion of aid was earmarked for regional development (almost € 15 bln, i.e. 24.3% of total state aid for industry and services), which was used in particular in Greece (89%), Lithuania (67%), Romania (52%), Slovakia (47%), Czech Republic (45%) and Bulgaria (41%) compared to their individual total expenditure.

In second place was aid allocated to the environmental protection and energy saving (€ 14.4 bln, roughly 24% of total state aid for industry and services). Sweden (86%), Latvia (78%), the Netherlands (55%), Austria (49%), Finland (40%), Estonia (39%), Germany (38%) and the United Kingdom (34%) devoted a substantial part of aid to these objectives. In contrast, the average for EU-12 countries was 17.3%, therefore slightly lower than the average for EU-27.

In the third position was aid earmarked to Research & Development & Innovation (hereafter: R&D&I) activities (€ 10.9 bln, 17.9% of total state aid for industry and services). Luxembourg (57%), Belgium (43%), the Netherlands (37%), Finland (31%) and Slovenia (30%) devoted the highest shares of aid to these objectives. In EU-12, the average was around 11%, lower than in EU-27.

Together these three objectives (regional development, environment & energy saving and R&D&I) represent 65.8% of total aid to industry and services in EU-27 and hence are the most widely used horizontal objectives of common interest.

All other objectives taken together account for 19.2% of total aid to industry and services: small and medium-sized enterprises (4.2% of total aid), employment (4.6%), culture and heritage conservation (3.1%), training (1.3%), social support for individual consumers (3.5%), risk capital (1.3%) and other horizontal aims, e.g. commerce and internalization or natural disasters (1.2%).

TREND IN STATE AID FOR HORIZONTAL AND SECTORAL OBJECTIVES

When looking at the trend with respect to aid earmarked for horizontal objectives it has been broadly stable since 2006 (between 82% and 84%). Compared with previous periods, 72% in 2004 and around 50% in the mid-1990s, it shows a clear upward trend. The underlying move confirms the upward share of aid designed to achieve horizontal objectives. During the period 2004–2006 on average 78% of aid was earmarked for horizontal objectives and in the years 2008–2010 it increased to 84.4%. This trend was accompanied by a parallel decrease in sectoral aid.

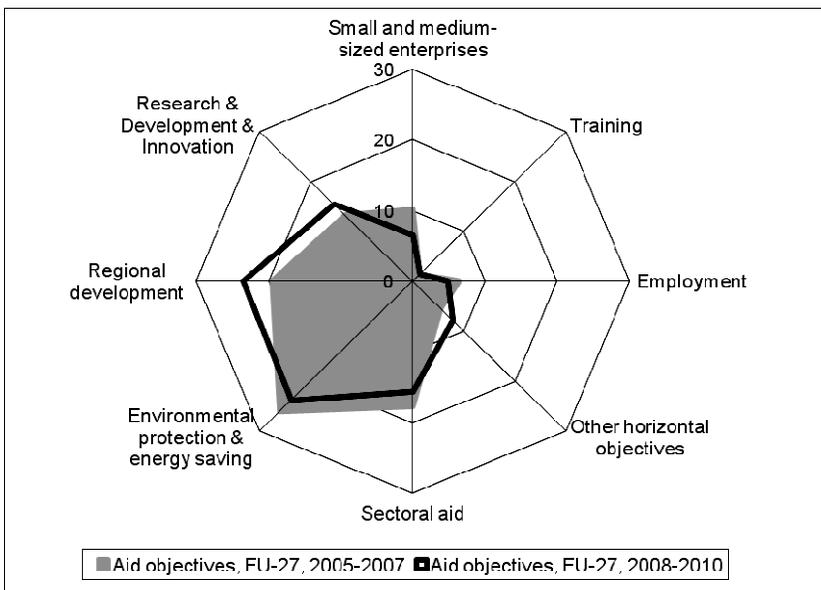


Figure 1. Trend in share of primary objectives as % of total non-crisis state aid to industry and services, EU-27, 2005–2010

Source: own study based on data from Commission.

Although the long-term trend still shows that MS direct a relatively high level of aid towards sectoral objectives, a clear positive trend is observed when examining the individual MS. In particular, all EU-12 MS are progressively redirecting aid towards horizontal objectives. During the period 2004–2006 aid to horizontal objectives represented in new MS only 45% of total aid while in the period 2007–2009 this share increased to 75%.

In 2010 the EU average (85%) for horizontal objectives was exceeded in 19 MS (i.e. Belgium, Bulgaria, Lithuania and Luxembourg with each 100%, followed by Denmark, Cyprus, Netherlands, Austria, Slovenia, Slovakia, Finland, Sweden and United Kingdom with each more than 90%).

Looking at individual objectives, the orientation of aid in EU-27 shifted in favor of regional development and R&D&I (figure 1). By comparing the two consecutive periods 2005–2007 and 2008–2010, it appears that average share of regional development aid increased from 19.5% to 23.5%. Also the level of R&D&I aid increased from 13% to 15.5%.

Between the periods 2005–2007 and 2008–2010 we can also notice a downward trend referring to state aid for environmental protection & energy saving (decrease from 26.1% to 23.8%), aid to small and medium-sized enterprises (from 10.1% to 6.5%) and employment aid (from 6.4% to 4.8%). Furthermore, it is observed a decrease in spending on sectoral aid, mainly due to lower aid granted to the coal mining sector in Germany and Spain.

STRUCTURE OF STATE AID FOR REGIONAL DEVELOPMENT IN EU-27

The total value of state aid earmarked for regional development in all MS in 2010 amounted to € 14.8 bln. This amount represented approximately 24% of total state aid for industry and services or 0.12% of EU-27 GDP. In nominal terms, the largest grantors in 2010 were France (€ 4.3 bln or 29% of the EU total), Germany (€ 3.6 bln, 23%), Greece (€ 1.6 bln, 11%), Italy and Spain (each more than € 1 bln, 7%).

Table 2. Maximum volume and share of aid for regional development in EU in 2010

Member states	Volume [million €]	Share [%]	Member states	Volume [million €]	Share [%]
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
EU-27	14 851	100.0	13. Portugal	114	0.8
EU-15	12 804	86.2	14. Slovakia	113	0.8
EU-12	2 047	13.8	15. Romania	108	0.7
1. France	4 306	29.0	16. Sweden	87	0.6
2. Germany	3 637	24.5	17. Slovenia	83	0.6
3. Greece	1 605	10.8	18. Lithuania	54	0.4

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
4. Italy	1 112	7.5	19. Finland	43	0.3
5. Spain	1 079	7.3	20. Malta	15	0.1
6. Poland	735	5.0	21. Netherlands	11	0.07
7. Hungary	491	3.3	22. Latvia	9	0.06
8. Czech Republic	423	2.9	23. Cyprus	8	0.05
9. Ireland	289	2.0	24. Bulgaria	6	0.04
10. United Kingdom	267	1.8	25. Luxembourg	2	0.01
11. Austria	132	0.9	26. Estonia	2	0.01
12. Belgium	120	0.8	27. Denmark	0	-

Source: own study based on data from Commission.

In relation to total aid to industry and services, state aid for regional development was particularly important in EU-12 MS where it represented 32.7% of the total, a much higher level than that observed for EU-15 (18.5%). This can be explained by the fact that new MS have a higher number of eligible regions and therefore the possibility to grant higher aid intensities.

Table 3. Average amount of regional development aid in 2005–2007 and 2008–2010

Member states	Average 2005–2007 [million €]	Average 2008–2010 [million €]	Member states	Average 2005–2007 [million €]	Average 2008–2010 [million €]
EU-27	10 305	14 092	13. Sweden	152	126
EU-15	9 035	12 166	14. Portugal	65	120
EU-12	1 270	1 926	15. Belgium	120	117
1. France	2 106	3 860	16. Slovenia	47	102
2. Germany	2 774	3 549	17. Romania	50	67
3. Greece	369	1 348	18. Finland	70	45
4. Spain	1 340	1 314	19. Lithuania	14	32
5. Italy	1 079	1 012	20. Netherlands	40	13
6. Poland	322	602	21. Latvia	25	12
7. Czech Republic	341	538	22. Bulgaria	23	10
8. Hungary	269	414	23. Malta	0	10
9. Ireland	272	287	24. Luxembourg	11	5
10. United Kingdom	559	242	25. Cyprus	5	3
11. Slovakia	171	135	26. Estonia	3	1
12. Austria	77	130	27. Denmark	4	0

Source: own study based on data from Commission.

The highest share of aid for regional development in proportion to total aid to industry and services was found in Greece (89%), Lithuania (67%), Romania (52%), Slovakia (47%) and the Czech Republic (45%) while in Denmark and the Netherlands it stood below 2%.

The average amount of regional aid in EU-27 has increased by almost € 3.8 bln between the periods 2005–2007 and 2008–2010. Thirteen MS have increased the level of regional aid granted. At the same time there was a decline in the value of aid in 14 MS e.g. significant in the United Kingdom (by € 317 mln).

In 2009 almost half (45%) of total aid for regional development in EU was granted under only 5 measures. These are 3 German schemes which focus on supporting investments in the poorest regions (mainly in Eastern Germany) and 2 French schemes which provide operating aid in the French overseas departments.

In the period 2005–2010, more than € 73 bln was granted as regional aid in UE. Almost all this aid was granted under schemes (96%) while ad hoc individual aid accounted for only 4% of the total. As regards aid instruments, tax exemptions were used for 55% of total aid granted (with an increasing trend over the period), followed by direct grants (42%).

NUMBER OF DECISIONS ON REGIONAL DEVELOPMENT AID IN 2004–2010

In the years 2004–2010 the Commission issued 570 final decisions on state aid for regional development. This number includes 523 (92%) decisions confirming compliance with the common market, 14 (2%) decisions declaring that the measure does not constitute aid and 33 (6%) negative decisions. More than a half of the decisions concerned the programs (52%), while the rest referred to individual ad hoc measures (29%) and individual assistance programs (19%). In 60% of decisions taken concerned 5 MS: Poland (96 decisions), Germany (91), Italy (60), the Czech Republic (46) and France (18).

The number of regional state aid measures approved per year fluctuated between 60 and 100 in the years 2004–2009 and 3 times it reached a very high level: in 2004 (92 measures), 2006 (96) and 2009 (86). In 2010 there was a significant decrease to around 50 approved measures.

The total number of measures under the group exemptions for regional development designed by MS amounted 778 of which 97% were schemes. The largest number of schemes was implemented in Italy (120) and Spain (112), followed by the Czech Republic (76), Poland (68) and Austria (57). After the record year 2009 when a total of 266 group exempted measures were introduced, the figure dropped to 145 in 2010. It can be explained by the introduction of the new General Block Exemption Regulation in 2008 and by the fact that a vast majority of regional state aid measures is connected with Structural Funds operations for which the Operational Programs for the years 2007–2013 had been approved in the previous years.

CONCLUSION

Although TFEU sets out a principle of state aid's incompatibility with the internal market, in some circumstances government interventions are necessary for a well-functioning and equitable economy. Therefore EU's competition law provides broad possibilities to grant state aid that can be an effective tool compatible with many European policy objectives.

In recent years state aid granted by MS focused on three most prominent horizontal objectives including regional development, environmental protection and R&D&I representing together two thirds of total aid to industry and services. This is a positive trend if we assume that horizontal aid is better suited to address the market failures and thus less distortive for competition than sectoral aid.

The overall level of regional aid in EU-27 is strongly conditioned by the measures implemented under the schemes in France, Germany, Italy and Spain. However, the average share of regional aid in EU-12 is almost twice higher than observed in EU-15 because the new MS have a higher number of eligible regions and the possibility to grant higher aid intensities.

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Summary

This paper discusses the issue of state aid for regional development granted in EU in 2004–2010. It provides a general overview of state aid levels and the most important objectives supported by Member States. The article consists of 5 parts including: 1) explanatory of state aid concept in the EU competition policy; 2) image of the structure and total amount of aid using empirical data in absolute and relative terms; 3) analysis of the trend in aid for horizontal and sectoral objectives; 4) insight into the structure and average amount of aid granted by Member States for regional development; 5) investigation of a number of decisions on regional development aid relating to EU countries and issued by Commission.

Wydatki i trend w pomocy publicznej na rozwój regionalny w Unii Europejskiej w latach 2004–2010*Streszczenie*

Artykuł przybliży problematykę pomocy publicznej udzielanej na rozwój regionalny UE w latach 2004–2010. Zawiera on omówienie ogólnego poziomu pomocy oraz przegląd najważniejszych celów finansowego wsparcia publicznego w państwach UE. Opracowanie składa się z 5 części obejmujących: 1) przedstawienie koncepcji pomocy publicznej w świetle polityki konkurencji UE; 2) charakterystykę struktury i wartości pomocy opartą na danych empirycznych w ujęciu bezwzględny oraz jako % PKB UE-27; 3) analizę trendu pomocy ukierunkowanej na cele horyzontalne i sektorowe; 4) omówienie struktury i średniej wartości pomocy na rozwój regionalny w państwach UE; 5) badanie liczby decyzji wydanych przez Komisję, dotyczących pomocy regionalnej w poszczególnych krajach.