


EFTA SURVEILLANCE AUTHORITY

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EFTA SURVEILLANCE AUTHORITY DECISION

OF 21 DECEMBER 1994

ON THE MAP OF ASSISTED AREAS AND MAXIMUM AID CEILINGS THEREOF (FINLAND)

THE EFTA SURVEILLANCE AUTHORITY,

Having regard to the Agreement on the European Economic Area¹, in particular to Protocol 26 and to Articles 61 to 63 of the Agreement,

Having regard to the Agreement between the EFTA States on the establishment of a Surveillance Authority and a Court of Justice², in particular to Article 24 and Article 1 of Protocol 3 thereof,

WHEREAS:

I. FACTS

1. Information submitted

By letter dated 31 October 1994 (ref. 94-16114A), received by the EFTA Surveillance Authority on the same day, the Finnish Government notified, in accordance with Article 1(3) of Protocol 3 to the Surveillance and Court Agreement, a plan to modify the presently applied aid ceilings for regional policy measures and areas designated for regional aid in Finland. Additional information was submitted to the Authority by letter dated 29 November (ref. 94-17491A) and by faxes dated 7 December 1994 (ref. 94-17974A and 94-17975A).

Information on existing regional aid schemes applicable in the present assisted areas was submitted to the Authority by letter dated 3 March 1994 (ref. 94-3941A). Following a request by the Authority by letter dated 10 January 1994 (ref. 94-671D), the Finnish authorities provided information on statistics and socio-economic indicators for the assessment of regional aid by letter dated 17 February 1994 (ref. 94-

¹ Hereinafter referred to as the EEA Agreement.

² Hereinafter referred to as the Surveillance and Court Agreement.

3056A). In context of the notification on the amendment of the regional investment aid scheme, the Finnish authorities provided by letter dated 29 August 1994 (ref. 94-12733A) detailed statistical material on the proposed assisted areas. The above mentioned letters together provide a complete notification of the geographical coverage and planned intensities on regional aid, i.e. a proposal for a map of assisted areas in Finland.

All in all five meetings have been held between officials from the Surveillance Authority and the Finnish authorities on the system of regional aid in Finland.

2. Existing situation and proposed changes

In December 1993 the Finnish Government decided on the assisted areas with an overall population coverage of 51 % in accordance with the new regional policy legislation.³

A reduction in the population coverage of the basic areas eligible for regional aid from about 40 % to 31 % was effectuated by the Finnish authorities in November 1994, thus lowering the overall population coverage from 51 % to 41,6 %. This was done by restricting the scope for granting of regional investment aid in certain regional centres⁴ to small and medium-sized enterprises only with maximum applicable aid intensities of 15 % gross and 7,5 % gross respectively.⁵

The Finnish authorities propose to lower the present maximum aid ceilings from 1 January 1995 onwards. The currently applicable maximum aid ceilings are scaled down in gross terms as follows: 50 %, 35 % and 25 %. These are proposed to be lowered to the following ceilings (gross): 35 %, 27 % and 20 % respectively.

3. The contents of the proposed map

Principle of delimitation

In principle the delimitation of the proposed assisted areas is based on the administrative breakdown of the Finnish territory into 19 provinces (*maakunta*) and sub-regions (*seutukunta*) as well as to municipalities (*kunta*). In order to arrive at areas comparable in terms of population with areas in EU Member States, major regions composed of groups of provinces are, depending on the population and the geographical situation, for statistical purposes, designated as NUTS⁶ II⁷ areas,

³ *Laki alueiden kehittämisestä, 1135/93; Valtioneuvoston päätös yritystuesta, 1689/93.*

⁴ Areas of the subregional units of Jyväskylä, Kuopio, Oulu and Vaasa.

⁵ *Laki yritystuesta annetun lain 7§:n muuttamisesta, 552/94; Valtioneuvoston päätös yritystuesta annetun valtioneuvoston päätöksen muuttamisesta, 1017/94 (cf. EFTA Surveillance decision on the regional investment aid granted to SMEs in areas of the subregional units of Jyväskylä, Kuopio, Oulu and Vaasa (Dec. No. 124/94/COL of 19 October 1994)).*

⁶ NUTS = Nomenclature of Statistical Territorial Units in the European Communities.

⁷ Finland is divided into 6 NUTS II areas: Uusimaa, Southern Finland, Eastern Finland, Central Finland, Northern Finland and Åland.

whereas, provinces are designated as NUTS III areas. On the level of NUTS I, Finland is divided into two areas (Continental Finland and Åland).

On this basis, and backed up by statistics on regional GDP⁸ per capita, unemployment statistics and population density data as well as certain geographical and demographical factors, the Finnish authorities propose that areas eligible for regional aid under Article 61(3)(c) would consist of development zones I, II and III. The different zones reflect the differences in the gravity of regional problems. The regions covered by these development zones are based on NUTS III level statistical units with some readjustments. The proposed zones cover 31 % of the Finnish population.

The delimitations between the development zones do not fully follow borders of the provinces. The main reason for this is that the development zones eligible for regional aid in Finland have been established with reference to a method of analysis of statistical data on various geographical levels, most importantly the sub-regional but also the municipality level (smaller units than the NUTS III level). The following indicators, listed in the order of their weight, were used in the analysis by the Finnish authorities: GDP per capita (1989-1991), level of unemployment (1991-1993), population density, net migration (1990-1992), the share of primary production in employment (1990), industrial one-sidedness⁹ (1990) and the length of climatic winter. The aim of the Finnish regional policy is to treat equally weak areas throughout the country as evenly as possible, irrespective of the region they are situated in. Scaling of the development zones are, therefore, made so that there are no great differences in the aid levels between neighbouring assisted areas.

Development zones were defined by the Finnish authorities in the following manner. Firstly, the most poorly developed regions, namely Lapland, Kainuu, North Karelia, South Savo and South Ostrobothnia were designated, mainly as development zone I. The region of Lapland was included as a whole for special reasons such as its extremely sparse population. In addition, some regional sub-units neighbouring the above mentioned regions, in which GDP per capita is low, population sparse or the other indicators referred to above illustrate the weakness of the area, were placed in development zone I. Within these regions the assisted areas are scaled on the basis of the development of the regional sub-units in such a way that the more developed areas are defined as development zones II and III.

A maximum aid intensity, expressed in gross grant equivalent (GGE), proposed to be applicable from 1 January 1995 onwards is allocated to each development zone. The graduation and variation of rates of aid across different areas eligible for regional aid can, therefore, be clearly indicated.

⁸ Gross domestic product.

⁹ The share of the biggest branches of industry in employment.

Development zones I, II and III

The proposed aid intensity is highest in development zone I. This zone covers almost entirely the northernmost part of Finland, namely that of Lapland as well as most of the parts within the provinces of Kainuu, North Ostrobothnia, North Savo, North Karelia, Central Finland and certain archipelago areas. Development zone I covers geographically most of the assisted areas with 12,7 % of the population. The proposed maximum aid intensity for development zone I is 35 % GGE.

Areas covered by development zone II are for the most part located within the provinces of South and North Ostrobothnia, South Savo and Central Finland. The main island of Åland as well as certain other islands and island municipalities belong to development zone II. This zone covers 12,8 % of the population. A maximum aid intensity of 27 % GGE is proposed to be allocated to development zone II.

Development zone III covers coastal areas situated within the provinces of Vaasa and South Ostrobothnia as well as areas within regions located further south of the country, namely in Central Finland, Pirkanmaa and South Karelia. This zone covers 5,5 % of the population. The proposed maximum aid intensity for development zone III is 20 % GGE.

Structural change areas

On the basis of structural changes in employment and production of industry, the Finnish authorities hold that also the temporary structural change areas, defined on the level of sub-regional units, are eligible for regional aid under Article 61(3)(c). The structural change areas cover 10,6 % of the Finnish population. The proposed maximum aid intensity to be applied within the structural change areas correspond to those applicable in development zone III.

The structural change areas, valid according to the Finnish legislation for the period 1994-1995¹⁰, are temporary assisted areas covering nine sub-regional units¹¹ and two municipalities¹².

The following table provides a condensed overview of the geographical location, the population coverage and the proposed aid ceilings for the three development zones and structural change areas. A list of all sub-regional units and municipalities covered by each development zone and structural change area is provided in Annexes 1 and 2 to this decision.

¹⁰ Valtioneuvoston päätös kehitysalueesta, sen tukialueista ja rakennemuutosalueista, 1686/93.

¹¹ Varkaus, Imatra, Pori, Rauma, Kokkola, Uusikaupunki, Valkeakoski, Forssa and Mänttä.

¹² Lahti and Karkkila.

Assisted areas	Provinces within which areas situated	General aid ceiling	SME ¹³ top-up	Population coverage
Zone I	Lapland, Kainuu, North, South and Central Ostrobothnia, North Savo, North Karelia, Central Finland	35 % GGE	+ 10 % gross*	12,7 %
Zone II	Lapland, Kainuu, South and North Ostrobothnia, North Karelia, South Savo, Central Finland, Åland	27 % GGE	+ 10 % gross	12,8 %
Zone III	Vaasa, South Ostrobothnia, Central Finland, Pirkanmaa, South Karelia	20 % GGE	+ 10 % gross	5,5 %
Structural change areas	Varkaus, Imatra, Pori, Rauma, Kokkola, Uusikaupunki, Valkeakoski, Forssa, Mänttä ¹⁴ , Lahti, Karkkila	20 % GGE	+ 10 % gross	10,6 %

* Absolute maximum aid ceiling for SMEs in development zone I is 37 % GGE.

4. Link between the map of assisted areas and regional aid schemes

The proposed map of assisted areas for regional aid shall apply to the following aid schemes which were notified as existing aid to the EFTA Surveillance Authority by letter dated 3 March 1994:

- regional investment aid, small business aid and development aid for small and medium-sized enterprises granted under the act on aid to business;¹⁵
- regional transport subsidy granted under the act on regional subsidisation of transports;¹⁶
- subsidy, granted by Kera Ltd;
- tax reliefs under the act on increased rates on write-off on investments undertaken within the development areas¹⁷ and associated exemption from stamp duty¹⁸.

¹³ Small and medium-sized enterprises as defined in section 10.2 of the Procedural and Substantive Rules in the Field of State Aid, adopted by the EFTA Surveillance Authority on 19 January 1994 (referred to hereinafter as the State Aid Guidelines).

¹⁴ Mänttä is not included in the population coverage of the structural change areas since it is also designated as development zone III.

¹⁵ *Laki yritystuesta (1136/93).*

¹⁶ *Laki kuljetusten alueellisesta tukemisesta (954/81)*, as amended by 901/89, 1111/89 and 1137/93.

¹⁷ *Laki kehitysalueelle tehtävien investointien korotetuista poistoista (1262/93)*; previous acts 290/82 and 1073/89.

¹⁸ *Laki leimaverolain 97 a §:n muuttamisesta (1263/93).*

The proposed maximum aid ceilings shall apply to the cumulated aid under the schemes on regional investment aid, small business aid, the above mentioned tax reliefs and subsidy from Kera Ltd.

II. APPRECIATION

1. General remarks to the concept of the map

The proposed map of assisted areas establishes the general framework for regional aid awards in Finland on the national, province and municipality level. No budget is allocated to the map of assisted areas and no individual awards of aid are possible solely on the basis of the map. Therefore, the map itself does not constitute aid in the meaning of Article 61(1) of the EEA Agreement. Nevertheless, it serves, supported by the submitted regional GDP and unemployment data, as a justification for Finnish regional aid schemes aimed at promoting or facilitating the development of certain economic areas.

In order to define the scope of application of the map in a clear-cut manner, the map is linked to the aid schemes listed above. Due to this link, the authorisation of the map will confirm the granting of individual investment aid under the schemes contained in the list. The proposed maximum aid ceilings shall apply to some of these scheme, as indicated in the last paragraph of section I.4 above. Therefore, it is established that the "second layer" of the notified map, i.e. the schemes referred to above, constitutes aid in the meaning of Article 61 (1) of the EEA Agreement.

Consequently, it has to be established by the EFTA Surveillance Authority whether the development zones and structural change areas, which are proposed to be eligible for regional aid, qualify for exemption from the general prohibition of aid under Article 61(1) in accordance with Article 61(3)(c) of the EEA Agreement. The necessary assessment to that effect is carried out under II.2. and II.3.

It should be noted that by virtue of the criteria for transport aid, as laid down in paragraphs (2) and (3) of section 28.2.3.2. of the State Aid Guidelines, the Finnish authorities have a transitional period until the end of 1996 to bring their transport aid in line with the rules on regional aid as stipulated in paragraph (2) of the same section. The EFTA Surveillance Authority, therefore, aims at reviewing the existing schemes of assistance to transport on the basis of the above mentioned criteria before 31 December 1996.

2. Assessment of the proposed delimitation

2.1. General remarks to the chosen NUTS-breakdown

The population of the nineteen Finnish provinces (NUTS III level) varies between 25,102 in *Åland* and 1,3 million in *Uusimaa*. The average population of the provinces is 267,259 inhabitants.

Compared to the EU average as regards the chosen breakdown of NUTS III levels areas, the population coverage is rather small. On the EU side, the territory of the

Member States is broken down into 64 regions on NUTS level I, 167 on NUTS level II with an average population of approximately 2 million and 824 on NUTS level III with an average population of 400,000.¹⁹ It has to be noted that the variations are very high. On NUTS level II, population varies between 0,1 and 10,1 million inhabitants. This broad spectrum results from the fact that the statistical breakdown agreed between EUROSTAT and the EU/EFTA States concerned is as a general rule based on the existing administrative borders of a State.

On NUTS level III, a comparison can be made between Finland (5,08 million inhabitants) and Belgium (9,9 million inhabitants), which has the tiniest breakdown on this level within the European Union. Belgium consists of 43 NUTS level III areas with an average population of such an area being approximately 229,500, which is slightly lower than the Finnish average. On the other hand, the number of NUTS III level areas in Belgium is rather high, and taking into consideration the differences in population, area and geography, the Finnish delimitations of NUTS III areas based on groups of sub-regional units, which form "travel to work areas", are acceptable as a basis for the definition of assisted areas.

2.2. Areas eligible for regional aid under Article 61(3)(c)

2.2.1. Development zones I, II and III

The Finnish authorities base the proposal of eligibility of development zones I, II and III for regional aid on Article 61(3)(c). In accordance with the established practice within the European Union, the delimitation of these regions is made in principle on the basis of areas comparable to the NUTS level III.

With regard to the eligibility of certain regions under Article 61(3)(a), the current socio-economic data do not justify any part of Finland to be eligible for regional aid as an (a)-region.

First stage of analysis

In accordance with the criteria laid down in part VI of the State Aid Guidelines, the eligibility of a NUTS III level region is assessed in two stages. In the first stage of analysis, the socio-economic situation of a region is assessed on the basis of three alternative criteria. The minimum requirement for eligibility of a region for regional aid under Article 61(3)(c), therefore, is a regional GDP/GVA of at least 15 % below the average of the EFTA State concerned (i.e. 85 %), structural unemployment of at least 10 % above the average of the EFTA State concerned (i.e. 110 %) or a population density of less than 12,5 inhabitants per square kilometre. For countries with a more favourable level of development compared to the EEA average, the required minimum regional disparity in a national context is adjusted according to the formula stipulated in section 28.2.2. of the State Aid Guidelines on the basis of 5-year averages (1988-

¹⁹ The figures are based on data prior to the unification of Germany.

1992). The applicable modified threshold for Finland is in this context 74 % for GDP per capita and 135 % for structural unemployment.²⁰

The examination carried out by the State Aid and Monopolies Directorate shows that three provinces²¹ with a total population coverage of 9,5 % qualify for regional aid under Article 61(3)(c) in the first stage of analysis in accordance with the section 28.2.2. of the State Aid Guidelines under the structural unemployment criterion. Structural unemployment in these provinces is, therefore, at least 35 % above the national average. On the other hand five provinces,²² including those fulfilling the unemployment criterion, qualify for regional aid under Article 61(3)(c) with reference to the population density criterion laid down in section 28.2.3. Thus, the statistics indicate an area covering 19,8 % of the total population to be eligible for regional aid under Article 61(3)(c) in Finland in the first stage of analysis.

Second stage of analysis

Other relevant statistical indicators are used in the second stage of analysis which complements the first one described above. Such indicators may include, *inter alia*, in accordance with section 28.2.4. of the State Aid Guidelines, the trend and structure of unemployment, the development of employment, net migration, population density, productivity and geographic situation.

Unemployment in Finland has risen dramatically over the last few years as a result of the deep recession. Measured for the country as a whole, the level of unemployment has risen from 5 % in 1988 to 19,5 % in 1993. The table below indicates that the employment problems have been particularly evident during 1992 and 1993.

Areas	1988	1989	1990	1991	1992	1993
	%	%	%	%	%	%
Zone I	9,0	7,2	7,1	11,5	17,8	22,5
Zone II	7,3	6,0	6,2	10,6	16,5	21,4
Zone III	5,4	4,6	4,6	8,6	14,4	19,5
Structural change areas	6,3	5,2	5,2	10,5	16,9	22,6
Non-assisted areas	3,4	2,7	2,7	7,1	13,0	17,7
Finland	5,1	4,2	4,2	8,6	14,6	19,5

²⁰ EFTA Surveillance Authority Decision of 4 May 1994 on thresholds related to the method of application of Article 61(3)(c) of the EEA Agreement to regional aid (Dec. No. 35/94/COL).

²¹ North Karelia, Kainuu and Lapland.

²² South Savo, North Karelia, North Ostrobothnia, Kainuu and Lapland.

The threshold for unemployment applied in the first stage of analysis is based on averages calculated over 1988-1992. This threshold does not sufficiently reflect the recent increase in unemployment. In order to reflect the trend of unemployment in Finland, the State Aid and Monopolies Directorate has, therefore, used in the second stage of analysis another modified threshold on structural unemployment on the basis of 5-year averages calculated over 1989-1993, which better takes account of the most recent developments. This calculation gives a modified threshold value of 113 % for unemployment instead of that of 135 % used in the first stage of analysis.

The examination carried out by the State Aid and Monopolies Directorate indicates that four further provinces²³ with a total population coverage of 23,5 % fulfil the eligibility criterion on unemployment in the second stage of analysis. Structural unemployment in these provinces is, therefore, at least 13 % above the national average. However, the problems which the sub-regions situated within Satakunta have been suffering from can be regarded as more of a temporary nature rather than structural.²⁴ Therefore, the province of Satakunta cannot be considered eligible for regional aid under Article 61(3)(c).

Application of the flexibility clause

The provinces fulfilling the eligibility criteria in the second stage of analysis account for 18,7 % of the Finnish population. The overall population coverage of the NUTS III level regions qualifying for regional aid, therefore, amounts to 38,5 % of the Finnish population. In accordance with the practice established by the European Commission, the inclusion of certain other regions for regional aid under Article 61(3)(c) is acceptable provided the overall population coverage established in the first stage of analysis is observed and the readjustments do not lead to a situation where regional aid is granted in a pin-pointed manner, i.e. to isolated geographical points having virtually no influence on the development of a region. In accordance with the principles laid down in chapter 25 of the State Aid Guidelines, the Authority takes account of the fact that the EFTA States have the best knowledge at the national level of all the significant facts required to assess the needs of their regions.

The regional centres of Oulu, Vaasa, Kuopio and Jyväskylä are not designated as assisted areas although all except Vaasa are situated within provinces fulfilling the eligibility criteria. Within the province of Pirkanmaa, which would qualify for regional aid as a NUTS level III region, certain sub-regions are designated either as structural change areas or as non-assisted areas. The major population centers referred to above as well as the structural change areas²⁵ and/or other areas not designated as assisted areas²⁶ located within eligible provinces together account for 17 % of the population. By excluding these areas, the population coverage of regions, which are eligible for regional aid and which are covered by one of the development zones, is brought down to 21,5 %.

²³ Satakunta, Pirkanmaa, North Savo and Central Finland.

²⁴ Only the sub-region of Kankaanpää is designated as a development zone in Satakunta.

²⁵ Valkeakoski and Kokkola.

²⁶ Pälkäne, Tampere and Vammala.

This leaves then the provinces of Åland, Vaasa, South Ostrobothnia, Central Ostrobothnia, excluding the structural change area of Kokkola, as well as certain sub-regions²⁷, which are defined as development zones II or III and situated next to non-assisted areas, to be further analysed. These regions together cover 9,4 % of the total population. The inclusion of Åland can be justified by the difficulties it faces as an island community due to its remote location and lack of a fixed road connection to the mainland. Therefore, enterprises situated in Åland suffer from higher costs on their raw materials and on putting their products to markets in Finland. On the basis of similar reasoning it can be argued that certain islands and island municipalities, as listed in Annex 1, are designated as assisted areas.

The inclusion of these regions can be justified on the basis of the so-called flexibility clause which allows the possibility for a trade-off between certain regions, provided that the overall ceiling on population coverage is not exceeded. This being the case, it can be justified that the provinces and sub-regions referred to above are included in development zones II and III in order better to accommodate the Finnish regional policy requirements.

Furthermore, the provinces fulfilling the eligibility criteria form as a whole a contiguous area. The assisted areas covered by development zones are, therefore, not designated in a pin-point manner. The areas deemed to be eligible for regional aid are listed in Annex 1. They cover 31 % of the Finnish population.

2.2.2. Structural change areas

A population coverage of 10,6 % is temporarily added to the basic coverage of 31 % of the development zones I, II and III in favour of the structural change areas, i.e. areas with severe structural problems due to major job losses and the decline of certain industries. These areas, which remain subject to revision, are valid until the end of 1995. The sub-region of Mänttä is excluded from the population coverage of the structural change areas as it is also defined as development zone III. The population of the nine sub-regional units and two municipalities defined as structural change areas varies between 9,000 in the municipality of Karkkila and 93,000 in the municipality of Lahti.

The structural change areas are mainly medium-sized industrial localities. The production structure of industry has significantly changed during recent years and the increase in, or threat of, unemployment has caused enormous problems in the areas in question. The average unemployment in the structural change areas stood at 13,3 % in 1991-1993, excluding the municipality of Karkkila where unemployment was 22,2 % in 1993. In determining the structural change areas, the Finnish authorities used the following indicators: unemployment rate (1991-1993), maximum change²⁸ in manufacturing labour force (1975-1990) and the change in manufacturing labour force during 1989-1992.

²⁷ Kankaanpää, Parkano, Orivesi, Virrat, Mänttä, Sysmä, Savitaipale and Parikkala.

²⁸ The maximum change subtracted by the latest figures.

Due to the fact that the structural change areas are not defined on the NUTS level III according to the method as stipulated in section 28.2.1. of the State Aid Guidelines but mainly on that of the sub-regional units, the specific problems of each area are analysed below. In view of the problems of the following sub-regional units and two municipalities, the Finnish authorities justify the eligibility of the structural change areas for regional aid under Article 61(3)(c).

Structural change problems in Varkaus (population 36,000) are a result of the closure of Schauman Wood Oy's plywood-unit (320 jobs), the reduction of jobs in Ahlström Oy's metal unit between 1990 and 1993 (220 jobs) and Enso-Gutzeit Oy's paper mill (130 jobs), the closure of the textile company Eiser Oy (140 jobs) and the fusion arrangements concerning Ahlström Automation (220 jobs). The need for new jobs is also affected by the closure of the Kotalahti mine in the municipality of Leppävirta, where 350 jobs were lost in 1983-1987. Average unemployment in Varkaus stood at 14,6 % in 1991-1993 (EU average 9,4 %).

The number of industrial jobs fell by 3,200 (37 %) in Imatra (population 45,000) during 1980-1993. The forest industry and the metal industry account for 67 % and 18 % of all industrial jobs respectively. The greatest reduction in jobs occurred in the major industrial employers, Enso-Gutzeit Oy (1,180) and Imatra Steel Oy (630). Average unemployment in Imatra was 14,2 % during 1991-1993.

Employment problems in Pori and Rauma (total population 172,000) are largely due to a reduction of jobs in the major industries and in the number of jobs in basic industries respectively. Repola Oy (forestry, paper and shipbuilding) has, over the past ten years, reduced its workforce by over 2,000 employees, Finlayson Oy (textiles) by over 1,000 while Satakunta Abattoir was closed, with a loss of almost 1,000 jobs. Yhtyneet Paperitehtaat Oy (mechanical and chemical wood processing) reduced its workforce by 670 employees, Finnyards Oy (shipbuilding) by 320 and Oras Oy (metal industry) by 100 jobs. Average unemployment in Pori and in Rauma amounted to 14,2 % and 13,3 % respectively during the period 1991-1993.

In Kokkola (population 53,000) the number of industrial jobs fell by about 2,700 in 1980-1993. The reduction of the workforce in the leather and clothing industry amounted altogether to 1,500 jobs (Rukka Oy 280, Oy Finn-Lassie 230 and Meira Oy 200) while the major industries such as Kemira Oy and Outokumpu Oy reduced the number of their employees by 250 and 200 respectively. Average unemployment in Kokkola stood at 12,7 % in 1991-1993.

In Uusikaupunki (population 44,000) the four major industrial plants accounted for the greater share of industrial jobs and 1/3 of all jobs in 1992. In 1993 the workforce of Saab-Valmet was reduced due to redundancies and lay-offs by 1,400, Uudenkaupungin Telakka Oy by 320 (its total workforce), Salcomp Oy by 100 and Kemira by 30. In addition, 215 jobs are threatened in the auto components industry. Average unemployment in Uusikaupunki was 12,1 % during 1991-1993. At the end of 1993 the unemployment rate in the town of Uusikaupunki stood at 33,7 %.

The number of jobs within the paper industry in Valkeakoski (population 44,000) were reduced by 425 during 1990-1993 (e.g. Yhtyneet Paperitehtaat Oy's Walki-Säkit closed its plant with a loss of 190 jobs while 130 jobs were terminated at Walki-Pakkaus). The number of employees fell by 210 in the chemical industry (130 jobs in Kemira Fibres) whereas 280 jobs were lost within the metal industry. Average unemployment in Valkeakoski was 12,5 % in 1991-1993.

The total number of industrial jobs in Mänttä (population 17,000) has been reduced by 1,700 (20 %) since 1985. This has been mainly due to the closure of Serla Oy's pulp mill and changes in the production methods of the paper mill. The number of jobs at Serla Oy has been reduced from 2,300 to 750 jobs. The number of jobs in the metal industry has been reduced considerably due to changes in the production methods of the pump industry (Ahlstöm Oy). Average unemployment in Mänttä stood at 11,3 % in 1991-1993.

The structural change problems in Forssa (population 37,000) are a result of the reduction of the workforce in the textile industry and those industries whose markets are primarily domestic (building materials, food processing and graphics industries), which started in 1975. The textile company, Finlayson Oy, has reduced its number of employees from 1,900 to 300. Another 160 jobs are threatened to be lost if the weaving and finishing mills of the company are closed. Parma Oy (building materials) has reduced its workforce by 700 since 1990. Restructuring in the food processing industry also threatens jobs in the near future. Average unemployment in Forssa amounted to 11,4 % in 1991-1993.

The jobs in industry of the municipality of Lahti (population 93,000) fell by 2,440 (17 %) during 1990-1993. This is almost half of the total reduction in the number of industrial jobs in the entire Päijät-Häme region. Most of these jobs were lost within the metal industry (40 %). The job losses are due to the massive reduction in trade with the former Soviet Union. Average unemployment in Lahti amounted to 16,2 % in 1991-1993.

The municipality of Karkkila (population 9,000) has been defined as a structural change area for special reasons. The economy of Karkkila is in a particularly bad crisis. This is mainly due to the loans taken by Karkkila Teollisuuskylä Oy, which is owned by the municipality. A threat of a significant migration of industrial and service companies as well as that of inhabitants is an indirect consequence of the bad economic situation prevailing in the municipality. The municipality has reduced its number of employees by about 100. At the end of 1993 unemployment in Karkkila was above 22 %.

Conclusion: eligible (c)-areas

Compared to the method for application of Article 61(3)(c) laid down in section 28.2 of the State Aid Guidelines, the Finnish system of designating development zones I, II and III has led to a map of assisted areas where the most poor and/or sparsely populated provinces fulfilling the criteria of the first stage analysis are included while the more prosperous and densely populated parts of the country are excluded from the map of assisted areas. On the other hand, certain provinces and sub-regions which qualify for regional aid under Article 61(3)(c) neither in the first nor in the second stages of analysis have been included due to the so-called flexibility clause.

By these readjustments the map covering development zones remains as a contiguous area. The overall effect of these readjustments is a more efficient regional policy by targeting regional aid to those regions with the greatest need of such support for economic development.

The structural change areas, with a population coverage of 10,6 %, suffer from severe structural problems due to major job losses and the decline of certain industries. These shall remain subject to revision and shall be valid until the end of 1995. Although some of the structural change areas may entail a certain risk of having been designated in pin-point manner, such as the municipality of Karkkila for instance, these areas may be justified by the fact that the aid intensity applied therein is low and that the areas remain valid only for a year.

It may, therefore, be established that development zones I, II, III and the structural change areas are eligible for regional aid under Article 61(3)(c).

3. Assessment of the proposed maximum aid intensities

The proposed maximum aid intensities for (c)-regions are 35 % GGE for the assisted areas covered by development zone I (12,7 % of the Finnish population), 27 % GGE for areas covered by development zone II (12,8 % of the Finnish population) and 20 % GGE for those eligible for regional aid within development zone III (5,5 % population coverage).

It may be recalled that while amending the State Aid Guidelines by means of inserting the new section 28.2.3 on the first stage of analysis with regard to regions with a very low population density,²⁹ the Authority acknowledged that the method³⁰ laid down in section 28.2.2. does not properly reflect the regional problems specific to certain Contracting Parties, particularly the Nordic countries (Norway, Sweden, Finland and Iceland). For this reason the general population density threshold of 12,5 inhabitants km² was introduced for regions at the NUTS III level to qualify for regional aid under Article 61(3)(c). Therefore, the proposed aid intensities for development zones I, II,

²⁹ EFTA Surveillance Authority Decision of 20 July 1994 (Dec. No. 88/94/COL).

³⁰ Based on the GDP/GVA per capita index or the structural unemployment index at the NUTS III level compared to the national average.

III cannot be examined solely with reference to the observed values of GDP/GVA per capita or structural unemployment at the NUTS III level.

The State Aid and Monopolies Directorate has examined the proposed aid intensities with reference to GDP per capita (1990-1992) and structural unemployment (1988-1992) statistics for sub-regional units and municipalities covered by each development zone in Finland, as well as the observed levels of population density. In addition, demographical and geographical factors such as remote location typical for islands that may hamper indigenous economic development have been taken into account. Specific structural problems prevailing in the structural change areas have also been taken into account. However, the wide areas covered by the proposed assisted areas and the variety of factors to be taken into consideration introduces a wide margin of judgement for determination of the appropriate maximum ceilings for regional aid.

Calculation formula for net/gross conversion

The following table gives the corresponding net grant equivalent (NGE) of each proposed maximum intensity set for the assisted areas in gross terms (GGE). The conversion from gross to net has been done according to the formula used by the Finnish authorities for the calculation of aid in net terms. The standard basis for granting aid involves the following three categories of capital expenditure: land (1 %), buildings (19 %) and plant (80 %) while the present corporate tax rate is 25 %. The reference rate of interest used in the calculation is 7,57 %, as fixed by the Surveillance Authority³¹. The Authority has examined the formula and has found it well justified. The formula leads to a coefficient of 0,805 in converting from gross to net terms.

<i>Maximum aid ceilings</i>				
Assisted area	Gross grant equivalent		Net grant equivalent	
	For large firms	SME top-up*	For large firms	For SMEs
Zone I	35 % GGE	+ 10 % GGE	28,2 % NGE	29,8 % NGE
Zone II	27 % GGE	+ 10 % GGE	21,7 % NGE	29,8 % NGE
Zone III	20 % GGE	+ 10 % GGE	16,1 % NGE	24,2 % NGE
Structural change areas	20 % GGE	+ 10 % GGE	16,1 % NGE	24,2 % NGE

* Absolute maximum aid ceiling for SMEs in development zone I is 37 % GGE.

³¹ EFTA Surveillance Authority Decision of 11 May 1994 (Dec. No. 37/94/COL).

Development zone I

It should be noted that every sub-regional unit covered by development zone I fulfils at least one of the three criteria referred to above. This is particularly true as regards the generally observed levels of population density which demonstrate the pattern of settlement and the remote location of the areas covered by development zone I. The number of inhabitants residing in these areas is on average 5,3 inhabitants/km² which is well below the threshold value of 12,5 inhabitants/km².

It appears from regional statistics on GDP per capita at the sub-regional level, that the income levels in the areas covered by development zone I are in all cases but four³² at least 26 % below the national average. The observed values are on average 69 % of the national average. The calculations of the State Aid and Monopolies Directorate show that structural unemployment in these areas is about 40 % above that measured in Finland as a whole. Furthermore, it has been taken into account that development zone I covers areas with particular difficulties of attracting inward investment and indigenous development due to an extremely sparse pattern of settlement and remote location, especially in the northern parts of the country or within islands without a fixed road connection to the mainland. The major population centres of Oulu and Kuopio, both situated within provinces qualifying for aid as a NUTS III level regions, are not designated as assisted areas.

The proposed aid intensity of 35 % GGE for development zone I corresponds to 28,2 % in net grant equivalent. Although this is close to the upper limit of 30 per cent NGE for regional aid under Article 61(3)(c), the arguments brought forward by the Finnish authorities and the limitation of the area to 12,7 % of the total population justify the proposal.

Development zone II

The examination carried out by the State Aid and Monopolies Directorate shows that the areas covered by development zone II enjoy more favourable conditions with respect to income per capita, population density and remoteness, but may otherwise be described according to similar characteristics as development zone I. For instance, certain areas within the archipelago suffering from poor or no fixed road connection to the mainland are designated as development zone II. For these reasons, the sub-regional unit of Mariehamn situated within the main island of Åland is included in development zone II.

The average population density of 11,2 inhabitants/km² in development zone II is below that of the threshold value of 12,5 inhabitants/km² while unemployment is generally about 20 % above the national average. The observed values on income levels are on average 83 % of the national average. Regional centres such as Kemi, Rovaniemi, Kajaani, Joensuu and Mikkeli are covered by development zone II.

³² Sodankylä, Kittilä, Pyhäntä and Kitee.

The proposed aid intensity of 27 % GGE for development zone II, corresponding to 21,7 % NGE, is broadly in line with the practice accepted by the European Commission, taking into account the overall population coverage of the assisted areas and the proposed aid ceiling.

Development zone III

Geographically development zone III covers least of the assisted areas designated as development zones with a population coverage of 5,5 %. According to calculations carried out by the State Aid and Monopolies Directorate, the average unemployment in the sub-regional units covered by development zone III is slightly below the national average while the income levels are on average 81 % of that measured for the country as a whole. The average population density in these areas is 15,6 inhabitants/km².

The regional centre of Seinäjoki is covered by development zone III. The reason for this is that the development of the entire South Ostrobothnia is dependent on that of Seinäjoki. Two additional sub-regional units not qualifying under the unemployment, low GDP per capita or low population density criteria are designated as development zone III. The sub-region of Mänttä is included due to job losses within industry and its worsened employment situation. Mänttä fulfils also the criteria for structural change areas. Pietarsaari has, on the other hand, suffered in particular from net migration.

The proposed aid intensity of 20 % GGE for development zone III, which corresponds to 16,1 % net grant equivalent NGE, reflects the scaling down of the level of aid to enterprises in accordance with the conditions prevailing in the areas covered thereof.

Structural change areas

The proposed aid intensity of 20 % GGE for the structural change areas correspond to those applied within development zone III while under the present legislation the maximum aid ceiling in these areas is that currently applicable within development zone II. The structural change areas are designated temporarily as assisted areas due to their recent major job losses and decline of certain industries. The average unemployment rate of the structural change areas stood at 21,5 % in 1993. The level of unemployment has increased by more than three and a half times compared to the average measured in these areas in 1988 (6 %). The problems related to job losses have been particularly apparent since 1991. The aid level proposed for the structural change areas can, therefore, be justified by the severe structural problems that the areas are suffering from.

SME top-up

In each of the assisted areas, including the structural change areas, an SME top-up of 10 % GGE can be granted. It must be noted, however, that in no cases can the SME top-up, in accordance with the specific instructions by the Ministry of Trade and Industry,³³ be exceeded by more than 10 percentage points. Moreover, within development zone I the maximum aid intensity for SMEs must not exceed 37 % GGE, which corresponds to 29,8 % NGE. This is in line with section 28.2.5. of the State Aid Guidelines stipulating that the EFTA Surveillance Authority shall apply a maximum aid ceiling of 30 % NGE.

The current socio-economic data do not allow any parts of Finland to qualify for regional aid under Article 61(3)(a). However, if justified by the conditions of the development zones or a structural change area, the Finnish authorities may consider in individual cases, subject to notification to the Surveillance Authority on a project basis, to exceed the above mentioned aid ceilings.

On the basis of the above considerations, it may be concluded that the maximum intensities for regional aid in development zones I, II, III and in the structural change areas, as proposed by the Finnish Government, do not distort the level playing field for competition within the EEA and, consequently, do not adversely affect trading conditions to an extent contrary to the common interest.

Therefore, it is concluded that the proposed maximum intensities may be accepted under the exemption clause of Article 61(3)(c).

For application of the top-up for SMEs to be compatible with the rules on State aid under the EEA Agreement, it must be ensured that reference to an EEA relevant definition of SMEs consistent with that stipulated in section 10.2 of the State Aid Guidelines is laid down in the relevant legal provisions.

4. The scope of application of the map

Regarding the scope of application of the map of assisted areas in Finland, it should firstly be pointed out that any new plans to grant or alter aid with regional objectives, which are based on the delimitations and maximum intensities of the map, will need no further justification regarding its regional aspects. This, however, does not relieve the Finnish authorities from their obligation to notify such plans in accordance with Article 1(3) of Protocol 3 to the Surveillance and Court Agreement.

Secondly, the map will apply to investment aid awards under the existing aid schemes listed in section I.4 above.

³³ See point 2 of the notification.

All specific notification obligations with regard to certain sensitive sectors (currently steel, synthetic fibres and motor vehicles) as laid down in Part V of the State Aid Guidelines and in the Act referred to in point 1 a of Annex XV to the EEA Agreement establishing Community rules for aid to the steel industry (Commission Decision No. 3855/91/ECSC) remain unaffected by this decision.

With regard to the eligibility of certain regions under Article 61(3)(a), the current socio-economic data do not justify any part of Finland to be eligible for regional aid as an (a)-region. This does not, however, rule out the possibility of certain areas qualifying in the future should developments there be such that the tests of that provision are satisfied.

The map of assisted areas covering the development zones with a population coverage of 31 % shall not be redrawn, save by way of exception, until after the expiry of a period of at least three years from 1 January 1995. During that period and subject to adoption of an EFTA Surveillance Authority decision, the possibility of adjusting the map to reflect a change in circumstances is not ruled out. The structural change areas covering of 10,6 % of the Finnish population shall be valid until the end of 1995.

This decision does not restrict the obligation of the EFTA Surveillance Authority to review the map, in accordance with Article 1(1) of Protocol 3 to the Surveillance and Court Agreement, before the above mentioned dates, if required by the socio-economic development in certain areas which now qualify for regional aid or by the socio-economic development of Finland in relation to other EEA States.

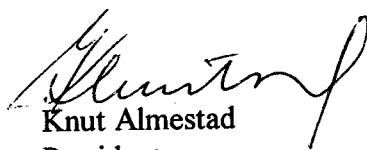
HAS ADOPTED THIS DECISION:

1. The EFTA Surveillance Authority has decided not to raise objections to the proposed system for regional aid in Finland, i.e. a proposal for a map of assisted areas in Finland, as notified by letters dated 29 August, 31 October, 29 November and by faxes dated 7 December 1994.

2. Without prejudice to Article 1(1) of Protocol 3 to the Surveillance and Court Agreement, the development zones eligible for regional aid shall be applicable until 31 December 1997. The structural change areas shall be valid until the end of 1995.

Done at Brussels, 21 December 1994

For the EFTA Surveillance Authority


Knut Almestad
President


Heinz Zourek
College Member