REPUBLIC OF ESTONIA
MINISTRY OF FINANCE

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HT.100469 Estonia's comments on the Draft Communication amending RAG

Hereby we submit Estonia's comments on the draft Communication amending the Guidelines on regional State aid (RAG).
Estonia in general supports the draft. We support the amendment proposed in the draft, which places greater emphasis on the specific characteristics and challenges of the EU's eastern border regions. We also support that Estonia's entire territory is treated as an eastern border region and that the possibility of granting regional aid remains during the 2028–2034 period.

Nevertheless, we have some proposals for the draft and for the RAG in force:

1) Estonia proposes adding further options to the draft RAG to support food industry enterprises operating in eastern border regions.

By food industry enterprises, we refer to NACE Rev. 2 economic activities: A.01 "Crop and animal production, hunting and related service activities", A.03 "Fishing and aquaculture", C.10 "Manufacture of food products", and C.11 "Manufacture of beverages".

2) We propose enabling the granting of regional aid to food industry enterprises in eastern border regions for any type of initial investment, regardless of whether or not new economic activity is created.

Under the current RAG (paragraph 100), aid granted to large enterprises in TFEU Article 107(3)(c) region is restricted to "initial investment in favour of new economic activity". We believe this provision should be amended so that, for large food industry enterprises in these regions, regional aid could be granted for initial investment in general, rather than being limited to initial investment creating new economic activity.
The current requirement significantly limits the scope for granting regional aid to large food industry enterprises, what in turn may negatively impact food supply security. Therefore, we consider it justified to simplify the conditions for granting regional aid and remove the restriction in the regional aid guidelines that limits aid for large enterprises in "c areas" solely to initial investment creating new economic activity. The administrative burden associated with meeting and verifying this requirement is disproportionately high and unjustifiably restricts the pool of eligible enterprises.

3) We propose to add the possibility to support food industry enterprises in eastern border regions (whether located in areas eligible under Article 107(3)(a) or Article 107(3)(c)) at an equivalent aid intensity.

Food production is a strategically important sector and a component of broader economic and security resilience. Given Estonia's geographical location, reducing import dependency and increasing crisis resilience are priorities for us. This can only be achieved if sufficient investment can be made in food industry enterprises, including large enterprises that are critical for food security. Furthermore, it must be noted that stricter regulatory requirements (e.g., packaging standards) impose additional obligations and investment needs on businesses to remain competitive, yet do not necessarily yield direct economic returns. Therefore, the aid intensity must be sufficiently high to support investment and ensure the region's balanced development.

The adequacy of the aid intensity is particularly important for countries in eastern border regions. In these countries, risks and costs associated with the investment environment (including additional costs stemming from the security situation, supply chain vulnerabilities, and geographical location) are generally higher; consequently, companies compete for investments on unequal terms compared to those in the central and western regions of the EU. A sufficiently high aid intensity compensates for the persistent disadvantages faced by eastern border regions, enables the maintenance and expansion of production capacity in these areas, and thereby improves the region's security of supply and economic security. It also increases the willingness of entrepreneurs to make necessary investments.

4) In addition, we propose amending the definition of a "large investment project" (current RAG paragraph 19, point 18), the formula for the "adjusted aid amount" (current RAG paragraph 19, point 3), and the definition of "initial investment" (current RAG paragraph 19, point 13) and align these provisions with the definitions of the second draft of the Commission's General Block Exemption Regulation (hereafter GBER).

Compared to the definition of a "large investment project" in the current RAG, the second draft of the GBER raises the threshold for a large investment project to 70 million euros and 75 million euros as of 1.01.2031.

Compared to the "adjusted aid amount" formula set out in the current RAG, the second draft of the GBER has modified the "adjusted aid amount" formula to consider the increase of the threshold for large investment projects.

Compared to the definition of "initial investment" in the RAG, the second draft of the GBER has slightly modified the definition by adding "or the overall provision of service(s)" to the concept of a "fundamental change in the production process".

It is important that the same terms are used in RAG and the GBER.

Yours sincerely,

(signed digitally)
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