

COMMISSION OF THE EUROPEAN COMMUNITIES

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REGIONAL AID SYSTEMS PRINCIPLES OF COORDINATION

COM(78) 636 final

COMMUNICATION OF THE COMMISSION ON REGIONAL AID SYSTEMS

444.42

On 21 December 1978 the Commission informed the Member States of the principles which, in accordance with the powers vested in the Commission by Articles 92 *et seq.* of the EEC Treaty, it will apply to regional aid systems already in force or to be established in the regions of the Community. The principles were set out in the form of a Communication the text of which is published hereunder.

The Commission has proposed to the Member States under Article 93 (1) of that Treaty that their Governments take the measures necessary to give effect to these principles within the time limits provided for in the Communication.

In its Communication of 26 February 1975 the Commission informed the Council of the principles of coordination, valid for all regions of the Community, which it would apply from 1 January 1975.

The Commission undertook at that time to pursue with experts from the Member States technical studies with a view to finding standards of measurement capable of making comparable all forms of regional aids in force in the Community. The common method of evaluation had hitherto fixed investment as the sole denominator in considering the transparency of aids and aid systems. The employment situation in the various regions of the Community and the emphasis which some Member States wish to give to the creation of jobs in their regional aid scheme were, however, borne in mind in carrying out the studies on measurability. In view of this, an alternative denominator expressed in European units of account per job created by the investment is being introduced into the principles of coordination. The standard of measurement will thus be broadened. In addition the methods for measuring aids are being supplemented as a result of the studies on measurability. All aids which have maximum intensities which can be expressed in terms of investment or jobs created can now be coordinated.

Some existing regional aids are not, however, conditional on investment, in the sense envisaged in the principles of coordination, or on job creation and have the character of operating aids. The Commission has reservations in principle as to the compatibility of operating aids with the common market. The Commission will specify the

circumstances, if any, in which it might consider operating aids to be compatible. Until then there should be no increase in the level of the existing aids and no further aids of this type should be introduced.

Finally, a method of coordinating aids given on the transfer of an establishment is introduced.

These principles of coordination, as set out in this Communication, do not apply to the products mentioned in Annex II to the EEC Treaty.

To give effect to the above and having regard to the views expressed in previous Communications, including in particular the preambles to the Communications of 23 June 1971 and 26 February 1975, the principles of coordination have been partly redefined and the methods for their implementation, including the common method of evaluation, have been amended and supplemented.

The Commission, in accordance with the powers vested in it by Articles 92 *et seq.* of the EEC Treaty, will from 1 January 1979, apply the principles set out hereunder to regional aid systems already in force or to be established in the regions of the Community.

Principles of coordination of regional aid systems

1. The coordination has five principal aspects which form one whole: ceilings of aid intensity differentiated according to the nature and gravity

of the regional problems, transparency, regional specificity, the sectoral repercussions of regional aids and a system of supervision.

The differentiated ceilings of aid intensity

2. The differentiated ceilings are fixed in net grant equivalents expressed either as a percentage of initial investment or in European units of account (EUA) ⁽¹⁾ per job created by the initial investment. No ceilings are fixed for Greenland. The alternative ceilings for the various categories of region are set out hereunder:

(i) for Ireland, the 'Mezzogiorno', Northern Ireland, Berlin (West) and the French Overseas Departments — a ceiling of 75 % net grant equivalent of initial investment will apply to aids linked and fixed directly in relation to initial investment or jobs created, the alternative ceiling being a net grant equivalent of 13 000 EUA per job created by the initial investment. In addition, as from 1 January 1981, for projects with an initial investment exceeding three million EUA not more than a further 25 % net grant equivalent of initial investment or a net grant equivalent of 4 500 EUA per job created by the initial investment can be paid in other aids and must be spread over a minimum of five years;

(ii) for the part of French territory which receives the regional development premium (as listed in Annex 1 of decree No 76/325 of 14. 4. 1976 — J.O.R.F. No 90 of 14. 4. 1976), the aided areas in the Italian regions of Friuli-Venezia Giulia, Trentino-Alto Adige, Val d'Aosta, Lazio, Marche, Toscana, Umbria and Veneto in so far as these regions are not included in the 'Mezzogiorno', and the parts of the United Kingdom other than Northern Ireland which were defined as Assisted Areas on 1 January 1978 under Section 7 (7) of the

Industry Act 1972, with the exception of areas classified as Intermediate Areas at that date, the alternative ceilings will be 30 % net grant equivalent of initial investment or a net grant equivalent of 5 500 EUA per job created by the initial investment, but the latter may not exceed 40 % net grant equivalent of initial investment;

(iii) for the 'Zonenrandgebiet' and the special development area in the North of Denmark and the islands of Bornholm, Aersø, Samsø and Langeland the alternative ceilings will be 25 % net grant equivalent of initial investment or 4 500 EUA per job created by the initial investment, but the latter may not exceed 30 % net grant equivalent of initial investment;

(iv) for the other regions of the Community the alternative ceilings will be 20 % net grant equivalent of initial investment or a net grant equivalent of 3 500 EUA per job created by the initial investment, but the latter may not exceed 25 % net grant equivalent of initial investment; for these regions the trend must be towards a reduction in the level of aids as far as possible.

3. One of the appropriate alternative ceilings must be respected by the total regional aids accorded to a given initial investment or on the creation of jobs. The absolute ceilings fixed above the ceilings expressed in EUA per job created by the initial investment do not apply in the case of the tertiary sector.

Aids not conditional on initial investment or job creation

4. There are some regional aids in use in the Community at present which are not conditional on initial investment or job creation and which have the character of operating aids. The Commission has reservations in principle as to the compatibility of operating aids with the common market.

Application of these aids may however continue until final decisions on their compatibility have been taken in the course of the Commission's review of existing aid systems under Article 93 (1) of the EEC Treaty. Before the end of a three-year period, the Commission will, in the light of these

⁽¹⁾ As defined by Council Decision 76/250/EEC of 21 April 1975 (OJ No L 104, 24. 4. 1975).

decisions, specify the circumstances, if any, in which the Commission, notwithstanding its reservations in principle, might consider operating aids to be compatible with the common market. Until then the level, duration and geographic scope of application of the existing aids should not be increased and further aids of this type should not be introduced unless a derogation from this principle has been granted under point 7 hereunder.

5. In order to place all Member States in the same position with regard to the ceilings, particularly in the context of outbidding, the Member States concerned will have to ensure that the ceilings fixed at points 2 and 3 above are not exceeded when the above aids are awarded.

Aids to the transfer of an establishment

6. In the case of transfer of an establishment to an aided region, the ceilings will be 100 % of the cost of transfer of capital equipment or the appropriate ceiling from point 2 above applied to the value of the capital equipment, or to the number of workers transferred. The absolute ceilings fixed above the ceilings expressed in EUA per job created by the initial investment at point 2 will not apply in the case of transfers.

Derogations

7. Derogations from the intensity ceilings or from the principle at point 4 above regarding increases in, or the introduction of, certain aids may be granted by the Commission provided that the necessary justification is communicated in advance in accordance with the procedure provided for at Article 93 of the EEC Treaty. The Commission will periodically supply the Member States with a list of any such derogations.

Review of ceilings

8. The level of all ceilings will be revised at the end of a three-year period having regard in particular to experience gained, the evolution of the regional situation in the Community (especially with regard to the evolution of unemployment), the number of jobs created or maintained and changes in aid systems. Before 31 December 1979, however, the Commission will examine with experts from the Member States the problems of the cumulation of regional and other

aids beyond that discussed in point 12. Before the same date it will also examine how absolute ceilings expressed in EUA per job created by the initial investment, above the percentage of initial investment ceiling, might be introduced and the levels at which such ceilings might be fixed. The question as to whether an absolute ceiling expressed as a percentage of initial investment should be introduced above the ceiling expressed in EUA per job created by the initial investment for the regions listed at point 2 (i) of these principles will also be examined.

Regional specificity

9. Regional specificity will be implemented in the light of the following principles:

- (i) that regional aids do not cover the whole national territory, i.e. general aids may not be granted under the heading of regional aids; ⁽¹⁾
- (ii) that aid regimes clearly specify, either in geographical terms or by quantitative criteria, the limits of aided regions or, within these, the limits of aided areas;
- (iii) that, except in the case of growth points, regional aids are not granted in a pin-point manner, i.e. to isolated geographical points having virtually no influence on the development of a region;
- (iv) that, where problems which are different in kind, intensity or urgency occur, the aid intensity must be adapted accordingly;
- (v) that the graduation and variation of rates of aid across different areas and regions are clearly indicated;
- (iv) that the regional aids awarded in the regions benefiting from the European Regional Development Fund should in principle form part of a regional development programme within the meaning of Article 6 of Regulation (EEC) No 724/75 establishing that Fund.

Sectoral repercussions

10. The lack of sectoral specificity in regional aid systems makes their assessment difficult because

⁽¹⁾ With the exception of Ireland and the Grand Duchy of Luxembourg which are considered each as one region.

of the problems that the sectoral repercussions of these aids may pose at Community level.

11. In the absence of a general solution for dealing with these sectoral repercussions, the Commission, following consultation with the Member States, will examine to what extent appropriate restrictions should be applied when awarding regional aids where such restrictions are justified by the situation in a sector.
12. When an investment benefits both from regional aids and from other types of aid on a regionally differentiated basis, the regional aid may be given only in so far as when the regional aid and the regional component of the other types of aid are cumulated, the ceilings mentioned in points 2 and 3 above are not exceeded.

System of supervision

13. The Commission shall supervise the application of the coordination principles by means of a

notification system which will ensure business secrecy.

Methods for implementation

14. The methods for implementing the principles of coordination, which include the common method of evaluation, defined in the Annex to the Communication of the Commission of 23 June 1971 supplemented by the Communication of the Commission of 27 June 1973, will continue to apply. They are, however, amended and supplemented in accordance with the Annex to this Communication.

Date of effect

15. The principles of coordination set out in this Communication will be applied by the Commission from 1 January 1979 in all regions of the Community for an initial period of three years. In so far as a transitional period for changes in aid systems required by this coordination is deemed necessary by a Member State, the Commission may fix such a period.

ANNEX

METHODS FOR IMPLEMENTING THE PRINCIPLES OF COORDINATION OF REGIONAL AID SYSTEMS

The alternative ceilings of aid intensity

1. The technical studies pursued with the Member States have shown that it is possible to assess, on the basis of certain assumptions and conventions, the extent to which the aid systems of the Member States do not exceed the appropriate ceilings. Notwithstanding the result of such an assessment, the Member States must still ensure that these ceilings are in fact not exceeded in the individual cases of application of the aid systems.
2. The technical studies have also led to the adoption of an ex-post system of measurement in situations where the regional aid systems of a Member State include both aids which can and which cannot be measured in advance. The Member States concerned must incorporate in their aid systems a rule to the effect that in the individual case the net grant equivalent of aids which can be calculated in advance is subtracted from the appropriate ceiling to establish the balance of aid which could still be paid. The aid which cannot

be measured in advance will then be paid to the extent of this balance expressed as a net grant equivalent. If the aid is to be paid over a period of years any balance remaining at the end of a particular year may be carried forward to the next year and increased by the discount/reference rate. This process continues until the aid terminates in accordance with its own particular rules of payment or until the balance to the ceiling is exhausted. It should be remembered here that the ceilings are not necessarily those fixed at points 2 and 3 of the principles of coordination but rather the maxima fixed by the Member State and accepted by the Commission under Article 93 of the EEC Treaty.

Aids conditional on initial investment or job creation

3. Labour aids will be considered measurable when the aid awarded for each job created can be expressed as a net grant equivalent in EUA. Labour aids which

cannot be so expressed can, however, always be measured by the ex-post system described at point 2 above.

4. Aids towards the rental of buildings will be considered measurable when they are limited in time and the percentage of the rent given by way of aid in each year is fixed. The rent on the actual building excluding the land is assumed to be equivalent to a rate of return on the value of the building when the rate of return is deemed to be equal to the reference rate. The rent on the land element is assumed to be equal to a real rate of return, i.e. the difference between the reference rate and the rate of inflation. The capital value of the building and land shall be included in the standard basis for the purposes of defining the investment against which aids are to be measured.
5. Aids in the form of loan guarantees will be measured by equating the guarantee to an interest subsidy on a loan equivalent to the value of the amount guaranteed. The value of the equivalent interest subsidy is taken as the difference between the reference rate applicable in a particular Member State and the rate at which that Member State's Government can borrow, taken over the same period as that to which the reference rate relates. Any charge made by a Member State for granting a guarantee will be deducted from the value of the guarantee thus calculated. The ratio of the total amount paid out on behalf of defaulters each year to the total amount of guarantees still outstanding will be communicated annually by the Member State to the Commission. This information on the default ratio may be used to adjust the value of a guarantee. Should a Member State prefer not to use this method for evaluating guarantees, it will notify the Commission of all individual cases involving investment of over 1.5 million EUA in which guarantees are given.
6. Tax-concessions will be measured by the ex-post system outlined at point 2 above.

Aids not conditional on initial investment or job creation

7. Aids related to replacement investment will be measured by means of a method which is introduced with considerable reservations as it involves a wide degree of approximation. It is however considered necessary to place all Member States in the same position with regard to the ceilings. The method described hereunder will therefore be used to ensure observance of the ceilings at least until the Commission specifies the circumstances, if any, in which it might consider aids of this type to be compatible.

Aids to replacement investment will be measured by first expressing the aid awarded as a net grant equivalent of replacement investment using the common method of evaluation. This net grant equivalent will then be related to the initial investment by using an appropriate discount rate. The timing of replacement

investment will be based on the average life of capital equipment.

8. Tax aids which have the character of operating aid will be measured by the ex-post system outlined at point 2 above.
9. Labour aids which have the character of operating aid and which are expressed as a fixed amount per specified period for each person employed will be measured, by means of the reference rate, as the net grant equivalent of the sum necessary to generate the cash flow of the aid. The use of this method of measurement will be based on the understanding that the amount paid for each person employed cannot be increased. Where the amount paid is not fixed the ex-post system outlined at point 2 above will be applied.

Aids given on the transfer of an establishment

10. Aids given on the transfer of capital equipment will be considered measurable when they are either expressed as a percentage of the costs of moving capital equipment (including costs of dismantling and remounting) or expressed as a percentage of the value of the capital equipment moved. The value of the capital equipment moved and receiving aid in either of the two ways above shall not be included as capital expenditure eligible for further aid, and shall therefore be excluded from the standard basis.
11. Aids awarded on the basis of the number of workers transferred will be coordinated against the appropriate ceilings in EUA per job created.

The EUA ceilings in national currencies

12. The ceilings expressed in EUA per job created by the initial investment will be expressed throughout each year for each Member State in its own currency at the exchange rate of the first day of the year on which exchange values for EUA into all currencies of the Community are available. The ceilings thus expressed may be revised during the year by agreement between the Commission and a Member State if necessitated by a significant change in exchange rates. The Commission will communicate to each Member State the value of the ceilings in its own currency.

Reference rates and discount rates

13. The communication of 23 June 1971 provided for a unique up-dating or discount rate throughout the Community in applying the common method of evaluation. Because of the difference in interest rates in the different Member States, discounting will now be carried out at reference rates reflecting the average rate of interest on the market concerned.
14. These reference/discount rates for each Member State have for the present been fixed as follows:

Belgium — The rate for Société Nationale du Crédit pour l'Industrie loans of more than 10 years;

Denmark — The European Investment Bank lending rate plus 1.5 percentage points;

France — The rate used for plant and equipment loans from the Crédit National;

Germany — The rate for medium term loans from the Kreditanstalt für Wiederaufbau (programmes M1 and M2);

Ireland — 'AA' rate for loans in excess of seven years as fixed by the Standing Committee of Commercial or Merchant Banks;

Italy — Average reference rate applicable to payments by central Government of interest subsidies to credit institutions;

Luxembourg — The average yield on a representative selection of bonds issued in Luxembourg francs on the primary market in Luxembourg as published by the Luxembourg Stock Exchange;

Netherlands — The rate of yield on debt certificates;

United Kingdom — The broadly commercial rate at which medium-term loans are made under the Industry Act 1972.

15. The reference rate is fixed at the beginning of each year on the basis of the average annual rate for the preceding year. However, should there be a significant change in the relevant rate, it will be adjusted by agreement between the Commission and the Member State concerned. Such an adjustment would only be made if there was an appreciable discrepancy — at least two percentage points — between the current reference rate and the average of the rates recorded over a three-month period.

The common method of evaluation when applied to individual cases

16. The common method of evaluation applies, in general, to the examination and calculation of aid intensities, both for regional aid systems and for their application to individual cases. However, many of the assumptions and conventions used at the level of the systems are not necessary and should not be applied in the individual case. As a result of the experience gained since the introduction of the common method of evaluation and the contacts between the Commission and the Member States in its implementation the following refinements, which are to be applied in the individual case, are confirmed:

— the actual costs of land, buildings and plant will be used rather than the hypothetical standard basis,

— the reference/discount rate will be the rate ruling at the beginning of the project,

— where the aids and/or investment are not given or undertaken all in one year, the actual timing of the aids and investment will be taken into account. This is done by discounting both the investment and aids, on the basis of calendar years, back to the year the investment was initially undertaken,

— in the calculation of aids towards the rental of buildings or periods of reduced rents in State-owned buildings, the actual rent grant or reduction and the actual capital value of the buildings will be used.

Alternative methods of evaluation

17. The common method of evaluation describes a method of evaluation to be used for each type or category of aid. However, where for administrative or other reasons the Commission considers that the method that would normally be used would be difficult or inappropriate to use for a particular aid, it will devise an alternative equivalent method to overcome these difficulties. The Commission will periodically supply the Member States with details of such alternative methods.

Interpretation

18. (i) Initial investment will be interpreted as investment in fixed assets in the creation of a new establishment, the extension of an existing establishment or in engaging in an activity involving a fundamental change in the product or production process of an existing establishment (by means of rationalization, restructuring or modernization). Investment in fixed assets by way of take-over of an establishment which has closed or which would have closed had such take-over not taken place, may also be deemed to be initial investment. The manner in which initial investment so defined is identified in the regional aid systems of the Member States will be examined by the Commission in the course of its review of existing aid systems under Article 93 (1) of the EEC Treaty.
- (ii) For the purposes of point 2 (i) of the principles the 'aids linked and fixed directly in relation to initial investment or jobs created' will be interpreted as including grants, loans on preferential terms or interest relief grants and guarantees linked to the initial investment or lump sum grants fixed directly in relation to the number of jobs created. Where, in the case of projects with an investment exceeding three million EUA, the ceiling specified for such aids is not reached, the balance to the ceiling may be added to the ceiling specified for other aids which must be spread over a minimum of five years.

(iii) For the purposes of point 3 of the principles, the tertiary sector will be interpreted as being made up of the activities listed in divisions: 6 (distributive trades, hotels, catering and repairs), 7 (transport and communication) — with the exception of classes 71 (railways), 72 (other land transport), 73 (inland water transport), 74 (sea

transport and coastal shipping), 75 (air transport) and 76 (supporting services to transport) — 8 (banking and finance, insurance, business services, renting) and 9 (other services) of the General Industrial Classification of Economic Activities within the European Communities (NACE — 1970).

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Explanatory Note

Introduction of Alternative Ceiling (Point 2)

1. Some Member States and in particular Italy and the United Kingdom have stated that coordination against ceilings expressed only in investment costs constituted a bias against the industries likely to create more jobs. Because of this and because of the increased emphasis on employment in Community and Member States' policies a ceiling expressed in terms of job creation has been introduced as an alternative to the investment costs ceiling.
2. The introduction of this alternative ceiling without further limitation could however lead to increases in the level of aid. In addition it is considered necessary to guard against over-stimulation of investment in industries which are highly labour intensive. Finally, some limitation is desirable to help ensure that an investor has to raise a certain minimum amount of his capital without the intervention of State aid. It is therefore proposed that for all regions, with the exception of those listed at 2(i) of the principles, an absolute ceiling expressed as a percentage of investment should apply above the ceiling expressed in terms of job creation. The net result of these proposals is that for the regions concerned the Member States may, if they wish, give more aid than previously permitted to projects in labour intensive industries, but always within an absolute limit expressed as a percentage of investment. The absolute ceiling would not apply to projects in the tertiary sector or to aids in respect of the transfer of workers.

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Ceilings for Ireland, Mezzogiorno, Northern Ireland, Berlin (West) and the French Overseas Departments (D.O.M.) Point 2 (1)

3. The ceilings for these regions are expressed in terms of the amount which can be paid by way of initial aids^{for} all projects and, for investments exceeding 3 million E.U.A., the further amount which can be paid by way of other aids. The initial ceiling is desirable to help ensure that an investor has to raise a certain minimum amount of his capital himself. The non-applicability of the ceiling on other aids to investments of less than 3 million E.U.A. recognises the special problems of these regions and in particular their need to attract projects which are not too large. The ceiling on other aids does not come into effect until January 1, 1981 to allow a transition period for major legislative changes.

Treatment of Aids not conditional on Initial Investment or Job Creation (Points 4 - 5)

4. Account is taken of the Commission's reservations in principle as to the compatibility of operating aids with the common market. These reservations have led to adverse decisions on aids of this type in the past. The principal aids involved here are the reduction in social charges in the Mezzogiorno under legislation existing prior to 1976, the export sales relief in Ireland and the Regional Development Grant in the United Kingdom. The legislation referred to for the Mezzogiorno expires in 1980 and the new law limits the reduction to newly created jobs. The Irish authorities have indicated that their aid system is under review at present.

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Aids to the Transfer of an Establishment (point 6)

5. Previous principles of coordination did not deal specifically with these aids. They will now be coordinated by application of the alternative ceilings to the value of capital equipment transferred (instead of investment costs) and workers transferred (instead of jobs created) or by limitation of aid to the actual costs of transferring the capital equipment. This particular treatment is justified as the transfer of an establishment is a specific and clearly identifiable event.

Derogations (point 7)

6. Previous principles of coordination have always included provision for the Commission to grant derogations from the intensity ceilings. This provision is retained.

Review of the Ceilings (point 8)

7. The 1975 principles provided for the review of the ceilings after a three year period.

The studies on measurability had implications for this review and it was considered appropriate to postpone it until the results of the studies had been incorporated in the principles. Accordingly the draft includes provision for the review of all ceilings at the end of a three year period of application of the redefined principles.

8. The draft also includes provision for the examination before December, 31, 1979 of how absolute ceilings expressed in terms of job creation might be introduced above the percentage of investment ceilings. The introduction of such ceilings would mean that, regardless of the investment ceilings, an investor could never get more than a fixed monetary amount per job created. Such an absolute ceiling is considered desirable as it would restrict aids to highly capital intensive projects. Examination of the problems of the cumulative application of regional and other aids is also to take place before the above mentioned date.

Sectoral Repercussions (points 10 - 12)

10. The text again draws attention to the need to take account of the sectoral repercussions of regional aids. It is now specifically stated that the Commission will, following consultation with the Member States, impose sectoral limitations on regional aid when necessary. This is consistent with the position adopted by the Commission in recent years and confirmed in its Communication to the Council on policy on Sectoral Aid Schemes (COM(78) 221 final of May 25, 1978).

System of Supervision (point 13)

11. Provision for a system of notification of individual cases is retained. However, no details of the type of system are given as these are worked out when a decision on an individual aid scheme is taken under Article 93(1), such has already been done in France, Denmark, the Netherlands and the United Kingdom. These details vary according to the type of aid scheme, and the nature of the regions concerned.

Methods for Implementation (point 14)

12. The 1971 principles contained in an Annex the methods for their implementation. These were maintained to the extent necessary by the 1975 principles. The draft principles maintain these in a similar manner, subject to an annex which amends and supplements them to take account of the redefined principles, the results of the technical studies and experience gained.

Date of Effect (point 15)

13. The principles defined in 1975 were valid for a first period of three years from 1.1.1975. The redefined principles apply for a similar initial period of three years from 1.1.1979. The Commission may fix a transitional period for any necessary changes to aid systems if so requested by a Member State.

Regional Specificity (point 9)

9. There is no change in the proposals under this heading from previous principles, apart from the addition of point 9. (vi) which makes reference to the Regional Development Programmes. It does not, however, mean that an aid can be rejected under Article 92 because it is not included in the Programmes.

Although this does not mean that an aid can be rejected under Article 92 simply because it is not included in the regional development programmes, such programmes will be taken into consideration to assess the compatibility of any aid planned for an ERDF region. Where the aid does not form part of a regional development programme, the Commission will request the Member State concerned to state the reasons for such an arrangement.

However, an alternative method (as provided for at point 17 of the Annex) has been devised to allow the amount of this aid to be calculated in advance.

Aids not conditional on initial investment or job creation

18. Aids related to replacement investment (point 7). This method will be used for the Regional Development Grant (RDG) in the United Kingdom and the Investment Allowance in Ireland.
19. Tax aids which have the character of operating aid (point 8) will be measured by the ex-post system described at point 2 of the Annex. The Irish export sales relief is the only aid envisaged here. No further discussion on this aid has taken place pending the Irish authorities review of their aid system.
20. Labour Aids which have the character of operating aid will be measured by the method described at point 9 of the Annex. If the United Kingdom is prepared to fix the present monetary amount of the Regional Employment Premium in Northern Ireland this method will apply. If the amount is not fixed the ex-post method described at point 2 of the Annex will apply.
21. Aids given on the transfer of an establishment (points 10 and 11) are of minor importance. These aids are given in Denmark, France, Netherlands and the United Kingdom.

The E.U.A. ceilings in national currencies (point 12)

22. The purpose of this provision is to provide a mechanism for fixing the ceiling in E.U.A. in each Member State's currency.

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Annex on Methods of Implementation

Aids conditional on Initial Investment or Job Creation

14. Labour Aids (point 3) which can be expressed in advance as a capital sum per job created can now be measured against the E.U.A. per job ceiling. Such aids exist in Belgium, France and the United Kingdom. Labour aids, conditional on job creation, which cannot be so expressed can be measured ex-post. The reduction in social charges in the Mezzogiorno introduced in revised form by a law of 1976 is such an aid.
15. Aids towards the rent of buildings (point 4) were not previously considered measurable. Conventions for capitalising the rents and aids thereto have now been agreed and so they can be measured. They are particularly important in Ireland and the United Kingdom and may also be given in Italy.
16. Aids in the form of loan guarantees (point 5) will also be considered measurable for the first time on the basis of a convention which presumes that a state-guaranteed investor is aided by the difference between the government's borrowing rate and the commercial market rate. The aid so calculated will be reduced by any charge for the guarantee and may be adjusted in the light of the extent to which a Member State has had to honour guarantees. Belgium, Germany and Ireland have indicated that they will accept this system of measurement at the level of the aid system rather than the alternative proposed which is that of advance notification of all investments of over 1.5 m. E.U.A. in which guarantees are involved. Luxembourg and Denmark rarely use guarantees and prefer the alternative.
17. Tax-concessions (point 6) will be measured by the ex-post system described at point 2 of the Annex. The method has previously been used in Luxembourg and will now also be applied to rate (local tax) rebates in Ireland. The exemption from the local property tax in France (the "taxe professionnelle") would also normally be measured by this method.

Reference Rates and Discount Rates (points 13 - 15)

23. This provision is intended to incorporate in the principles of coordination the national rates of interest against which the value of loans at reduced rates are to be measured and to provide that these rates should be used for discounting future payments (instead of a unique rate as heretofore). These procedures were discussed at multi-lateral meetings prior to those on the principles of coordination and have already been notified to the Member States by letter.

The common method of evaluation
when applied in individual cases (point 16)

24. The evaluation methods contain many assumptions and conventions necessary only to calculate the theoretical maximum available under an aid system. These conventions are not intended for use in ensuring observance of the ceiling in the individual cases of application. The experience to date in implementing the principles has indicated a number of areas in which the conventions should clearly not be applied and this provision is merely to confirm the position.

Alternative Methods of Evaluation (point 17)

25. The purpose of this provision is to allow the application of equivalent alternative methods of measuring aids where the methods defined would be difficult to administer or inappropriate.

Interpretation

26. Point 18(i): The interpretation to be given to the term initial investment is set out here. It is also specified that the manner in which a Member State abides by the interpretation will form part of the review of existing aid systems under Article 93(1).

Point 18(ii): This point fixes a method for determining which aids are to be regarded as being initial aids for the purposes of observance of the ceiling in the category of regions referred to at point 2(i) of the principles, and provides that any unpaid balance of initial aid may be added to the ceiling for other aids to be paid subsequently.

Point 18 (iii) : This point defines the tertiary sector for the purpose of fixing the activities in which the absolute investment ceiling above the job creation ceiling will not apply.