Revision of regional aid guidelines and state aid rules:

Taking into account territories with geographic specificities – Mountain Areas

Euromontana is the European multisectoral association for co-operation and development of mountain territories. Euromontana brings together organisations of mountain people: development and environmental agencies, agricultural and rural development centres, territorial authorities, research institutes, etc. It includes organisations from Western Europe as well as from Central and Eastern European countries with the aim of developing international co-operation. Currently 72 organisations from 17 wider European countries are members of Euromontana.

Euromontana’s mission is to promote living mountains, integrated and sustainable development and quality of life in mountain areas.

In order to achieve this, Euromontana facilitates the exchange of information and experience among these areas by organizing seminars and major conferences, by conducting and collaborating in studies, by developing, managing and participating in European projects and by working with the European institutions on mountain related affairs.

December 2011
Preliminary remark:

This analysis is based for an important part on a common work realised in close partnership with European networks:

- AEM - Association of Elected representatives of Mountain areas
- CPMR, Islands Commission - Conference of Peripheral and Maritime Regions
- INSULEUR - European Network of Islands Chambers of Commerce and Industry
- ESIN - European Small Islands Association
Rationale for a reflection on territories with geographic specificities in relation to State aid

**Mountains, islands and sparsely populated areas have a potential to deliver EU2020**

European networks have engaged in a reflection on the potential of territories with geographic specificities, i.e. mountains, islands and sparsely populated areas, to deliver EU2020. Our work has shown that these territories have a significant potential to deliver the goals of EU2020.

In relation to smart growth, they have demonstrated a **specific innovation potential**, that comes from their permanent confrontation with specific constraints that encourage the design and creation of new solutions, new solutions which can in turn inspire other applications, or, as most of innovation is incremental, new uses of existing solutions. This applies to all applications related to natural resources and environment, which are present in quantity but not only in this field. It also applies in new forms of social organisation, new tourism model, new approaches to governance and territorial development, new forms of service delivery.

In relation to green growth, these territories also have a **high potential for green economy**, as they have to combine, in a synergetic way their economic and environmental potential. They are the biggest European laboratory for sustainable use of natural resources, a major reservoir of biodiversity, water, energy sources, an ideal place for development of industries which require clean water and pure air. Thanks to their rich heritage (material and immaterial), including buildings, know-how, food, culture and landscapes, they represent great potential for development of sustainable tourism, a major economic sector in Europe (12% of EU GDP).

Finally community life is particularly strong in these territories. **Mountain areas have a lot to offer to people in search of a different and better quality of life.** Their economic development can attract populations thus avoiding increased urban congestion and offering the balanced territorial development that the EU aims at. Many examples of social innovation, initiatives embracing young and elderly people are undertaken in mountain areas. At the same time, these communities are at risk of marginalization, because of isolation and population sparsity. Achieving inclusive growth means that these communities must be supported in their efforts to maintain these remote parts of the territory as vibrant and welcoming with creative economies.

**These territories are facing specific constraints which require adequate policies**

Mountains, islands and sparsely populated areas are facing specific constraints to their development which require adequate policies. This is acknowledged in the Treaty on the functioning of the European Union in articles 170, 174 and 175, which have been designed to apply transversally to all European policies.

**Article 174:** “*In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions. Among the regions concerned, particular attention shall be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and mountain regions.*”
Article 175 (ex Article 159 TEC): “Member States shall conduct their economic policies and shall coordinate them in such a way as, in addition, to attain the objectives set out in Article 174. The formulation and implementation of the Union’s policies and actions and the implementation of the internal market shall take into account the objectives set out in Article 174 and shall contribute to their achievement.”

With these articles, the treaty clearly establishes that all policies must be coordinated to achieve territorial cohesion, in particular with reference to mountains, islands and sparsely populated areas. And it clearly also makes the point that competition policy and rules governing the single market must take into account this objective and contribute to its achievement.

The link between cohesion policy and territories with specific geographic features is therefore in the treaty itself.

What is the particularity of territories with specific geographic features and their markets? What support do they need to overcome their constraints?

We can assert that mountain markets face, to a varying but generally significant degree, the following constraints:

- **Remoteness**: these markets tend to be isolated due to limited or poor accessibility
- **Higher cost of infrastructure and services**: the higher cost that must be paid to get the same level of service translate into a lower profitability of many activities and even to the impossibility of carrying out some activities
- **Limited human resources and capital**: population of remote territories is often sparse and limited in size, and not all competences can be found locally. This means that there is a risk of falling below a certain critical mass of clients or potential service recipients. There are also difficulties in finding appropriate people to deliver some products or services.
- **Environmental vulnerability**: mountain areas are often at the same time areas with high environmental value. Their environment must be protected, for the benefit of those living there and elsewhere and this translates into constraints on the local economy, which often has to respect higher norms.
- **Heavy reliance on mono-industry**: due to the conditions listed above, mountain economies have a higher reliance than other areas on traditional industries or seasonal activities such as tourism.
- **Finally the small size of local markets leads to absence or limitation of economies of scale** which reduce also profitability and capacity to compete with companies from less constrained areas.

To overcome these constraints, mountain areas need the following type of support:

- **Improvement of their accessibility** via investments in infrastructure that will improve their capacity to interact increasingly with the market (transport, energy and technology in particular)
• **Reduction of dependency on imports** by development and promotion of production that can be produced locally (out of the limited set of activities that can be implemented in these areas)

• **Proportional support covering the additional cost of investment and production** in these area (investment aid and, where needed, operating aid)

• **Maintenance of settlements**: support in the training and education of people so that they develop skills adapted to the needs of the local economy; support for the higher costs of social security;

• **Investment in technologies** enabling better and innovative use of existing resources and assets

• **Support for diversification of activities** to reduce reliance on traditional sectors (investment and, where needed, operating aid)

• **Support to small-scale supply chains** and development of “niche” markets

• **Support to local processing activities** providing higher value exports (investment and operating aid)

To summarise, we can submit that mountain areas are specific with regards to public support and competition policies in many ways. They are characterised by small-scale markets which have in most cases very limited or no impact on the EU single market. They face higher costs leading to structural lower profitability. Support for mountain areas is therefore unlikely to really distort the common market. Moreover, mountain areas tend to be more exposed to the adverse impact of local monopolies for supplies (energy, raw material, telecom) and sales (distorted markets resulting from the presence of only one potential purchasing company). Finally, research and development can be limited due to sparsity of businesses and to the difficulty of clustering or kick-starting businesses.

The intervention of public authorities is a key to the development of these economies which in return have so much to deliver to the EU in private and public goods. This is why we argue that State aid rules must take into account these situations by defining specific rules.

**What is the current status of territories with specific geographic features within state aid rules?**

The analysis has been carried out primarily so far in relation to the national regional aid guidelines.

Under these guidelines, all territories are:

• eligible under Article 107.3.a. if their GDP is below 75% of EU average, with a calculation operated at NUTS 2 or 3 level;

• eligible under Article 107.3.c if their GDP is below EU average or if their unemployment is above 115% of national average.

Then sparsely populated areas are systematically eligible under article 3.c. if this low density can be demonstrated at NUTS2 or NUTS3 level.
For **islands**, outermost regions are systematically eligible under article 3.a. Islands with population below 5,000 inhabitants are eligible under 3.c as well as islands fulfilling the conditions on GDP and unemployment mentioned above.

**Mountains** are mentioned only in a footnote and are eligible under 3.c in relation to isolated areas but there is no specific generalized treatment of mountain areas. They can also be eligible if the conditions on GDP and unemployment mentioned above are respected.

**Do current state aid rules offer sufficient margins of manoeuvre for local and regional authorities to support economic development of mountains areas?**

To answer this question, we have carried out field surveys, asking the members of our network about their experience of the implementation of state aid rules. It has been very difficult to obtain substantial answers as the issue is considered to be very technical and hardly understandable, even by officers who are in charge of this topic. We have however collected the following conclusions.

Mountain organisations and authorities explain that most state aid support has been granted under the General Block Exemption Regulation or under the *de minimis* regulation, as the case for intervention under regional aid is often too difficult to make.

Nevertheless under these limitations, we find here as well some positive trends. Some support has been possible when areas have been characterised as 3.c. Support has been granted for example to building investment and access to capital and some support has been granted to companies as well in the Highlands and Islands of Scotland.

But there again some improvements are required.

One of the problems is that mapping or statistical indicators are available only at NUTS2 or 3 level: this inhibits the capacity areas with economic difficulties within regions (for example in Val d’Aoste). Current rules do not take into account infra-regional disparities.

Difficulties have also been encountered in supporting deprived rural areas (the possibility to support social aid in rural revitalization areas in France has for example been rejected). Authorities also encounter difficulties when it comes to supporting strategic elements of food supply chains above the *de minimis* level, for example slaughter houses or parts of the milk supply chain that are not supported by the Common Agricultural policy.

Obstacles have also been introduced to the challenge of adding value locally to the resources of mountain communities. It was possible for example in the past for local companies and communities in mountain areas to access local energy produced in mountain hydropower plants at preferential rates. This was ultimately considered to be distortive and has been forbidden. This has been a blow to local industries which enjoyed the asset of a proximity energy resource.

Difficulties have been reported regarding the support to SMEs and innovation in Scottish Highlands and islands, related to cumbersome management of state aid due to too many different types of regimes, and insufficient incentive related to the 20% maximum for large companies (food or other natural resource processing).
Conclusions from field work

Current rules do provide for some flexibility and there are some positive examples of support, granted in accordance with current rules, which have delivered positive results for development of territories with specific geographical features: we notice that, in general, competition rules have evolved in the right direction in that respect. This positive trend must be continued and enhanced.

The problems that are encountered and which require some improvement are the following.

Firstly, we note that flexibility is not always used to its full extent for one or several of the following reasons:

- There is a **low understanding of the process**, at every level, the subject being very technical: more education is needed to ensure authorities understand what they can and cannot do;
- We are faced with lack of **availability of statistical data at an appropriate disaggregation level** to make the case for intervention (especially to identify areas for Article 3.c designation);
- Sometimes **member states tend to distort interpretation** of rules;
- **Mountains, islands and sparsely populated areas have all to compete with other territories for the population ceiling** established for Article 3.c: this situation is not fair and does not acknowledge that different situations demand different responses and that specific territories should benefit from specific attention;
- This leads to an **unfavourable mapping of eligible areas** where, for example in Val d’Aoste, the main valley is included in the eligible areas but the upper parts of the mountains are not;
- **There is in any case a lack of financial resources to provide the expected support.**

Secondly, the **de minimis ceiling** can be too low to allocate the right type of aid to enable territories to exploit fully their opportunities. It is the case for example of support granted to supply chains. The Common Agricultural Policy supports farmers so that they keep farming areas facing natural constraints, because their farming activity is positive in terms of environment, biodiversity and vitality of rural areas yet these farmers cannot operate without functional processing and marketing chains. However, often these activities are not profitable enough and that the support they can receive is too limited to keep them in operation. The same applies to fisheries.

Thirdly, complications are created by disaggregation of different types of aids and these combinations end up being very complicated to operate.

Our first recommendations to improve state aid rules to the benefit of mountain areas

Considering that the regional authorities of most mountain areas are not among the richest in Europe and that their capacity to finance development is limited – therefore risks of distortion are very limited- the EU should provide a broad enough framework to operate flexibility:

- **extension of Article 3.c:** Article 3.c applies automatically to sparsely populated areas. Its provision should be extended for better inclusion of islands and mountain territories;
• **higher de minimis**: considering that mountains face higher costs than other territories, and that companies operate already in a distorted environment, distorted at their expense, it should be made possible for authorities to provide higher levels of support in mountains, islands and sparsely populated areas as compared to other territories. This would take the form of higher de minimis ceilings for these territories as compared to others;

• as some types of sectoral activities are really crucial for the vitality of mountain economies, **specific provisions should be included, outside of the Article 3.c. ceiling, to allow authorities to support these particular sectoral activities** for example small-scale supply chains, energy facilities, services to the population, transport;

• as regards allocation of contracts or compensation for provision of **services of general economic interest**, in relation with the rules related to the Altmark case, we consider that evaluation related to the calculation of the level of compensation that is considered adequate and the evaluation of the economic performance of a «soundly managed» company or service delivery must be carried out **using companies that operate in similar areas as a yardstick** and not comparing the cost of service delivery in a remote mountain area with the cost for the same provision in lowland area, even situated in the same region, or with averages established at a scale that is not relevant.

Our work on innovation has shown that the innovation process is not necessarily specific in specific territories but that assembling the conditions to allow innovation to take place is the biggest challenge. These conditions include the provision, in these territories, of services, communication tools, transport facilities enabling clustering and connection to distant markets and between operators. To unleash the innovation potential of these territories, authorities must be allowed to use EU funding and state aids to assemble these conditions. Then, there is a need to support specific R&D&I firms in our territories. This requires taking into account the specific size of R&D&I firms in specific territories: small, fitted to local strengths (e.g. Energy, life sciences…). The assistance required by these companies is a mixture of R&D&I costs and employment costs (Regional aid): this represents a challenge when we address the issue of eligibility of costs. We also propose the extension of aid for «young innovative enterprises» from R&D&I guidelines as a legitimate regional aid for a wider range of size and age of firms.

These specific provisions could be applied for all territories with severe and permanent natural or demographic handicaps or, if it is considered that not all territories require specific support, based on categorisation for a progressive approach.

If we translate these general recommendations to address the specific case of mountains, we would refine the recommendations as follows.

• Authorise for mountains, in State Aid rules, a **functional approach of development at massif level**:
  
  o Consider state aid as **one component of massif policy to deliver EU2020**, in coherence with operational programmes (ERDF, EAFRD, ESF…)

  o **Explicit delineation of Article 3.c areas based on entities that could differ from administrative NUTS II/III areas**, and would target eligible territories within mountain massifs in coherence with massif strategy (take into account infra-regional disparities)
• Include specific provisions for some sectors of strategic importance for valorisation of mountain potential:
  o Energy: retention of existing facilities & development
  o Better recognition of Services of general interest (transport, ICT, health…), enable support to innovative forms of delivery
  o Territorial/relocated food and wood supply chains: operating aid
  o Support to innovation & clustering for VSEs and SMEs

• Integrated approach to delivering public goods and innovation.

Specific related reflections:

Adequacy of GDP as an indicator

GDP per capita does not reflect the two key features that the Treaty requires the State Aid rules to address – ‘areas where the standard of living is abnormally low or where there is serious underemployment’ [see Appendix] Just one example of this is the low GDP of Flavoland, an undeniably affluent Region of the Nederlands.

Unfortunately no alternative exists that will improve on GDP and adequately address these faults:

The addition of an under-employment indicator would not necessarily help mountain areas where the unemployed tend to leave and gravitate to centres of population where living expenses are lowest.

Control of Inputs When Territorial Cohesion Requires an Output based approach

Regional Aid - which involves only capital grants – is inadequate as a means for promoting preferential development of disadvantaged regions, especially mountain regions which face a broad spectrum of economic barriers caused by higher costs than elsewhere. In fact, the more comprehensive mechanism offered by GBER is better, although still not offering a sufficiently wide spectrum of eligible assistance.

In addition, the process of State Aid control adopted further compounds the difficulties in achieving the reduction of regional disparities, which in our experience can be tackled effectively only by addressing the underlying causes. In remote mountain and island regions these disadvantages are caused by virtually unchangeable geographic and topographic factors, resolution requires a broad spectrum of holistic treatment – a sort of augmented GBER approach perhaps. The disaggregation of State Aid into many component types with complex definitions, of different permitted aid ceilings for different types and areas eligible for aid serves merely to create a bureaucratic burden and in themselves these differentiations are barriers to holistic treatment of regional disadvantage.
Cohesion is a desired and desirable outcome and the direction and control of cohesion would be better achieved by considering the outcomes of the aid, not by concentrating on the inputs – which is what State Aid control does by fixing aid ceilings for a large list of specific eligible costs. The analogy is the Icelandic method of Cod stock management by monitoring the size of the fish landed - i.e. outcomes [an approach that works] rather than historic CFP control by apparent fishing capacity and quota restrictions – i.e. inputs [an approach that clearly fails].

Targeting of Aid

A further problem with Regional Aid is the method of targeting. National socio-economic statistics are technically less reliable at the level of smaller populations, yet these are relied upon to define eligible areas. In disadvantaged areas – where a holistic approach is required [i.e. that is those areas that are not characterised by a single barrier that can be easily negated such as the closure of a major production plant or military base] by far the most important factor is the administrative mechanism in place to deal with these long term development needs. It is counterproductive to agree target areas that do not fit fully with the administrative areas, or at least areas that can be dealt with as a unit. It is therefore necessary to give Member States much more latitude to define cohesion areas in terms of their own strategy and capability to address the problems. It follows that the most logical and equitable solution could be to allocate State Aid population quotas on the basis of Member State level statistics and to leave the precise spatial focussing of these quotas to the Member State – although the Member State’s discretion over identifying target areas could clearly not be unfettered - some parameters set at EU level would have to be demonstrated to have been respected in the national selection process.

Some mechanism needs to be found that permits a spectrum of State Aids to be deployed in regions that are lagging in development where the controlling factor is the level of backwardness, not the level of aid. For example an Art 107(3)c rural area close to Manchester/Toulouse might find the permitted SME assistance levels adequate whereas that level of assistance may be irrelevant to SMEs located in a remote, isolated Art.107(3)c area and faced with the attendant challenges of the locality. It should be possible to justify the distortion of trade [within certain limits and taking account of world trade obligations] on the basis of the level of ‘non-cohesion’ an area experiences. Once regions move into parity the aid could then cease, or more likely reduce to default levels for certain horizontal aids targeted at common interests. This would then allow aid to be targeted according to the needs (resulting from disadvantageous costs structures) and leaves the Member States to deal with the allocation of scarce resources, which would dictate efficiency (or at least require a consensus as to the priority of spending relative to other objectives).

Aid Rates

As an example the Highlands and Islands of Scotland has a relatively high Regional Aid designation [transitional Article 107(3)c with Statistical Effect] but in practice the 20% ceiling for large firms regularly fails to be sufficient incentive [although opportunities to assist these large firm cases arise only infrequently]. This usually occurs in respect of food or other natural resource processing where capital costs are high and processing establishments in mountain areas tend to be small units within
large organisations. In these cases there are usually good resource and environmental benefits in addition to regional development outcomes which justify the setting up of local production facilities.

This is an illustration of the limitations of controlling aid by inputs rather than outcomes.

**Regional Boundaries and the GDP reference period conundrum**

The Highlands and Islands of Scotland is also a good example of the administrative problems caused by the rigidities of the Regional Aid system. When the decision was taken on the Assisted Areas for Regional Aid for 2007-13 in 2006, the Highlands and Islands NUTS 2 level statistical area no longer conformed to the administrative area designated by the Member State for economic development in the region, due to boundary changes made two years earlier. By the time of the Regional Aid decision the statistical NUTS 2 area had been changed to include the adjacent area in order to achieve co-terminosity with the new administrative area but had not been implemented officially and therefore the historic area and figures were used in the decision. As the boundary additional area added to the original boundary shared similar conditions to the original NUTS 2 area and shared the same development agency [HIE] this meant not only that the Regional Aid decision ran contrary to the local development strategy but that the inconsistency was fossilised until 2014 when the next designation will be made on the basis of a new but still necessarily retrospective GDP statistics reference period. This has produced a 10 year disconnect between the regional aid rules and the local administrative reality.

This problem of the necessarily ex post nature of the three year reference period and the more arbitrary fixed periodicity of the exercise [i.e. undertaken at rigid seven year intervals with only limited opportunity offered in between (i.e. only before mid-term) for rectification] has more general serious impacts. It is not possible for economic traumas and declines to be addressed except at a seven years interval which is demonstrably inadequate to permit prompt moderate remedial action before the need becomes grave and therefore more likely to demand much larger remedial resource expenditure.

This quite clearly is an escalating problem in the light of the recent financial crisis and the serious ruptures of economic performance commonly experienced across many formerly vibrant economies. A solution must be found. This might take the form of permitting intermediate reviews of regional GDP performance at the three year mark, perhaps accompanied by permitting enhanced State aid eligibility to areas whose GDP performance over either the initial three year reference period or the interim review reference period demonstrates a trend of progressive decline even if not yet falling below the 75% or any other threshold that might be fixed.

**The ‘LESS IS BETTER’ Fallacy**

A strategy of incremental reductions in State Aid parameters appears to be being pursued on the basis that this contributes to a self-evidently virtuous ‘weaning off’ process. In practice this virtue is not self-evident and can demonstrably conflict with territorial cohesion objectives. Two examples -

- reduction of limits of assistance that can be given to SMEs under 107(3)c reduces relevance in all areas but threatens total irrelevance in mountain and other high cost regions;
• EU quest to reduce population cover at the end of each successive aid period is illogical – population cover must be a real reflection of comparative economic plight of regions not the distribution of some arbitrarily progressively reduced population quota.

Appendix B sets out additional examples taken from the Highlands and Islands of Scotland
Art. 107 TFEU (ex Article 87 TEC) - Notion of State Aid and Derogations

3. The following may be considered to be compatible with the internal market:

   (a) aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment, and of the regions referred to in Article 349, in view of their structural, economic and social situation;

   (b) aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State;

   (c) aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest;

   (d) aid to promote culture and heritage conservation where such aid does not affect trading conditions and competition in the Union to an extent that is contrary to the common interest;

   (e) such other categories of aid as may be specified by decision of the Council on a proposal from the Commission.
Further comments related specifically to operational experience of Highlands and Islands Enterprise in the application of State Aid Rules

The Highlands and Islands Region of Scotland is lagging behind EU and national levels of GDP per capita, sufficient to be awarded a regional development agency (i.e. HIE – Highlands and Islands Enterprise) with wide powers to improve the GVA of the region and quality of life of the residents.

HIE provides discretionary, individually tailored aid to commercial undertakings, including Community Enterprises. The aid is proportional to the results in terms of the national and regional strategy for economic and social development.

Aid to commercial undertakings is also constrained by requirements to demonstrate economic viability, acceptable levels of displacement, additionality (in terms of the minimum amount of aid to allow the project to proceed as planned) and State aid ceilings. These are established by project appraisal, mainly carried out in-house.

Payments of approximately €6m per annum of Regional aid are made. Projects range from circa €100,000 to €7,000,000 for a large majority of cases. The largest projects are unlikely to exceed €30m. The size of Grant Equivalent contributions depend on project need and State aid, and vary from 10 to 40% of eligible capital (or employment) costs. Loan is only provided where the private sector is unwilling or unable to provide adequate finance at affordable rates.

Impact assessment of the aid scheme:

What are the benefits for the beneficiaries and for territorial development?

Clients receive a package of capital and revenue support that is tailored to the development needs of the case. Regional aid is only one component of the ‘tool kit’ of State aid and other support that is applied. Growth ambitions of the firms are enhanced by these interventions, leading to growing GDP and average wages. Priority is given to projects with higher wages and GDP compared to the National average.

Territorial cohesion is secured to the extent that Regional Aid ceilings permit the required subsidy for projects to proceed in the locally more disadvantaged areas. There is also some budget prioritization which supports Territorial Cohesion.

What are the potential market distortive effects and how are they avoided:

Note, although GEBR, De Minimis and approved aid schemes are used (with their ‘standard’ presumptions of acceptable distortion inherent in them), as a matter of policy additionality and distortion effects are considered for each case submitted so that distortion is constrained actively.

Assessment of relevance of competition rules in this practical example:
**In general**

Do the current rules provide sufficient flexibility to implement this scheme?

**The Market Economy Investor Principle [MEIP] problem:**

The standard view of the Commission is that the State should make MEIP investments through independently managed private funds (of loan or equity). This is suitable where there is a wholesale shortage of finance from the private sector, and where there are sufficient cases and value to justify the significant professional overhead required for stand-alone viable operation (the revenue costs of such funds cannot be subsidized).

There are other legitimate scenarios for the use of MEIP investment by Member States in pursuit of development in disadvantaged regions, and these are currently being driven by the need to develop renewable energy resources and infrastructure for both EU wide and regional objectives. Features of these investments are a significant market failure during the early stages of renewable energy sector establishment with a need for substantial public funds initially, at a time of scarce public finance and for a sector that is expected to be capable of significant returns at un-predictable future dates.

In peripheral and mountain areas there is much potential but often difficulty for large conventional funds to finance. The public sector is increasingly considering a combination of MEIP finance alongside State aid (and possibly public direct investment in infrastructure) to provide an appropriate funding package. There may in fact be only 3 or 4 such investments, not enough for a fund, but may be too expensive in public finance of recycling of funds to the public bodies cannot be provided for. There are several cases in the highlands of strategic sites for wind device manufacturing (requiring coastal locations) where an adequate package cannot be created from the conventionally approved equity funds and State aid from the public sector. These sites tend to be expensive and in the current climate of shortage of public finance, we (and other regional agencies) have been considering tailoring packages of grant and commercial loan or commercial equity which provide the possibility of financing being returned for recycling into future development. There is no convenient and efficient mechanism to achieve satisfactory legal certainty of the MEIP principle being complied with when there is no independent ‘pari passu’ investor, which is usually the case. The fact is that the industry is at too early a stage for independent equity investment in practice. At this stage the funding is more akin to seed-corn funding except for the scale of infrastructure investment needed.

What is required is a comparable process to the Commission’s Reference rate method Communication, which provides Member States with a reliable way to calculate a market economy loan for the purposes of calculating the Grant equivalence of a State aid subsidized loan. This would allow Member States to calculate the MEIP loan rate or MEIP return on equity where State aid is not involved, without the costly and time consuming exercise of having to do market surveys (of an almost non-existent market) or receive speculative independent advice about theoretically acceptable returns in every case.