

Investment Aid In Europe

2016 Regional Update



INTRODUCTION

When seeking to invest in Europe, businesses must be aware of a number of new policies that are now in effect. Companies now face a variety of new rules and policies that may significantly impact the opportunity for receiving financial support from government entities throughout Europe. Developed and administered by the European Commission (“EC”), new guidelines dictate the ability for European Union (“EU”) Member States to deliver financial aid to businesses.

The program Horizon 2020 is a framework for investment in research and innovation, while spurring productivity and technological development. Altogether, there is nearly €80 billion earmarked for the new R&D roadmap.

Vastly different than the public incentive system in the United States, businesses seeking to capture investment aid in Europe will ultimately be overseen by EU officials in Brussels. As opposed to the state and locally-driven economic development nature of America, European investment promotion leaders and political officials are bound by rules developed by the EC. Aid packages may even face scrutiny in Brussels if the project does not meet certain criteria. New guidelines specifically with these policies are now in place, and it is critical for business leaders to be aware when making their next investment decision.

Following the EU referendum in the United Kingdom, there is uncertainty on how these guidelines will be in effect for the nation. Discussions over the coming months will be vital in determining the future impact, or lack thereof, these programs will have in the UK. It is expected these guidelines will be a key part of the negotiations in ultimately deciding how the UK fits in the European market.

The EU has also implemented a new program to encourage and expand R&D activities throughout their membership. Referred to as Horizon 2020, the program is a framework for investment in research and innovation, while spurring productivity and technological development. Altogether, there is nearly €80 billion earmarked for the new R&D roadmap.

The following report provides a further analysis and update on these new policies and programs dealing with economic development and investment aid in Europe.



EUROPEAN INVESTMENT AID



NEW STATE AID GUIDELINES

EUROPEAN STATE AID PRIMER

Public financial incentives, commonly referred to as state investment aid, are governed by the EC for all EU Member States. Every seven years, the EC reviews these guidelines to ensure they reflect the current economic and political conditions in the region. The guidelines are developed with the goal of ensuring a level playing field and limiting market distortion. Most traditional investment aid schemes are covered under these guidelines with the exception of agricultural subsidies, fisheries and aquaculture, research and development, workforce training and infrastructure.

In developing these guidelines, the EC sets out to prescribe three key tenets for granting investment aid:

- Where aid may be provided
- The size of business that may be a recipient
- The overall level of aid, or “aid intensity,” a state may offer

In the end, the driving force for the investment aid opportunity is the economic disparity of a particular region within a Member State. To begin, only the regions that are experiencing a certain level of economic disparity may offer these types of incentives. Thus, a business in London or Paris will be unlikely to capture investment aid dictated under these rules. Only regions with a gross domestic product (GDP) per Capita below 75% of the EU-27 average may offer these incentives. Those in the worse off regions, which are recognized as “a” regions, may offer the greatest level of financial assistance, and those near or at the 75% range, dubbed as “c” regions, are allowed to offer a smaller level of investment aid. In addition, “a” regions may offer to a wider range of businesses — large or small — while the “c” regions are often limited to providing investment aid to only small and medium-sized enterprises (“SMEs”).



THE NEW GUIDELINES

In the new guidelines, which came into effect on July 1, 2014, the EC set forth three main objectives they hope to realize with the rule changes:

- Foster sustainable, smart and inclusive growth in a competitive internal market
- Focus Commission ex ante scrutiny on cases with the biggest impact on the internal market while strengthening the cooperation with Member States in State aid enforcement
- Streamline the rules and provide for faster decisions

To meet these objectives, the EC has significantly revised the state investment aid guidelines in a number of aspects.

Below are several of the key changes businesses must be aware of when seeking to invest in an EU Member State.



FOCUS ON LARGE “UNDERTAKINGS”

When the discussion began regarding the revised guidelines, many believed large businesses would be prohibited from receiving state investment aid altogether. According to the EC, large businesses have distinct advantages in obtaining capital, have economies of scale, exhibit considerable bargaining power and do not warrant the need of financial aid.

However, after significant deliberation and protests from several Member States, this philosophy was eventually rolled back. Instead, there will now be further scrutiny from Brussels on large “undertakings” receiving aid from Member States. This extra attention may lead to more in-depth assessments of the larger projects with an additional focus on the incentive effect, proportionality of funds available, contribution to regional development and potential effects on competition. At the same time, many regions that qualify for aid, but are considered to be less disparaged than others, will be very limited or even prohibited overall from offering aid to these projects.

Further, for a large undertaking to be considered for state investment aid, it must now be a project that “brings new economic activity” to the region. Therefore, in the case of an existing business, the investment must be focused on new products or a new process innovation. This aspect of the guidelines is expected to bring about great debate in the coming years.



AID INTENSITY

The new guidelines revise the level of aid intensity a Member State is allowed to offer a particular business. In most cases, aid intensity is referring to the state investment aid being provided in proportion to the overall investment being made for the project. Depending on the specific region and the type of business, this formula can get extremely complicated. For example, certain businesses may be able to capture additional aid in the outermost regions. For a simplified, high level perspective, please refer to the table below for the levels of aid intensity for each particular region set forth in the new guidelines.

LEVEL OF AID INTENSITY		
Region	GDP per Capital	Base Aid Intensity Level
	Vs. EU-27 Avg.	
Region "a"	<45%	25% – 50%
	45% – 60%	
	>60%	
Region "c"	60% – 75%	10% – 15%

SIMPLIFIED AND IMPROVED PROCESS

While placing additional focus on the efficacy of larger projects, the EC is attempting to create a more simplified and improved process for SMEs seeking state investment aid. Through these guidelines, certain aid measures will face less administrative burden and reduced scrutiny from Brussels, along with a further emphasis on the outermost and sparsely populated regions.

INCREASED TRANSPARENCY AND ACCOUNTABILITY

As an increasingly common practice around the world, the EC has inserted provisions to increase the transparency and accountability of Member States when providing investment aid. Per the guidelines, Member States are now required to publish aid measures on a central website, which is to be in effect for a minimum of ten years. The website must be available for public consumption with very limited restrictions.



ANTI-RELOCATION EFFORTS

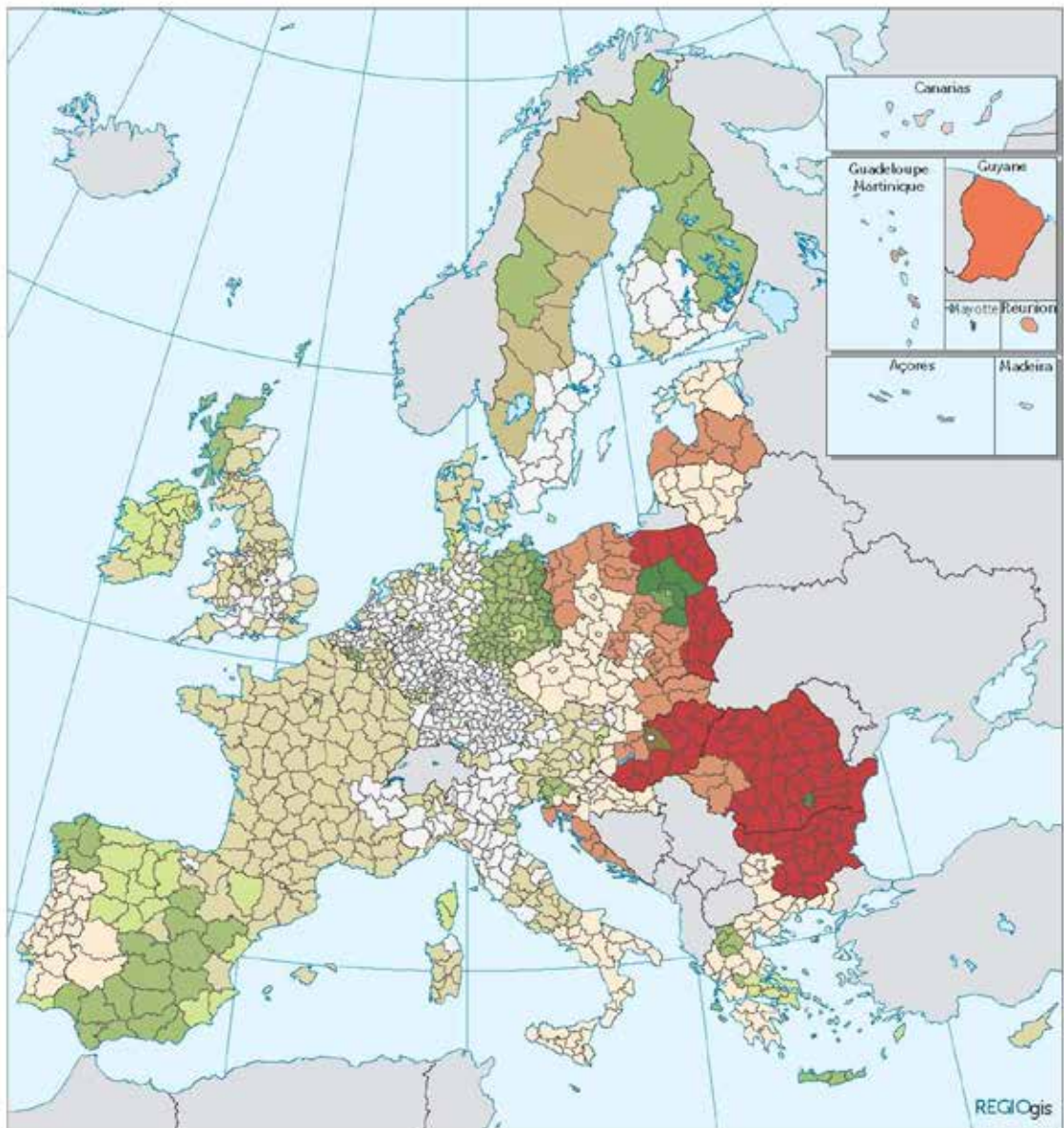
Previously, the EC has spent considerable effort to ensure investment aid does not lead to the relocation of jobs to another Member State. In the guidelines, the language has been made even more stringent than before. There are concerns within the investment promotion community that these new rules may force companies to prove that the project considers a location outside of Europe to justify the state investment aid. Guiding a company to study another competitive location for their project could lead to unintended consequences from these new guidelines.



NEW AID MAPS

Throughout 2014, Member States went through the extensive process of developing new maps to reflect the revised guidelines. The Member States were provided with the initial opportunity to develop their own maps, which were then ultimately approved by the EC. Until the maps were approved by the EC, the respective Member States were unable to offer state investment aid for new projects.

The following are the new investment aid maps for the EU Member States for a period to conclude at the end of 2017.



Regional state aid, 2014-2017

Eligible regions and maximum aid intensity

Art 107.3.a	Art 107.3.a Outermost regions	Art 107.3.c total	Art 107.3.c partial	Other regions
25%	35%	10%	10%	
35%	45%	15%	15%	
50%	55%	20%	35%	
	70%	35%		

NEW INVESTMENT AID MAPS

July 1, 2014 – December 31, 2017



AUSTRIA



CROATIA



BELGIUM



CYPRUS



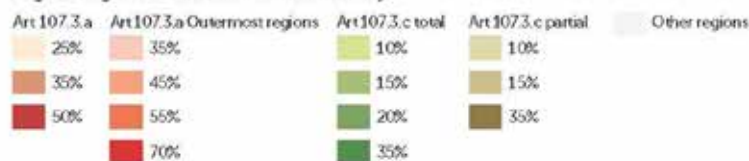
BULGARIA



CZECH REPUBLIC

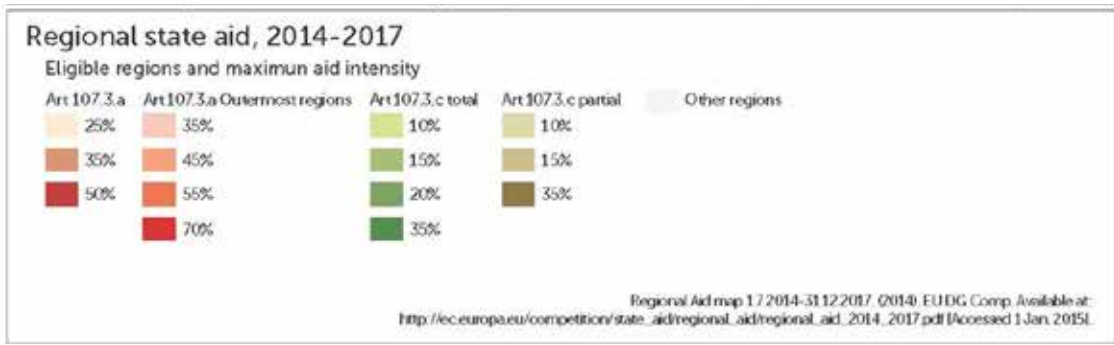
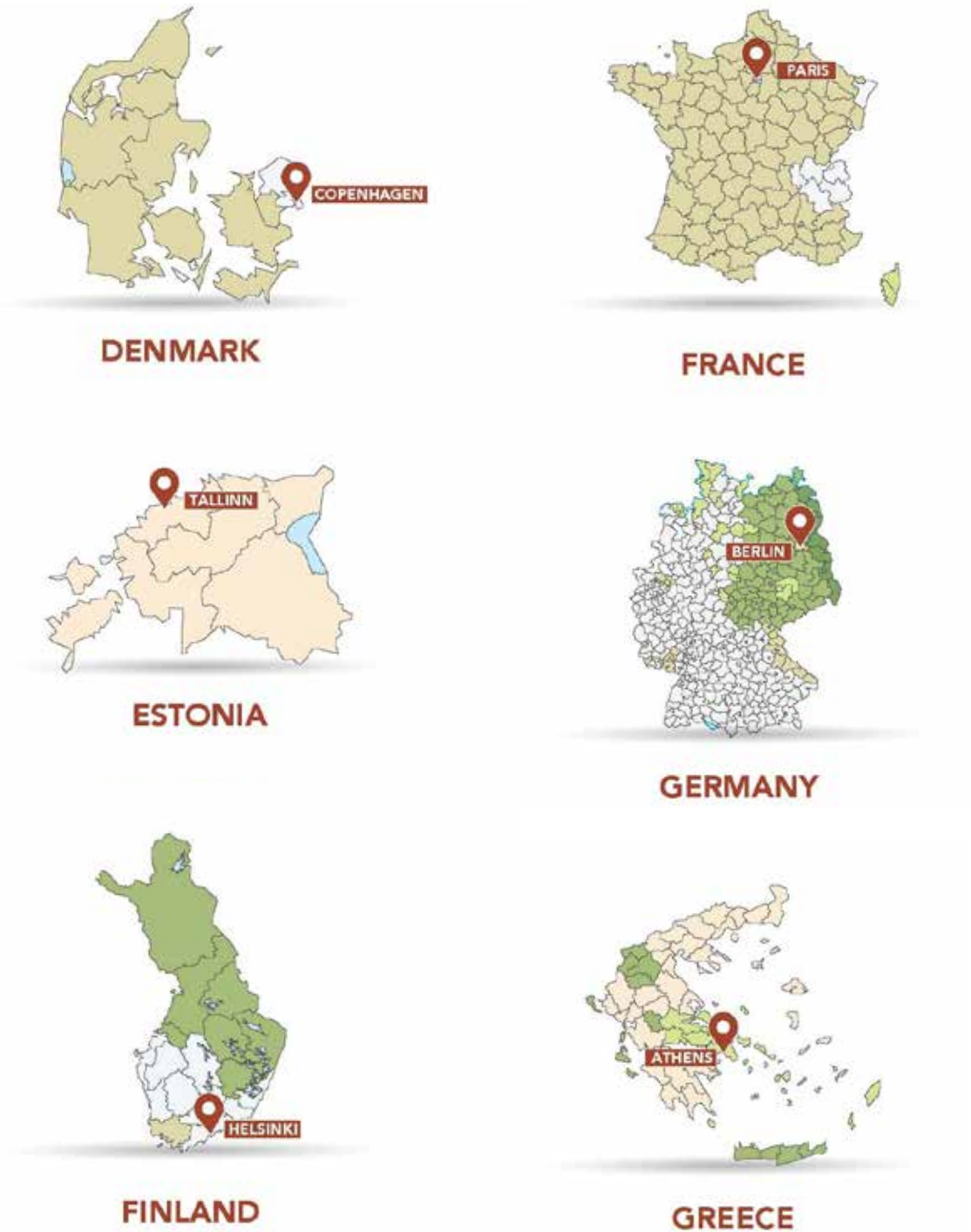
Regional state aid, 2014-2017

Eligible regions and maximum aid intensity



NEW INVESTMENT AID MAPS

July 1, 2014 – December 31, 2017



NEW INVESTMENT AID MAPS

July 1, 2014 – December 31, 2017



HUNGARY



LATVIA



IRELAND



**LITHUANIA
LATVIA**



ITALY



LUXEMBOURG

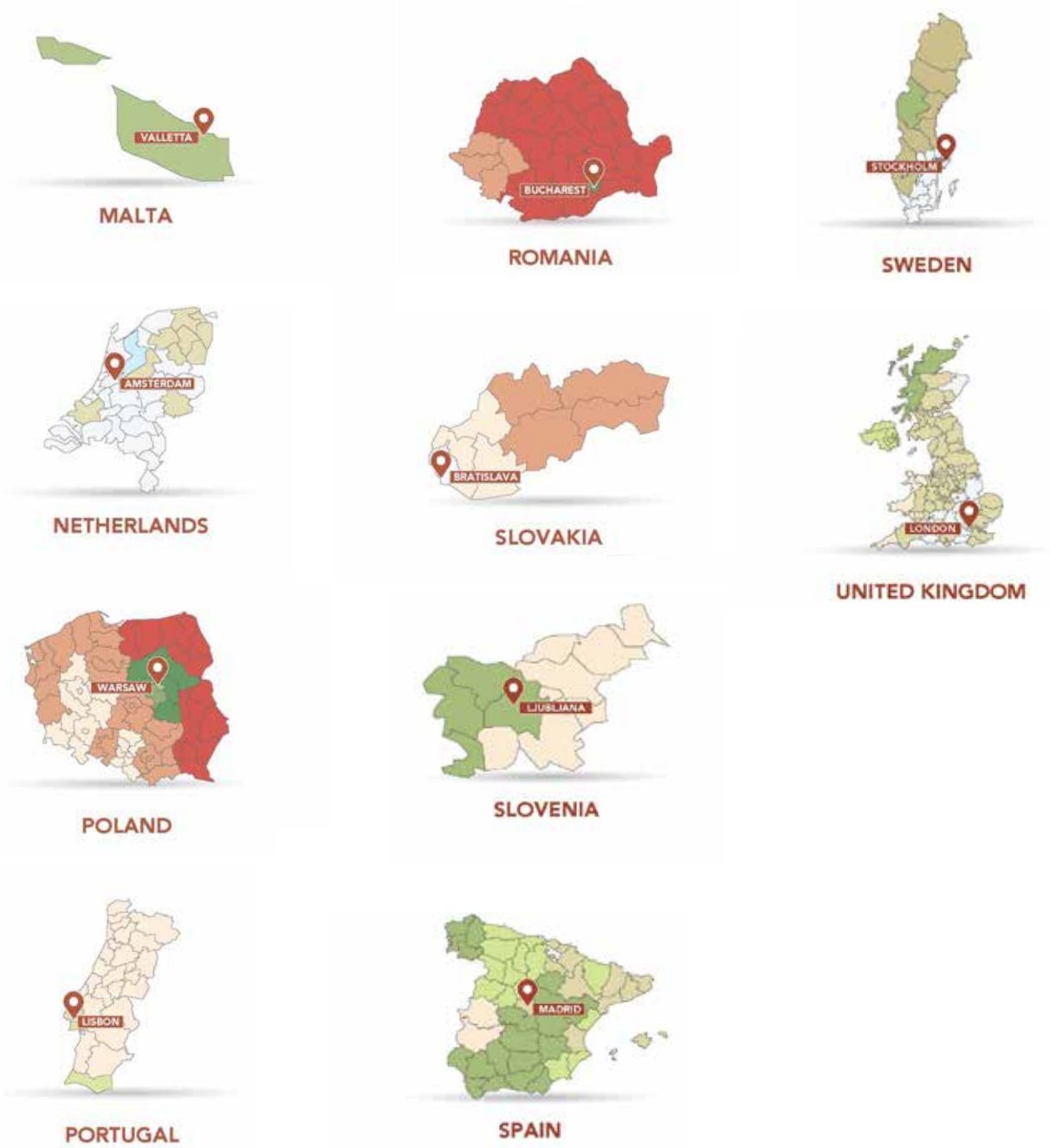
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NEW INVESTMENT AID MAPS

July 1, 2014 – December 31, 2017



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	70%	35%		

Regional Aid map 17.2014-31.12.2017, 2014: EUDG Comp. Available at: http://ec.europa.eu/competition/state_aid/regional_aid/regional_aid_2014_2017.pdf [Accessed 1 Jan. 2015].



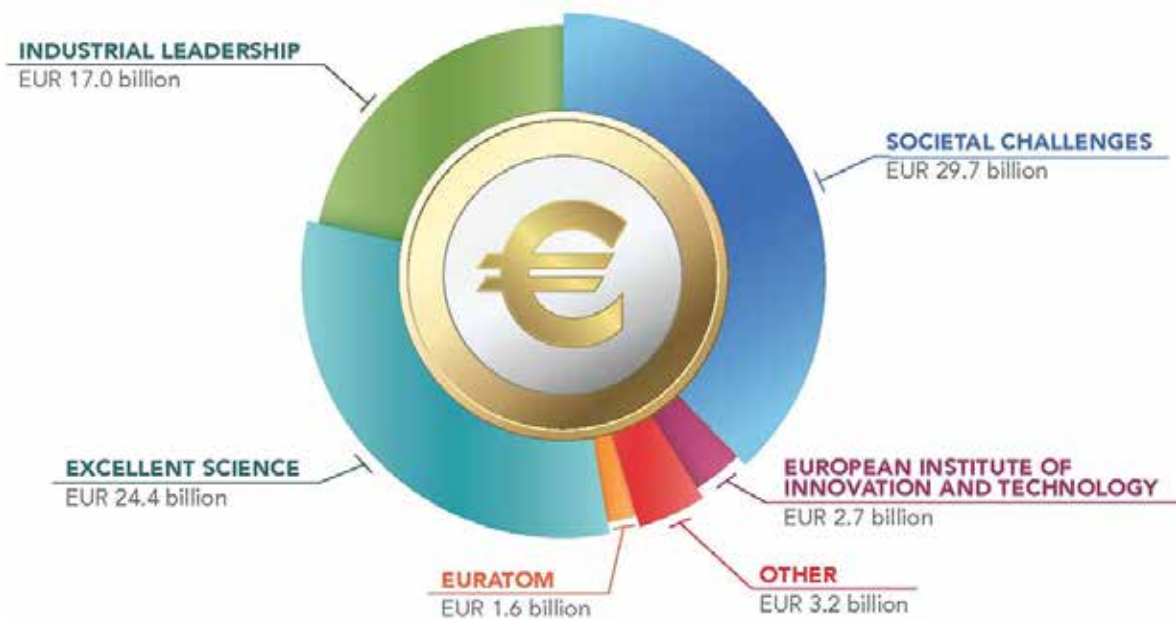
HORIZON 2020: THE FRAMEWORK PROGRAMME FOR RESEARCH AND INNOVATION

To directly address the many social and environmental challenges facing Europe, the EU has developed a new initiative to boost productivity and growth through investments in research and innovation. Through this new initiative, Horizon 2020, the EU aims to invest 3% of GDP in R&D over the next seven years. With nearly €80 billion earmarked for the new scheme, there will be ample opportunities for businesses seeking to discover critical funding for future R&D investments.

Horizon 2020 primarily focuses on three EU priority areas for research and innovation:

- **Excellent Science** — Aims to reinforce and extend the EU’s science base and to consolidate the European Research Area to compete on the global scale.
- **Industrial Leadership** — Intends to expedite development of the technologies and innovations that will underpin tomorrow’s businesses and help innovative European SMEs to grow into world-leading companies.
- **Societal Challenges** — Responds directly to the policy priorities and societal challenges that are identified in the Europe 2020 strategy, including health care, food security, energy, climate change and political challenges.

HORIZON 2020 BUDGET (2014-2020)



Through Horizon 2020, there will be an assortment of funding opportunities for businesses investing in R&D. Funding for projects will be awarded through the newly established European Research Council (ERC), calls for proposals, work programmes and private- public partnerships, among other mechanisms.

ABOUT THE AUTHOR



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