

Case No: 75581
Event No: 712840
Dec. No: 225/14/COL

EFTA SURVEILLANCE AUTHORITY DECISION
of 18 June 2014
on regionally differentiated social security contributions 2014-2020
(Norway)

CONSOLIDATED VERSION*

The EFTA Surveillance Authority (“the Authority”)

HAVING REGARD to:

The Agreement on the European Economic Area (“the EEA Agreement”), in particular to its Article 61(3)(c),

The Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice (“the Surveillance and Court Agreement”), in particular to Article 24,

Protocol 3 to the Surveillance and Court Agreement (“Protocol 3”), in particular to Article 1(3) of Part I and Article 4(3) of Part II,

Whereas:

I. FACTS

1 Procedure

- (1) Following pre-notification discussions, the Norwegian authorities notified the regionally differentiated social security contributions 2014-2020, pursuant to Article 1(3) of Part I of Protocol 3 by letter of 13 March 2014¹
- (2) By letter dated 2 May 2014², the Authority requested additional information. By letters dated 20 May 2014³ the Norwegian authorities replied to the information request and on 3 June 2014 they submitted an updated notification⁴. The Authority therefore considered the notification to be complete on 3 June 2014.

*** Consolidated version of Decision 225/14/COL, dated 18 June 2014, on regionally differentiated social security contributions 2014-2020, as amended by Article 3 of Decision 302/14/COL. Paragraph 65 is deleted.**

¹ Events No 702438-702440, 702442 and 702443.

² Event No 703024

³ Event No 708833,

⁴ Event No 710094

2 Background

- (3) Social security contributions have been regionally differentiated in Norway since 1975. The Authority last made a full assessment of the system of regionally differentiated social security contributions in 2006. At this point in time the Authority raised no objections to the system.⁵ The scheme was approved until 31 December 2013. This approval was later extended until 30 June 2014, when⁶ the new Guidelines on Regional State Aid for 2014-2020⁷ entered into force. The notified scheme falls to be assessed under these new Guidelines (“the RAG”).

3 Objective of the scheme

- (4) The objective of the notified measure is to reduce or prevent depopulation in the most sparsely populated regions in Norway by stimulating employment. The scheme is designed to offset employment costs. Accordingly, undertakings located in the least populated areas pay social security contributions at a reduced rate.
- (5) According to the Norwegian authorities, the labour market is the most important factor influencing people’s choice of where to live.⁸ The Norwegian authorities refer in this respect to a study by the Norwegian Institute for Urban and Regional Research (the NIBR Study) on individual and household decisions on migration and non-migration,⁹ and another study by Møreforskning Molde (the MM Study).¹⁰
- (6) The Norwegian authorities explain that the NIBR Study finds that when young people move to larger cities their motivation for doing so is related to employment.¹¹ Furthermore, the Norwegian authorities have stated that employment opportunities constitute an important factor for migration from central areas to peripheral areas.
- (7) According to the Norwegian authorities, the operating aid scheme is the least distortive manner in which they could achieve the stated objective.¹²
- (8) In their view, investment aid would promote private capital spending in the supported regions, and that investment aid would be a useful tool to address specific regional insufficiencies in the capital markets. However, the Norwegian authorities also state that in the least populated areas the main problem is often a lack of profitable new investment projects, rather than a lack of risk capital.¹³ Therefore, although the Norwegian authorities acknowledge that investment aid could lead to an increase in employment, they argue that the direct subsidy of labour costs through the notified scheme is a better and more targeted instrument for achieving the stated objective.¹⁴

⁵ Decision No 228/06/COL (OJ C 305 14.12.2006 p. 32). For an account of the history of the scheme, see Chapter I.2 of that decision.

⁶ Decision No 479/13/COL (OJ C 66 6.3.2014 p. 8).

⁷ OJ L 166 5.6.2014 p. 44.

⁸ Event No 710094, updated notification dated 3 June 2014, section 9, page 11.

⁹ NIBR report 2012:22 by Kjetil Sørli, Marit Aure and Bjørg Langset *Hvorfor flytte? Hvorfor bli boende? Bo- og flyttemotiver de første årene på 2000 tallet* (available only in Norwegian) available for download at the following url.: <http://www.nibr.no/filer/2012-22.pdf>.

¹⁰ *An empirical and theoretical perspective on regional differentiated payroll taxes in Norway* by Arild Hervik and Mette Rye at Møreforskning Molde.

¹¹ Event No 710094, updated notification dated 3.6.2014, section 9, page 12.

¹² Event No 710094, updated notification dated 3.6.2014, section 15, page 48.

¹³ Event No 710094, updated notification dated 3.6.2014, section 11, page 24.

¹⁴ Event No 710094, updated notification dated 3.6.2014, section 11, page 24

4 Aid measure and its national legal basis

- (9) On the basis of Section 23-2 of the National Insurance Act,¹⁵ all employers in Norway are subject to compulsory contributions to the national social security scheme. The contribution is calculated on the basis of the gross salary paid to the employee. The general rate in Norway is 14.1%. The notified aid constitutes the reductions (explained in part I.0 of this decision) of the social security contributions below the general rate.
- (10) According to paragraph 12 of Section 23-2, the tax rates are determined annually by the Norwegian Parliament. On the basis of that provision, the Parliament may adopt differentiated contribution rates, as well as specific provisions for undertakings within certain sectors. Thus, it is the National Insurance Act, in conjunction with the annual decisions of the Parliament, that forms the national legal basis for the notified measure.

5 Recipients

5.1 Eligible recipients

- (11) An employer having its business activity registered in the geographical area covered by the scheme is eligible for a reduced social security tax rate unless it is active in a sector that is not covered by the scheme (see part I.5.2 of this decision).
- (12) The employer is automatically entitled to the reduced rate, and does not have to apply for it. If an employer has more than one registered business location, the aid will only be granted with respect to the employees who work within the eligible area. If an employee spends half or more of their working time in a zone other than the one in which their employer is located, the rate is based on the applicable rate in the zone in which the majority of the employee's time is spent.
- (13) This is a horizontal scheme, including activities which fall outside the scope of the EEA Agreement (as delimited in Article 8 thereof). However, aid to these undertakings likewise falls outside scope of decision.

5.2 Sectors and activities ineligible for aid

- (14) Undertakings operating in the following sectors or activities will not be eligible for aid under the scheme:
- a. steel (as defined in Annex II to the RAG),¹⁶
 - b. synthetic fibres (as defined in Annex II(a) to the RAG),¹⁷
 - c. transport,¹⁸ (NACE¹⁹ Rev. 2 Divisions 49 Land transport and transport via pipelines, 50 Water transport and 51 Air transport. Excluding NACE 49.32 Taxi operation, 49.42 Removal services, 49.5 Transport via pipeline, 51.22 Space transport),

¹⁵ LOV-1997-02-28-19.

¹⁶ RAG para. 9.

¹⁷ RAG para. 9.

¹⁸ RAG para. 10 and Article 2(44) of the Commission Regulation declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (the "General Block Exemption Regulation") adopted in principle on 21.5.2014, available online at: http://ec.europa.eu/competition/state_aid/legislation/gber_regulation_en.pdf.

¹⁹ NACE is an acronym for *Nomenclature statistique des activités économiques dans la Communauté européenne*; Statistical Classification of Economic Activities in the European Community. The current version is Rev. 2 (2008).

- d. airports,²⁰
 - e. energy,²¹ (NACE Rev. 2 Division 35)
 - f. financial and insurance activities (NACE Rev. 2 Section K),²² and
 - g. undertakings performing intra-group activities and whose principal activity falls under NACE Rev. 2 classes 70.10 Activities of head offices or 70.22 Business and other management consultancy activities.²³
- (15) An undertaking active in sectors falling both inside and outside the scheme will be eligible for a reduction in social security contributions for the labour costs strictly related to the eligible activities. However, in order for such an undertaking to be eligible for a reduced social security rate under the scheme, it has to keep separate accounts, clearly identifying direct and indirect labour costs and allocating them on the basis of consistently applied and objectively justifiable principles, in order to demonstrate that the ineligible activities will not benefit from reduced social security contributions. Undertakings active in both eligible and ineligible activities that do not keep such separate accounts are not eligible for aid under the scheme.

5.3 Firms in difficulties or with outstanding recovery orders will not be eligible

- (16) Firms with outstanding recovery orders²⁴ and firms in difficulties²⁵ will not be eligible for aid under the scheme. Undertakings that find themselves in difficulties are obliged to report this fact to the Norwegian authorities.

6 The eligible geographical area

6.1 Three-step method for establishing the eligible geographical area

- (17) In order to achieve the goal of reducing or preventing depopulation, the Norwegian authorities intend to grant regional operating aid to ease the burden of employers who, due to the location of their undertakings in peripheral areas, have to carry additional costs due to the low population density and distance to larger markets.
- (18) The Norwegian authorities have explained that they, in designating the eligible areas, have been guided by the principles that (i) the relevant region should have a real need for regional aid and that (ii) regions facing similar challenges should be treated equally.
- (19) In order to assess the regional disadvantages in a systematic manner, the Norwegian authorities have developed a so-called periphery index. The periphery index is a compound expression of periphery. It aims to reflect the four major socioeconomic factors (geography, demography, labour market and income) relevant for distinguishing between the degree of periphery problems in regions of Norway, and thus aims to demonstrate the necessity and appropriateness of the scheme by giving a numeric value to the regional

²⁰ RAG para. 11.

²¹ RAG para. 11 clarifies that these guidelines will not apply to state aid granted in the energy sector. In the General Block Exemption Regulation the energy sector is defined as “energy generation, transmission and infrastructure”. The Authority consider on this basis that the activities defined in NACE Rev. 2 Division 35, are excluded from the scope of the RAG. NACE Division 35, Electricity, gas steam and air conditioning supply, is comprised of: 35.1, Electric power generation, transmission and distribution; 35.2, Manufacture of gas; distribution of gaseous fuels through mains; and 35.3, Steam and air conditioning supply.

²² RAG para. 17.

²³ RAG para. 17.

²⁴ RAG para. 19.

²⁵ RAG para. 18.

disadvantages that the various municipalities face. The following table gives an overview of those factors and how they are weighted.

Periphery index	Indicators	Weight
Geography	Centrality, number of inhabitants in local centres of different sizes (there are 11 classes of centrality)	20
	Population densities (inhabitants per m ²)	10
	Travel time to Oslo (in minutes)	10
Demography	Population growth last 10 years (%)	20
	Proportion of people above the age of 67 (%)	5
	Proportion of women of 20-39 years (%)	5
Labour market	Proportion of employees residing in the same municipality, share of population of 20-64 years (%)	10
	Employment growth last 10 years (%)	10
Income	Income per inhabitant above the age of 17 (NOK)	10

- (20) The periphery index for each municipality is given as a single value between 0 (most peripheral and weakest development) and 100 (most central and strongest development).²⁶
- (21) For the Norwegian authorities, the second step in determining the eligible geographical area has been to apply the principles on operating aid set out in the RAG.
- (22) More specifically, the Norwegian authorities have applied the principles set out point 149 of the RAG, on the demarcation of the regional aid investment map. These principles emphasise that population density is an important parameter when determining which areas should be eligible for regional aid.
- (23) Furthermore, the Norwegian authorities have endeavoured to ensure that the principle set out in point 16 of the RAG is satisfied: operating aid is not to be regarded as compatible with the internal market unless it is awarded to tackle specific or permanent handicaps faced by undertakings in disadvantaged regions.
- (24) The third step has been to separate the eligible municipalities into different zones, with different levels of reduced social security contribution rates for each particular zone. This step is aimed at ensuring the proportionality of the scheme.
- (25) The municipalities falling within each of the zones covered by the geographical scope of the notified scheme (Zone 1 falls outside the scheme's geographical scope) are as follows:

²⁶ A report on the periphery index (*Distriktsindeksen 2013 – metode datakilder og kvalitetssikring* by the Ministry of local government and modernisation, dated 27.6.2013), as well as the data used to determine the periphery index for each municipality, are available at the following website: www.regjeringen.no/distriktsindeksen2013.

Zone 2	
County	Municipality
Nord-Trøndelag	Meråker, Verran, Inderøy
Sør-Trøndelag	Ørland, Agdenes
Møre og Romsdal	Sande, Norddal, Stranda, Stordal, Vestnes, Rauma, Nesset, Sandøy, Tingvoll, Sunndal
Sogn og Fjordane	Gulen, Solund, Hyllestad, Høyanger, Vik, Balestrand, Leikanger, Aurland, Lærdal, Årdal, Luster, Askvoll, Fjaler, Gaular, Jølster, Naustdal, Bremanger, Vågsøy, Selje, Eid, Hornindal, Gloppen, Stryn
Hordaland	Tysnes, Kvinnherad, Jondal, Odda, Ullensvang, Eidfjord, Ulvik, Granvin, Fedje, Masfjorden
Rogaland	Hjelmeland, Suldal, Sauda, Kvitsøy, Utsira
Aust-Agder	Risør, Gjerstad, Åmli, Evje og Hornnes, Bygland, Valle, Bykle
Telemark	Drangedal, Nome, Tinn, Hjartdal, Seljord, Kviteseid, Nissedal, Fyresdal, Tokke, Vinje
Buskerud	Flå, Nes, Gol, Hemsedal, Ål, Hol, Rollag, Nore og Uvdal
Oppland	Nord-Fron, Sør-Fron, Ringebu, Søndre Land, Nordre Land
Hedmark	Kongsvinger, Nord-Odal, Sør-Odal, Eidskog, Grue, Åsnes, Våler, Trysil, Åmot

Zone 3	
County	Municipality
Nord-Trøndelag	Snåsa
Sør-Trøndelag	Hemne, Snillfjord, Bjugn, Oppdal, Rennebu, Meldal, Røros, Holtålen, Tydal
Møre og Romsdal	Vanylven, Surnadal, Rindal, Halså, Aure
Oppland	Dovre, Lesja, Skjåk, Lom, Vågå, Sel, Sør-Aurdal, Etnedal, Nord-Aurdal, Vestre Slidre, Østre Slidre, Vang
Hedmark	Stor-Elvdal, Rendalen, Engerdal, Tolga, Tynset, Alvdal, Folldal, Os

Zone 4	
County	Municipality
Troms	Harstad, Kvæfjord, Skånland, Ibestad, Gratangen, Lavangen, Bardu, Salangen, Målselv, Sørreisa, Dyrøy, Tranøy, Torsken, Berg, Lenvik, Balsfjord
Nordland	Narvik, Bindal, Sømna, Brønnøy, Vega, Vevelstad, Herøy, Alstahaug, Leirfjord, Vefsn, Grane, Hattfjelldal, Dønna, Nesna, Hemnes, Rana, Lurøy, Træna, Rødøy, Meløy, Gildeskål, Beiarn, Saltdal, Fauske, Sørfold, Steigen, Hamarøy, Tysfjord, Lødingen, Tjeldsund, Evenes, Ballangen, Røst, Værøy, Flakstad, Vestvågøy, Vågan, Hadsel, Bø, Øksnes, Sortland, Andøy, Moksnes

Nord-Trøndelag	Namsos, Namdalseid, Lierne, Røyrvik, Namsskogan, Grong, Høylandet, Overhalla, Fosnes, Flatanger, Vikna, Nærøy, Leka
Sør-Trøndelag	Hitra, Frøya, Åfjord, Roan, Osen
Møre og Romsdal	Smøla

Zone 4a	
County	Municipality
Troms	Tromsø
Nordland	Bodø

Zone 5	
County	Municipality
Finmark ²⁷	Vardø, Vadsø, Hammerfest, Guovdageaidnu-Kautokeino, Alta, Loppa, Hasvik, Kvalsund, Måsøy, Nordkapp, Porsanger, Kárásjohka-Karasjok, Lebesby, Gamvik, Berlevåg, Deatnu-Tana, Unjárga-Nesseby, Båtsfjord, Sør-Varanger
Troms	Karlsøy, Lyngen, Storfjord, Gaivuotna-Kåfjord, Skjervøy, Nordreisa, Kvænangen

6.2 Population growth and density inside/outside the eligible zones

6.2.1 Scheme 2007-2013

Zone	Population growth 1994-2004 (%)	Population growth 2002-2012 (%)	Share of population 2005	Share of population 2010	Periphery index (PI) 2013	Diff. PI national average	Population density	Growth in employment by workplace (%) 2002-2012 ²⁸
1	8	13.2	82.3	83.4	73.5	8.9	48.4	16.2
2	-4.3	-1.7	4.4	4.1	33.3	-50.6	3.5	1.3
3	-4.2	-2.8	2.1	1.9	27.1	-59.9	2.3	1.8
4	-4.3	-1	6.9	6.4	32.7	-51.5	5.1	6.2
4a	11.3	14.5	2.3	2.4	67.7	0.4	30.7	12.2
5	-5.1	0.5	2	1.9	34.6	-48.7	1.6	10.3
Norway	5.9	11	100	100	67.5	0	16.2	14.1
Scheme 2007-2013	-2.6	0.7	17.7	16.6	37.4	-44.6	3.7	5.9

²⁷ Finnmark County is, in its entirety, in Zone 5.

²⁸ Figures by 4th quarter.

6.2.2 Notified scheme

Zone	Population growth 1994-2004 (%)	Population growth 2002-2012 (%)	Share of population 2005	Share of population 2010	Periphery index (PI) 2013	Diff. PI national average	Population density	Growth in employment by workplace (%) 2002-2012 ²⁹
1	8.4	13.8	78.9	80.3	75	11.2	58.8	16.2
2	-3.4	-1.4	7.5	7	34.1	-49.5	4.7	1.3
3	-4.2	-2.9	2.4	2.2	26.4	-60.8	2.5	1.8
4	-4.3	-1	6.9	6.4	32.7	-51.5	5.1	6.2
4a	11.3	14.5	2.3	2.4	67.7	0.4	30.7	12.2
5	-5.1	0.5	2	1.9	34.6	-48.7	1.6	10.3
Norway	5.9	11	100	100	67.5	0	16.2	14.1
Scheme 2014-2020	-2.5	0.4	21.1	19.7	36.9	-45.3	4.1	5.2

6.3 Aid intensities

- (26) For the purpose of levying the social security tax on employers, the Norwegian authorities have established different geographic zones with different tax rates. The full rate of 14.1 per cent will be charged in Zone 1 (as this zone is not covered by the scheme). Employers in the eligible areas (Zones 2, 3, 4, 4a and 5) will be eligible for lower tax rates (in percentages with corresponding aid intensities and number of municipalities) as follows:

Zone	Rate	Aid intensity	Number of municipalities
1	14.1	0	195
2	10.6	3.1	95
3	6.4	6.8	35
4	5.1	7.9	78
4a	7.9	5.4	2
5	0	12.4	26

6.4 Description of the notified zones

6.4.1 Zone 5

- (27) Zone 5 covers Norway's northernmost county, Finnmark, in its entirety, and seven adjacent municipalities in the neighbouring county of Troms.
- (28) According to the figures provided by the Norwegian authorities, the total population in the zone is about 93 000, which constitutes approximately 1.9 per cent of the Norwegian population. The population density is only 1.6 inhabitants per km².
- (29) Depopulation has been high over the last decades. The last ten years, the population growth has been close to zero.
- (30) The economic activity in the region has traditionally been based on natural resources. Fishing, fish processing and agriculture still dominate the economic activity in the region. In the municipalities Gamvik, Hasvik, Måsøy and Båtsfjord, more than 30% of the

²⁹ Figures by 4th quarter.

working population are employed in the fishing and fish processing sectors. 40% are employed in the public sector. Urban industries, such as trade and financial services, are underrepresented in the region.

- (31) Labour markets are small, and the capacity to restructure businesses is weak. The largest labour market in Zone 5 is Alta, with just above 10 000 employees. The two smallest labour markets, Berlevåg and Gamvik, each comprise less than 500 employees.
- (32) Internal distances in Zone 5 are considerable (the distance from the eastern to the western extremity of the zone is approximately 1 000 kilometres). Travel distances to markets outside the zone are even longer: Vadsø (the region's administrative centre) is approximately 2 300 kilometres from Oslo. The distance from Vadsø to Alta is 443 kilometres by road. Other small centres in Northern Finland and Sweden are equally far away.
- (33) Zone 5 is the main home region of the Sami population in Norway. Out of the total population of 93 000, approximately 39 000 are of Sami origin. The Norwegian Sami Parliament (Sámediggi) is located in Karasjok.
- (34) Living conditions in the region are harsh, with temperatures below 0°C for approximately 200 days a year. Two months during the year the region is exposed to the polar night.
- (35) For these reasons, the Norwegian authorities have proposed to apply the highest aid intensity foreseen under the notified scheme in this part of the country.

6.4.2 Zone 4

- (36) Zone 4 consists of the part of Northern Norway that is not covered by Zone 5, as well as the remote parts of the region's adjacent area, consisting in Trøndelag's periphery and the peripheral island municipality of Smøla in Møre og Romsdal county. The zone comprises 76 municipalities. Zone 4 excludes Northern Norway's two main urban centres, Tromsø and Bodø (which comprises zone 4a).
- (37) Zone 4 has a population of approximately 315 000 inhabitants, which represents 6.4% of the Norwegian population. Compared to 2005, when the population of Zone 4 represented 6.9% of the total population in Norway, this is a reduction of 0.5%.
- (38) The main economic activities in this zone are also primary industries, such as agriculture, forestry, fishing and fish processing. Compared to the national average, the overall profitability of business and industry is low. Many workers are employed in the public sector: 14 municipalities have more than 40% of their workforce employed in public sector jobs.

6.4.3 Zone 4a

- (39) Zone 4a consists of the two main urban centres in Northern Norway: Tromsø and Bodø. Tromsø is the administrative centre of the county of Troms, and Bodø is the administrative centre of the county of Nordland. The two cities have a joint population of approximately 120 000 inhabitants - Tromsø has some 68 000 inhabitants and Bodø has approximately 48 000. The population of both municipalities is growing. However, the population of Zone 4, which surrounds these municipalities, is decreasing. According to the Norwegian authorities, Bodø and Tromsø are important engines for the economic development of the surrounding region in the sense that they provide employment opportunities and thus have the capacity to generate a momentum for development that the rest of Northern Norway

lacks. The Norwegian authorities explain that the inclusion of Bodø and Tromsø is important because they are isolated towns located in areas in which there are no alternative urban centres that can offer the same services and labour opportunities.

- (40) The Norwegian authorities explain that only a smaller share (about 20%) of the people of the north who move to the south of Norway move back to their municipality of origin. Most of the people who do move back move to urban centres like Bodø and Tromsø. The Norwegian authorities therefore take the view that the few urban centres (such as Bodø and Tromsø) reduce the depopulation of the north. The Norwegian authorities further emphasise that the northern urban centres compete for immigrants with urban centres in the south.
- (41) On the basis of the above, the Norwegian authorities propose that Zone 4a should be considered to be eligible for aid under the scheme. However, the social security contribution rate for Zone 4a is set 2.8% higher than in the surrounding Zone 4.

6.4.4 Zone 3

- (42) Zone 3 consists of the outer periphery of Southern Norway, and mainly covers mountain areas. It comprises 35 municipalities with approximately 107 000 inhabitants in total. The largest municipality of zone 3, Oppdal, has less than 7 000 inhabitants. The municipalities are located further away from central markets in Southern Norway, than the municipalities in zone 2, both in terms of travel times and distances. Despite its relative proximity to central markets in comparison to Northern Norway, Zone 3 has over the last ten years suffered from depopulation by 2.9%³⁰.
- (43) The primary sector in Zone 3 is larger than in any other zone. The agriculture and forestry sectors dominate. Construction is also an important economic sector in Zone 3. Furthermore, 30% of the workforce is employed in the public sector at the municipal level.

6.4.5 Zone 2

- (44) Zone 2 consists of the remote areas in Southern Norway which are not covered by Zone 3.
- (45) It is comprised of 92 municipalities, of which only two, Kongsvinger and Kvinnherad, have more than 10 000 inhabitants each: 18 000 and 13 000 respectively. The population of Zone 2 has decreased over the last ten years by 1.4%³¹.
- (46) The predominant primary sectors in Zone 2 are agriculture and forestry. In addition, Zone 2 is the zone with the largest percentage of the workforce employed in manufacturing: 16.1% (compared to the national average of 12.6%). Employment in the public sector is also above the national average, and more than 30% of workers are employed by the municipal level of public administration.
- (47) Zone 2 marks the furthest geographical extent to which the notified scheme applies. The rest of Norway is not covered by the scheme. Therefore, the Norwegian authorities have notified the lowest aid intensity for Zone 2, corresponding to 3.1% of labour costs.

7 Fiscal effect of the reduced social security contributions

- (48) The Norwegian authorities estimate that the reduced social security contributions for all beneficiaries, undertakings engaged in economic activities, and entities that do not

³⁰ See table in subsection 6.2.2 above.

³¹ See table in subsection 6.2.2 above.

constitute “undertakings” within the meaning of Article 61 of the EEA Agreement, was estimated to amount to a forgone revenue of NOK 13 billion for 2013 (approximately EUR 1 777 million³²).

- (49) The Norwegian authorities estimate that for the year 2013, about NOK 6.85 billion (approximately EUR 936 million³³) of the reduction in social security contributions went to undertakings engaged in economic activities.

8 Cumulation

- (50) Aid under the scheme may be cumulated with other forms of aid. Aid for labour costs granted under any other scheme must take into account the aid granted under the scheme for regionally differentiated social security contributions. Reduced social security contributions cannot be cumulated with *de minimis* aid for labour costs. The aid recipients are required to give statements confirming that these rules are respected.

9 Duration

- (51) The duration of the scheme is from 1 July 2014 until 31 December 2020.

10 Transparency

- (52) The Norwegian authorities will, in accordance with point 135 of the RAG, set up a central website where they will publish the text of the notified aid scheme and its implementing provisions, as well as information on the granting authority, the individual beneficiaries, the amount per beneficiary³⁴ and the aid intensity.

11 Evaluation

- (53) The Norwegian authorities have committed to evaluate the scheme, in accordance with chapter 4 of the RAG.³⁵ The evaluation will be carried out by one or more external consultants or institutions. It will take place within 4 years from the date of this Decision.
- (54) The objective of an ex-post state aid policy evaluation is to identify the causal impact of the policy on the policy objective, while controlling for other things that may have an impact on the observed outcome, e.g. macroeconomic conditions or specific attributes of the firms receiving the aid.
- (55) The Norwegian authorities have explained that the objective of the differentiated social security contribution scheme is to prevent or reduce depopulation in already sparsely populated areas by lowering employment costs for companies located in these areas, with the expectation that this will stimulate the local labour markets and lead to increased job

³² Using the Authority’s EUR to NOK conversion rate for 2013 where EUR 1 = NOK 7.3175.

³³ Using the Authority’s EUR to NOK conversion rate for 2013 where EUR 1 = NOK 7.3175.

³⁴ Given that the aid will be granted as a tax exemption, the information on the individual beneficiaries and the amount per beneficiary will not be available until January in the year following the relevant fiscal year. The Norwegian authorities will impose a new reporting obligation from 1 January 2015. From that date onwards employers will have to report to the Norwegian tax authorities on a monthly basis. This change in reporting duties will lay the foundations for more frequent reporting on the aid granted under the scheme. The Norwegian authorities have committed to discuss amendments in the reporting routines with the Authority in the future.

³⁵ Event No 710094, updated notification dated 3.6.2014, section 17, page 50.

opportunities and employment.³⁶ The Norwegian authorities also recognise that the aid scheme may affect trade and competition within the internal market.

- (56) The goal of the evaluation is therefore to both (i) assess the scheme's impact on job opportunities and employment in the eligible regions, and whether the objective of preventing or reducing depopulation is achieved, as well as (ii) assess the effects on competition and trade.
- (57) As regards the scheme's impact on job opportunities and employment, the evaluation will use result indicators that measure the impact that lowering employment costs through differentiated social security contributions has on *inter alia*:
- a. labour market participation rates;
 - b. employment growth (in both public and private sector);
 - c. wage formation and household disposable income;
 - d. industrial (sector) structure;
 - e. educational level of the work force; and
 - f. municipal and state finances.
- (58) The evaluation will analyse the scheme's effects on the labour market by geographical region and sector. Further, the evaluation will assess the impact of the scheme on both undertakings and employees, in order to determine who benefits from the scheme.
- (59) As regards potential effects on competition and trade, the Norwegian authorities have explained that the evaluation will seek, *inter alia*, to identify which sectors are exposed to international competition and trade; to identify whether the scheme's effect on competition and trade differs with respect to the size of the undertaking; to identify the criteria for assessing possible distortive effects on competition and trade, and – given these criteria – to assess the distortive effects on competition and trade.
- (60) Given the objective of identifying causal effects of the scheme, the fact that there has been variation both over time and between regions is advantageous from an identification perspective.³⁷ To evaluate the scheme, the Norwegian authorities propose to use both regional economic models and micro-econometric models. The Norwegian authorities have explained that the data needed for the evaluation will primarily be register data, which is available through various authorities – Statistics Norway. However, in order to make regional input/output analyses more relevant, it may also be necessary to collect transactions data from firms and possibly households.
- (61) The Norwegian authorities ^{have} proposed a multi-stage approach to the evaluation process.³⁸
- (62) The first stage is a feasibility study conducted by (a) researcher(s)/consultant(s) in cooperation with the Ministry of Finance, Ministry of Trade, Industry and Fisheries and Ministry of Local Government and Modernisation. This study will form the basis for a dialogue with researchers, consultants, statistical authorities and the ministries in order to further elaborate on issues regarding (*inter alia*) evaluation methodology and data needs. The Norwegian authorities will arrange a workshop on some or all of the various methodological approaches, and the Authority will be invited to participate in that workshop. Following this dialogue, the ministries will write the tender(s) and select the

³⁶ Event No 710094, updated notification dated 3.6.2014, *i.a.* section 4, page 6.

³⁷ See figure 1 in Appendix 1 to this Decision.

³⁸ See table 1, set out in Appendix 2 to this Decision, for an overview and timeline of this process.

evaluator(s). This is the responsibility of the ministries, but the Authority will be consulted in the process, as may the expert(s) involved in the feasibility study.

- (63) A first draft(s) of the evaluation report(s) will be assessed by a reference group consisting of participants from the ministries as well as a peer review group which will be independent of the ministries and may consist of researchers from both national and foreign universities, colleges and Statistics Norway. They will offer their reasoned opinions to the evaluator(s), who will be given the opportunity to elaborate or improve parts of the evaluation based on this feedback. The sixth stage is to assess the results of the evaluation and consider possible changes to the scheme. In the seventh and the final stage, the Norwegian authorities will send the final evaluation report(s) to the Authority.

12 Reporting and monitoring

- (64) The Norwegian authorities will submit annual reports on the scheme in line with RAG point 168.
- (65) *[Paragraph deleted by Decision 302/14/COL]*

II. ASSESSEMENT

1 The presence of state aid

(66) Article 61(1) of the EEA Agreement reads as follows:

“Save as otherwise provided in this Agreement, any aid granted by EC Member States, EFTA States or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Contracting Parties, be incompatible with the functioning of this Agreement.”

(67) According to Article 61(1) of the EEA Agreement, as interpreted by the EFTA Court, a measure will constitute ‘state aid’ if four cumulative conditions are met: (i) there must be an intervention by the State or through State resources; (ii) that intervention must confer an advantage on the recipient; (iii) it must be liable to affect trade between EEA States; and (iv) it must distort or threaten to distort competition.

(68) At the outset the Authority notes firstly that the EFTA Court has concluded that the incarnation of the scheme which was assessed by the Authority in its Decision No 165/98/COL³⁹ involved state aid,⁴⁰ and secondly that the Authority has concluded that other incarnations of the scheme have involved state aid.⁴¹ It is the view of the Authority that there are no changes to the currently notified scheme justifying a different conclusion. Thus, in the following, the Authority briefly sets out the reasoning behind its position that the notified scheme involves state aid.

(69) The notified scheme involves a consumption of state resources by way of income foregone by the State with the application of reduced rates of social security contributions.

(70) The reduced social security contribution rates confer advantages on the eligible undertakings compared to ineligible undertakings.

(71) The aid scheme covers both the public and private sectors within the designated area. In this context, the Authority underlines that a measure will only constitute state aid in as far as it concerns an undertaking which carries out an economic activity, that is, an activity consisting of offering goods and services in competition on a given market⁴². The case-law defines undertaking as *“every entity engaged in an economic activity, regardless of the legal status of the entity and the way in which it is financed”*⁴³. Therefore, no state aid can be involved in non-economic activities, such as purely public administrative activities, or in compulsory social security activities. On the other hand, when a public authority engages in economic activities, and for that purpose has to be regarded as an undertaking, the state aid rules apply in full. For the purposes of this decision it is not necessary to precisely define which activities from public authorities are economic activities or not, as

³⁹ OJ L 327 3.12.1998 p. 1.

⁴⁰ Case E-6/98, *Norway v ESA* EFTA Ct Rep. [1999] p. 74.

⁴¹ See above Section I.2 of this Decision.

⁴² Joined Cases C-180/98 to C-184/98 *Pavlov and others* [2000] ECR I-6451, paragraph 75. Joined Cases E-4/10, E-6/10 and E-7/10 *The Principality of Liechtenstein, REASSUR Aktiengesellschaft and Swisscom RE Aktiengesellschaft v ESA* EFTA Ct. Rep [2011] p 22, paragraph 54

⁴³ Case C-41/90 *Höfner and Elser* [1991] ECR I-1979, paragraph 21.

the Authority assesses the scheme as such, and not individual grants of aid made under the scheme.⁴⁴

- (72) Only undertakings located in the areas and active in the sectors covered by the scheme benefit from the application of reduced rates for social security contributions. When these undertakings provide goods or services in competition with undertakings falling outside the scope of the scheme, the latter will benefit from an advantage compared to the former. Thus, competition between undertakings will be distorted.
- (73) The scheme covers a multitude of sectors in the designated area, such as (for example) mining and manufacturing, construction, wholesale and retail trade and telecommunications. In light of this, the Authority concludes that the scheme affects trade between the Contracting Parties to the EEA Agreement.
- (74) Since the conditions set out in Article 61(1) of the EEA Agreement are met, the notified scheme for regionally differentiated social security contributions 2014-2020 involves state aid.

2 Procedural requirements

- (75) Pursuant to Article 1(3) of Part I of Protocol 3, “the EFTA Surveillance Authority shall be informed, in sufficient time to enable it to submit its comments, of any plans to grant or alter aid (...). The State concerned shall not put its proposed measures into effect until the procedure has resulted in a final decision”.
- (76) By notifying the scheme on regionally differentiated social security contributions 2014-2020, the Norwegian authorities have respected their obligations pursuant to Article 1(3) of Part I of Protocol 3.

3 Compatibility of the aid

3.1 Scope of circle of beneficiaries

- (77) On the basis of the information presented in chapters I.5.2 and I.5.3 of this decision, the Authority is satisfied that the Norwegian authorities have limited the circle of beneficiaries in compliance with chapter 1.1 of the RAG.

3.2 Geographical scope – very sparsely populated areas

- (78) The notified measure represents an “operating aid” scheme in that the aid, granted in the form of reductions in social security contributions, is aimed at reducing current expenditure, that is not related to an initial investment, for eligible undertakings.⁴⁵
- (79) Operating aid may be considered compatible if it aims to prevent or reduce depopulation in “very sparsely populated areas”.⁴⁶ In Norway, “very sparsely populated areas” are Statistical regions at level 2 with less than 8 inhabitants per km² (based on Eurostat data on population density for 2010) or parts of such Statistical regions designated by Norway in accordance with the third sentence of point 149 of the RAG,⁴⁷ which reads as follows: “For very sparsely populated areas, an EFTA State may designate parts of Statistical regions at level 2 (...) with less than 8 inhabitants per km² or other smaller contiguous

⁴⁴ Case E-6/98, cited above, paragraph 57.

⁴⁵ Point 20(p) of the RAG.

⁴⁶ Point 16 of the RAG.

⁴⁷ Point 20(x) of the RAG.

areas to those Statistical regions, provided that the areas designated have less than 8 inhabitants per km² and that their designation does not exceed the specific allocation of “c” coverage referred to in paragraph 142”. The “c” coverage referred to in paragraph 142 is 25.51%.

- (80) Norway has seven Statistical regions at level 2. Of those seven, two have less than 8 inhabitants per km²; firstly, the Northern Norway region, which encompasses the three counties of Nordland, Troms and Finnmark, and secondly, the Hedmark and Oppland region, which encompasses the two counties having those names.
- (81) In accordance with the principle set out in the third sentence of point 149 of the RAG, the Norwegian authorities have designated areas contiguous to the two regions of Northern Norway and Hedmark and Oppland, as very sparsely populated areas. These areas have less than 8 inhabitants per km² and the designated area as a whole has a 19.75%⁴⁸ “c” coverage. Thus, the areas designated by the Norwegian authorities qualify as very sparsely populated areas within the meaning of the RAG.

3.3 The principles of assessment

- (82) In point 26 of the RAG, the Authority has clarified that it intends to assess the compatibility of regional aid with the functioning of the EEA Agreement on the basis of the following factors:
- b) objective of common interest;
 - c) need for state intervention;
 - d) appropriateness;
 - e) incentive effect;
 - f) proportionality;
 - g) avoidance of undue negative effects on competition and trade between EEA States, and
 - h) transparency.
- (83) Additionally, the RAG provides that regional operating aid may be acceptable in certain very limited, well-identified cases where the obstacles that the areas may encounter in attracting or maintaining economic activity may be so severe or permanent that investment aid alone may not be sufficient to allow the development of the areas.⁴⁹ Operating aid will not be regarded as compatible with the internal market unless it is awarded to tackle specific or permanent handicaps faced by undertakings in disadvantaged regions.⁵⁰
- (84) In the following, the Authority assesses the compatibility of the scheme on the basis of these criteria.

3.4 Objective of common interest

- (85) In order for the notified scheme to be compatible with the functioning of the EEA Agreement it has to aim at an objective of common interest, in accordance with its Article 61(3)(c). The primary objective of regional aid is to reduce the development gap between the different regions of the EEA.⁵¹ Operating aid schemes will promote the development of disadvantaged areas only if the challenges facing these areas are clearly identified in

⁴⁸ This figure is rounded off to 19.7% in the table in chapter I.6.2.2 of this Decision, 19.75%.

⁴⁹ Point 6 of the RAG.

⁵⁰ Point 16 of the RAG.

⁵¹ Point 30 of the RAG.

advance.⁵² The obstacles to attracting or maintaining economic activity may be so severe or permanent that investment aid is not sufficient to allow the development of those areas.⁵³ To demonstrate the compatibility of the operating aid to prevent or reduce depopulation in very sparsely populated areas, the Norwegian authorities must demonstrate the risk of depopulation of the relevant area in the absence of operating aid.⁵⁴

- (86) The Norwegian authorities aim to preserve the distinct features of the settlement pattern in Norway.⁵⁵ The aim is to utilise human and natural resources throughout the country, in order to create the greatest possible national prosperity, to ensure equal living conditions and to offer everyone the freedom to settle wherever they choose. The notified scheme aims at stimulating the labour market. This is in line with the common objective of European regional policy – the support of job creation, competitiveness, economic growth, improved quality of life and sustainable development.
- (87) According to the Norwegian authorities, the labour market is the most important factor influencing people’s choice of where to live.⁵⁶ The Norwegian Institute for Urban and Regional Research (NIBR) has analysed individual and household decisions on migration and non-migration (i.e. not moving from one place to another) (“the NIBR Report”).⁵⁷ NIBR concludes that an employment possibility is the most influential factor on a person’s choice of where to take up residence.
- (88) According to the Norwegian authorities, the NIBR Report demonstrates that young people are primarily motivated by education and job opportunities when they move to larger cities.⁵⁸ As much as 42% of all migrants explain that their change of residence is due to their change of jobs.
- (89) Young people migrate to cities and central areas. The Norwegian authorities refer to a study that compared two groups of people, the first born in the years 1950-1954, the second born in the years 1965-1969 (the Sørлие Study).⁵⁹ The study shows that more and more people attend higher education. Compared to the first cohort, fewer people in the second group migrate back to peripheral areas. In the view of the Norwegian authorities, this indicates that the migration loss from peripheral areas to more central areas is increasing.
- (90) The Norwegian authorities explain that the depopulation of the notified eligible area is a constant challenge.⁶⁰ Indeed, from the early 1980s until the 2000s the population of the eligible areas decreased. The total population of the covered area has increased slightly the last five years, but that increase is substantially lower than in other parts of Norway. The Norwegian authorities refer to the increase in immigration as an explanation of the increase in population in the eligible area. The Sørлие Study indicates that the internal migration continues. Thus, the tendency of young people to move to cities and central areas, and not to return to the designated areas, remains unchanged. The Norwegian authorities explain that the internal migration trends are less volatile than the immigration

⁵² Point 41 of the RAG.

⁵³ Point 41 of the RAG.

⁵⁴ Point 43 of the RAG.

⁵⁵ Event No 710094, updated notification dated 6.2.2014, section 9, page 11.

⁵⁶ Event No 710094, updated notification dated 3.6.2014, section 9, page 11.

⁵⁷ NIBR Report 22/2012 Kjetil Sørлие, Marit Aure and Bjørg Langseth *Hvorfor flytte? Hvorfor bli boende? Bo- og flyttemotiver de første årene på 2000-tallet*. (In Norwegian only).

⁵⁸ Event No 710094, updated notification dated 3.6.2014, section 9, page 12.

⁵⁹ Kjetil Sørлие (2010) *Bosetning, flytting og regional utvikling* Chapter 20 in *Det norske samfunn* (6th edition). Ivar Frønes and Lise Kjølørød (editors). Gyldendal norsk forlag.

⁶⁰ Event No 710094, updated notification dated 3.6.2014, section 9 page 12..

trends.⁶¹ Thus, in order to maintain a stable population in the designated areas, the Norwegian authorities argue that aid is still needed to stimulate employment opportunities in the designated areas. On this basis, the Norwegian authorities argue that the notified measure aims at an objective of common interest.⁶²

- (91) On the basis of the material provided in the notification, the Authority concludes that the notified measure, by alleviating the cost of employment in disadvantaged areas, aims at a regional policy objective of common European interest.

3.5 Need for state intervention

- (92) In order to assess whether state aid is necessary to achieve the objective of common interest, it is necessary first to diagnose the problem to be addressed.⁶³ State aid should be targeted towards situations where aid can bring about a material improvement that the market cannot deliver itself.⁶⁴
- (93) The Norwegian authorities explain that there has been a 5.2% growth in employment by workplace over the last ten years in the eligible area. In the same period the ineligible area has seen a growth of 16.2%. On the basis of a report from Cappelen and Stambøl,⁶⁵ the Norwegian authorities argue that the difference in employment growth would be even greater in the absence of the aid. According to the estimates of Cappelen and Stambøl, the eligible area would have close to 50 000 fewer inhabitants without the aid.
- (94) The eligible area has seen a slight population growth in the most recent years, 0.4% in the period 2002-2012. This growth is marginal compared to the general population growth in Norway in that period (11%) and the population growth in the ineligible area (13.8%).
- (95) In order to investigate the issue more closely, the Norwegian authorities have elaborated on the demographic forces driving population developments.
- (96) Net natural growth (the difference between births and deaths) has been a major contributor in the ineligible areas. In the last 10 years, the eligible area has had longer periods with more deaths than births. The current economic climate has had an appreciable effect on population developments in Norway. The Norwegian authorities have explained that net internal migration activity from the eligible areas to ineligible areas in times of economic growth is substantial, whereas internal migration activity tends to slow down in times of recession (due to the general deceleration of the labour market). In addition, the Norwegian authorities have explained that the economic recession in the Eurozone has contributed to an increase in net external immigration into Norway (including into the eligible areas). According to the Norwegian authorities, these elements explain the modest population growth in the eligible areas.
- (97) The Norwegian authorities take the view that the modest population growth seen in the eligible areas does not mean that there is no longer a need for state intervention. The Norwegian authorities stress that it is unclear whether the eligible areas will continue to have a positive net external migration. This depends on the economic development of Norway and the EU. According to the Norwegian authorities, internal migration from the

⁶¹ Event No 710094, updated notification dated 3.6.2014, section 10, page 17.

⁶² Event No 710094, updated notification dated 3.6.2014, section 9, page 15.

⁶³ Point 44 of the RAG.

⁶⁴ Points 26(b) and 44 of the RAG.

⁶⁵ Cappelen and Stambøl *Virksomheter av å fjerne regionale forskjeller i arbeidsgiveravgiften og noen mulige tiltak* (2003).

eligible areas to the ineligible areas will outweigh external immigration to eligible areas in the long term. The Norwegian authorities have supported this forecast with historical data.

- (98) On the basis of the above, the Norwegian authorities argue that there is a continued need for state intervention to reduce or prevent depopulation in the eligible areas.
- (99) The Authority has assessed the information provided by the Norwegian authorities, and has, on this basis, concluded that there is a need for state intervention to reduce or prevent depopulation in the eligible areas.

3.6 Appropriateness

- (100) The proposed aid measure must be an appropriate policy instrument to address the objective of common interest.⁶⁶ An aid measure will not be considered compatible if other, less distortive, policy instruments or other less distortive types of aid instrument make it possible to achieve the same positive contribution to regional development.⁶⁷
- (101) In that regard, the Norwegian authorities must demonstrate that the aid is appropriate to achieve the objective of the scheme for the problems that the aid is intended to address.⁶⁸
- (102) The Norwegian authorities have explained that the eligible area is characterised by a narrow industrial base and a high level of dependence on public sector employment. The scheme aims at stimulating the labour market, which is the single most important factor influencing where people choose to live. The scheme is designed to promote employment in the eligible area in the least distortive way possible. The lower contribution rates are directly linked to gross salary payments in the designated areas. Thus, the measure is directly linked to actual employment costs.
- (103) According to the Norwegian authorities, other aid measures would be less efficient or insufficient to promote employment in the eligible areas.
- (104) The Norwegian authorities argue that investment aid would be less effective as it tends to favour capital intensive industries. Rather than primarily lacking risk capital, the eligible areas lack profitable investment projects. Operating aid directly connected to employment cost is a more targeted tool to stimulate employment. Investment aid would only indirectly favour labour by stimulating increased production volumes, and thus have more uncertain effects on employment in the eligible areas.
- (105) The Norwegian authorities furthermore stress that whilst investment or operating aid granted only to new enterprises to be established in the eligible areas could stimulate new establishments that would otherwise not exist, such a measure, restricted to new enterprises, would not alleviate the long-term challenges faced by the industries in the eligible areas.
- (106) In the view of the Norwegian authorities, increased investment in infrastructure will generally not sufficiently stimulate employment in sparsely populated areas. Investment in infrastructure will generally be far more costly than in densely populated areas because of the nature of the terrain, the remoteness of the location and the small number of people served by the investment in each region, combined with the economies of scale of such investments.

⁶⁶ Points 26(c) and 47 of the RAG.

⁶⁷ Point 47 of the RAG.

⁶⁸ Point 52 of the RAG.

(107) The Authority has assessed the information provided by the Norwegian authorities, and has, on this basis, concluded that the proposed reduction in social security contributions is an appropriate policy instrument to reduce or prevent depopulation in the eligible areas.

3.7 Incentive effect

(108) Regional aid can only be found to be compatible with the internal market if it has an incentive effect.⁶⁹ An incentive effect is present when the aid changes the behaviour of an undertaking in such a way that it engages in additional activity which it would not carry out without the aid, or which it would carry out in a restricted or different manner.⁷⁰

(109) For operating aid schemes, the incentive effect of the aid will be considered to be present if it is likely that, in the absence of aid, the level of economic activity in the area or region concerned would be significantly reduced due to the problems that the aid is intended to address.⁷¹ The Authority will therefore take the view that the aid induces additional economic activity in the eligible areas only if the Norwegian authorities have demonstrated the existence and substantial nature of those problems in the area concerned.

(110) The scheme reduces labour costs in the eligible areas. In general, a reduction in labour costs gives an incentive to increase employment. In this sense, the scheme favours labour over capital intensive industries. Provided that the regional differences in tax rates are expected to be maintained for a longer period of time, employers will take the lower labour costs in the eligible areas into account when determining the location of their businesses, method of production and number of employees. In this way, the subsidies linked to labour costs will prevent or reduce depopulation by stimulating employment in the eligible areas. The Norwegian authorities furthermore stress that continuation of the scheme will contribute to maintain the expectations of the employers and thus contribute to the stabilisation of employment in the eligible area.

(111) According to the Norwegian authorities, the incentive effect of the scheme is best illustrated by comparing the actual situation where various incarnations of the scheme has been in place since 1975 until today (apart from the years 2004-2007), with a counterfactual scenario in which there was no differentiated social security contribution scheme. In that regard, the Norwegian authorities point to a study that argues that 63% of the companies in Zone 5 (2000 of 3200 companies) would operate at a loss if the social security rate were to be raised from 0% to 14.1%.⁷² As the undertakings cannot operate at a loss in the long term, costs would have to be cut. Labour costs would be among the cut costs. Hence, it is reasonable to consider that employment would decrease in the counterfactual scenario. The same could be said of the other zones, although the aid intensities are lower. In that regard, the Norwegian authorities refer to empirical studies that have analysed the effects of the lower social security contributions and have found that the reduction in social security contributions has a significant impact on employment.⁷³ One study concluded that a reduction in the social security contribution by 1% increases employment by 1%.

(112) The Authority notes that, given its design as a gradual tax exemption scheme and its broad reach, it is not possible to precisely assess the incentive effect of the scheme on a company-by-company level. The Authority is nevertheless satisfied that the scheme does

⁶⁹ Point 56 of the RAG.

⁷⁰ Points 26(d) and 56 of the RAG.

⁷¹ Point 71 of the RAG.

⁷² Norut and Menon *Tiltakssonen for Finnmark og Nord-Troms* (2012).

⁷³ Report from Hervik and Rye (2014) with further references to the studies.

incentivise undertakings situated in the eligible area to hire more people than they otherwise would in the absence of the aid. On the basis of the information, studies and reports provided by the Norwegian authorities, the Authority shares the view that the level of economic activity in the eligible area would be significantly reduced without the aid. Therefore, the Authority concludes that the scheme has incentive effect.

3.8 Proportionality

- (113) The aid granted under the scheme must be limited to the minimum needed to induce the additional investment or activity in the area concerned.⁷⁴ Thus, the Norwegian authorities must demonstrate that the level of aid is proportionate to the problems that the aid is intended to address.⁷⁵ In particular, the following conditions must be fulfilled:
- a) The aid must be determined in relation to a predefined set of eligible costs that are fully attributable to the problems that the aid is intended to address, as demonstrated by the Norwegian authorities;
 - b) The aid must be limited to a certain proportion of those predefined sets of eligible costs and must not exceed those costs
 - c) The aid amount per beneficiary must be proportional to the level of the problems actually experienced by the beneficiary.⁷⁶
- (114) With regard to a) and b), the Authority notes that aid granted under the scheme is directly connected to the eligible undertakings' cost of labour. Although the annual expenditures under the scheme will be considerable (in the range of NOK 6.85 billion per year) and covers nearly all sectors of the Norwegian economy, the scheme is restricted to giving a fixed reduction in the social security contributions. The aid is, in other words, confined to compensate for a single cost: the cost of employment. The aid is limited to a certain proportion of that cost in accordance with the table set out in paragraph (26) above. Thus the aid is determined in relation to a predefined eligible cost (the cost of employment) which is fully attributable to the problems that the aid is intended to address (prevent or reduce depopulation by stimulating undertakings to hire people). Furthermore, the aid is limited to a certain proportion of the eligible cost (a reduction from the standard 14.1% in social security contribution to a percentage in the range of 10.6% - 0%, depending on the zone). As the aid is directly linked to the cost of employment in the form of a tax exemption, the aid cannot exceed the eligible cost.
- (115) With regard to c), the Authority notes that the eligible areas have a population density of 4.1 inhabitants per km², which is well below the RAG threshold of 8 inhabitants per km². The aid levels, as set out in the table in paragraph (26) above, are lower than the aid intensities allowed for most types of aid.
- (116) The Norwegian authorities have divided the eligible areas into five geographical zones with different aid intensities, reflecting the disparity of the problems in the different zones. Thus, the scheme aims at addressing the problem of depopulation in low populated areas in a way which is proportionate to the specific socio-economic difficulties of each zone.
- (117) On the basis of the above, the Authority concludes that the scheme concerning regionally differentiated social security contributions is proportionate to its aim, which is to prevent or reduce depopulation in the least populated regions, and will not affect trade to an extent contrary to the interest of the Contracting Parties to the EEA Agreement.

⁷⁴ Points 26(e) and 73 of the RAG.

⁷⁵ Point 104 of the RAG.

⁷⁶ Point 105 of the RAG.

3.9 Avoidance of undue negative effects on competition and trade between EEA States

- (118) The negative effects of aid must be sufficiently limited, so that the overall balance of the measure is positive.⁷⁷
- (119) The Authority notes that the aid intensities are not excessive in relation to the objective of preventing depopulation in the designated areas. Moreover, the regional differentiation of the reduced social security contributions is designed to promote employment and settlement in the least distortive way possible. In that regard, the Authority notes that the scheme is open on a non-discriminatory basis on the same terms to all undertakings established in the designated areas.
- (120) According to the Norwegian authorities, most undertakings receiving aid under the scheme will be offering services locally. Their view is that the effects on trade and distortions of competition therefore will be minimal.
- (121) The Authority has assessed the information provided by the Norwegian authorities, and has, on this basis, concluded that the notified measure avoids undue negative effects on competition and trade.

3.10 Transparency

- (122) In order to be compatible with the functioning of the EEA Agreement, the notified scheme must meet certain transparency standards. The EEA States, the Authority, economic operators and the public must have easy access to all relevant acts and to pertinent information about the aid awarded thereunder.⁷⁸
- (123) In keeping with this, the Norwegian authorities will, in accordance with point 135 of the RAG, set up a central website where they will publish the text of the notified aid scheme and its implementing provisions, as well as information on the granting authority, the individual beneficiaries, the amount per beneficiary and the aid intensity. This information will be available for the general public without restrictions for at least 10 years.
- (124) Furthermore, the Norwegian authorities have committed to have an evaluation of the scheme conducted by an independent expert as described in chapter I.11, which they have committed to make public.
- (125) On the basis of the above, the Authority concludes that the notified scheme meets the transparency requirements of the RAG.

4 *Ex post* evaluation

- (126) The Norwegian authorities have committed to have an evaluation of the scheme, conducted by an independent expert, as described in chapter I.11 above, which they have committed to make public, in line with point 138 of the RAG.
- (127) As a starting point, the Authority recalls that the objective of the evaluation has two parts; firstly the evaluation should attempt to identify the causal impact of the policy on the direct policy objective of preventing or reducing depopulation in sparsely populated areas. The evaluation should assess the incentive effect of the aid and to what extent it changes

⁷⁷ Point 26(f) and 106 of the RAG.

⁷⁸ Point 26(g) of the RAG.

the behaviour of firms (and employees). Secondly the evaluation should assess the impact of the scheme on trade and competition within the internal market.

- (128) The effects of the scheme on both the incentives of the recipients and on competition and trade, will differ across undertakings, sectors and regions. The evaluation must to a necessary extent take into account regional differences, sector differences as well as relevant differences for individual aid recipients under the scheme.
- (129) For the sectoral differences, the evaluation should address the question of whether the aid scheme is proportional; i.e. whether the reduced social security contribution rates in the different zones have the necessary incentive effect.
- (130) It is essential that the evaluation assesses sectors differently to the extent that there are relevant differences between sectors. In assessing sectors it is important that this is done in a consistent manner (i.e. following for example the NACE code or similar national classification system) and at a sufficiently disaggregated level in order to capture potentially relevant differences.
- (131) The sector assessment must use as a starting point specific goods or services as opposed to for instance assessing the service sector as such. Moreover, the evaluation should be sufficiently detailed to cover the fact that there may be relevant differences, both as regards incentive effect and effect on competition and trade, between aid recipients belonging to one and the same sector.
- (132) It is also relevant to take into account whether certain undertaking or sectors locate in the assisted regions for reasons other than the lower social security tax; *inter alia* because they provide local services or because they utilise natural resources which are fixed to a particular location. Moreover, whether they are bound to the region or not for such reasons, there may also be other factors suggesting that certain undertakings or sectors do not employ more people as a consequence of the aid measure. This may depend on the specific product or service produced, firm size and the relative labour intensity of the economic activity in question.

The Authority further notes that the evaluation should in particular focus on sectors where the potential distortions to competition and trade could be particularly high, such as in the energy industries covered by the scheme. The Authority will, for any possible prolongation of the scheme, take the results of the evaluation into account when assessing the appropriateness of the aid instrument in the sectors where potential distortions are particularly high, in line with point 55 of the RAG.

- (133) In line with point 137 of the RAG, the implementation of the scheme will be reviewed during the scheme's lifetime and the evaluation will be submitted to the Authority in sufficient time in order for it to assess the possible prolongation of the aid scheme upon expiry.

5 Conclusion

- (134) In the Authority's view, the notified aid scheme for regionally differentiated social security contributions 2014-2020 covers only areas falling under the definition of very sparsely populated areas.
- (135) Furthermore, the Norwegian authorities have justified that the scheme addresses an objective of common interest, that there is a need for state intervention, that the reduction

in social security contributions is an appropriate policy instrument, that it has an incentive effect, is proportionate, that undue negative effects on competition are avoided and that the implementation of the scheme will be sufficiently transparent.

- (136) On this basis, the Authority considers that the scheme on regionally differentiated social security contributions 2014-2020 which the Norwegian authorities are planning to implement is compatible with the functioning of the EEA Agreement within the meaning of Article 61(3)(c) of the EEA Agreement.
- (137) The Norwegian authorities are reminded that all plans to modify this scheme must be notified to the Authority.

HAS ADOPTED THIS DECISION:

Article 1

The aid scheme for regionally differentiated social security contributions 2014-2020, as notified in a complete manner on 3 June 2014, is compatible with the functioning of the EEA Agreement.

Article 2

The implementation of the measure is authorised accordingly.

Article 3

This Decision is addressed to the Kingdom of Norway.

Article 4

Only the English language version of this decision is authentic.

Decision made in Brussels, on 18 June 2014.

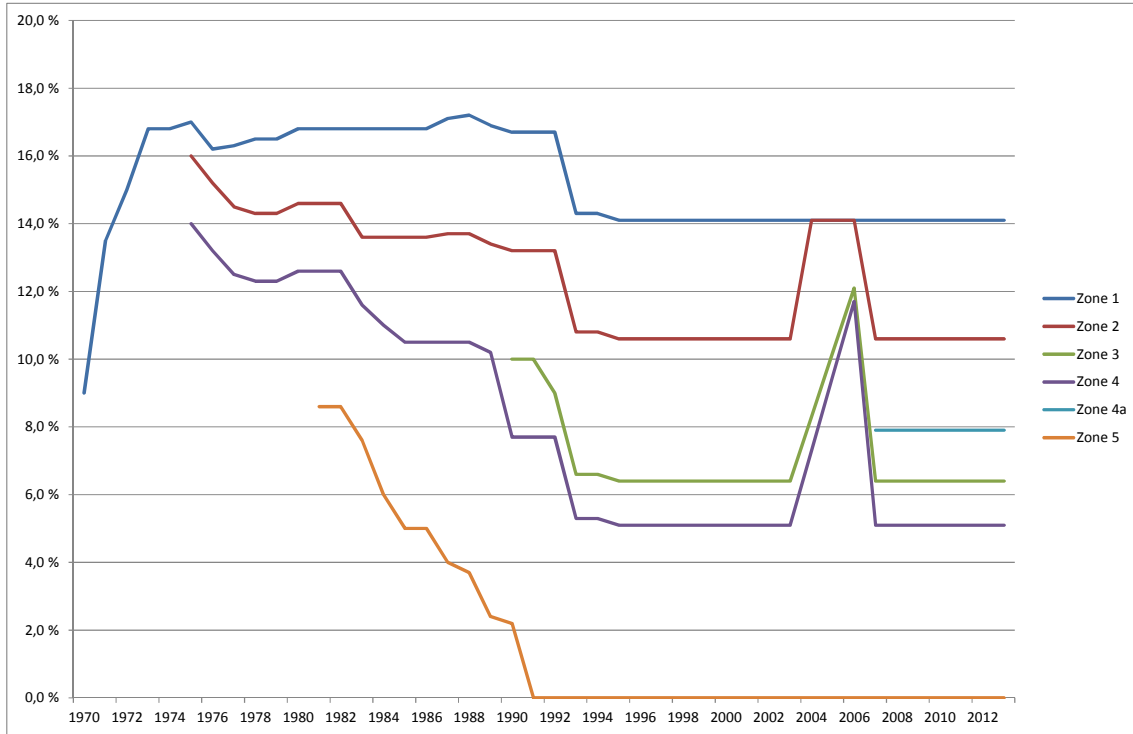
For the EFTA Surveillance Authority

Oda Helen Sletnes
President

Frank Büchel
College Member

Appendix 1

Figure 1. Development in payroll taxes for different zones 1970-2013



Appendix 2

Table 1: Timeline for the evaluation plan

Stage	Responsibility and participation	Deadlines
Stage 1 – the feasibility study	The ministries , assigned researcher	First quarter 2015
Stage 2 – the dialogue	The ministries , author of the feasibility study, open invitation for research institutions, evaluation environments	Second quarter 2015
Stage 3 – the tender and selection of the evaluator(s)	The ministries , the Authority	By the end of 2015
Stage 4 – the evaluation period, first draft	The evaluator(s) , the reference group, the peer review group	By the end of 2017/first quarter of 2018
Stage 5 – the assessment of the evaluation and further works/adjustments to the evaluation(s), Final version of the evaluation	The peer review group , the reference group and the evaluator(s)	Second half of 2018
Stage 6 – Assessing the results of the evaluation(s)	The ministries	Second half of 2018
Stage 7 – Deadline for the evaluation – official deliverance to the Authority	The ministries	December 31 st , 2018