

State Aid – notification of the Norwegian scheme for regionally differentiated social security contributions

Contents

1. Introduction – description of background and objective	2
2. National legal basis.....	2
3. Aid recipients	2
4. Form of aid	6
5. Eligible expenses.....	7
6. Cumulation	7
7. Budget and duration.....	8
8. Introduction to the method deciding the eligible area	9
9. Contribution to a common objective.....	11
10. Necessity of the scheme	15
11. Appropriateness of the scheme	20
12. Eligible areas in the notified scheme	26
13. Incentive effect	34
14. Proportionality.....	36
15. Negative effects on competition	48
16. Transparency	49
17. Evaluation	50
18. Reporting and monitoring	51

1. Introduction – description of background and objective

The Norwegian authorities hereby notify to the EFTA Surveillance Authority (the Authority) a scheme for regionally differentiated employer social security contributions (employer SSC) for the period 1 July 2014 to 31 December 2020.

Reference is made to the Authority's decision 228/06/COL of 19 July 2006 on the existing employer SSC scheme.

The objective of the scheme for differentiated employer SSC is to reduce or prevent depopulation in the least inhabited regions in Norway, by stimulating employment in these regions. The system is designed as an operating aid scheme where aid is granted to offset employment costs. Accordingly, employers located in the least populated areas pay employer SSC at a reduced rate. Aid intensities vary with the geographical area in which the business unit is registered.

2. National legal basis

The national legal basis for the scheme is the National Insurance Act (*lov 28.02.1997 nr. 19 om folketrygd (folketrygdloven)*), Section 23-2. This provision sets out the employer's general obligation to pay employer SSC calculated on the basis of the gross salary paid to the employee.

According to paragraph 12 of Section 23-2, the Parliament may adopt regionally differentiated contribution rates, as well as specific provisions for employers within certain sectors. Thus the actual content of the differentiated employer SSC scheme derives from the parliamentary decision on contributions etc. to the National Insurance Scheme. This decision is adopted on a yearly basis, normally in the beginning of December, with effect as from 1 January the following year.

Given that the notified scheme is approved by the Authority, the Government will present a proposal before Parliament for a decision implementing the scheme, which the Parliament may adopt in June 2014 with effect as of 1 July 2014.

3. Aid recipients

Unless otherwise stated, all undertakings in all business sectors having their business activity registered within the geographical area of zones 2-5 (cf. chapter 14 below), are eligible for aid under the notified scheme.

It is estimated that the notified scheme implies an accumulated aid to eligible undertakings of about 6.85 billion NOK for 2013. In this context "undertaking" means entities performing the type of economic activity subject to state aid rules under Article 61 in the Treaty. The estimated aid figures are calculated by using the tax base for the differentiated social security contribution multiplied by the full tax rate of 14.1 per cent. By subtracting the actual data for paid social security contributions from the

undertakings in the eligible area we arrive at the estimates above. The source of the data is Statistics Norway¹. See also section 7.

Statistics Norway publishes statistics on the number of companies by municipality in Norway. Combined with information on the zones in which the municipalities are located we can give an estimate of how many companies are included in the scheme. According to Statistics Norway there were 33,988 employers engaged in economic activity located in municipalities where the scheme applied in 2013. Only undertakings with one or more employees are included in this estimate. Table 1 below shows the number of private sector companies with one employee or more by zone.

Table 1. Companies with one employee or more.

Companies	
Zone 2	12,010
Zone 3	4,199
Zone 4	10,383
Zone 4a	3,964
Zone 5	3,432
Sum	33,988

Source: Statistics Norway

Table 2 shows the total number of companies in Norway by size. As the table shows only 0.1 per cent of the companies in Norway have 250 or more employees.

Table 2. Number of companies in Norway by size. 2013

	Companies	Pct.
All	513,646	100.0
No employees	312,497	60.8
1-4 employees	108,878	21.2
5-9 employees	39,587	7.7
10-19 employees	26,849	5.2
20-49 employees	17,669	3.4
50-99 employees	5,145	1.0
100 - 249 employees	2,357	0.5
250 employees or more	664	0.1

Source: Statistics Norway

Sectors and undertakings not eligible for regional operating aid

According to two specific paragraphs in the Authority's Guidelines on regional state aid for 2014-2020 (hereinafter RAG or the Guidelines), operating aid, such as reduced employer SSC, will not be considered compatible with the internal market if granted to

¹<https://www.ssb.no/statistikkbanken/SelectVarVal/Define.asp?MainTable=ArbGivAvgiftGr&KortNavnWeb=agr1&PLanguage=0&checked=true>

undertakings within certain sectors. These are paragraph 9 (steel and synthetic fibres sectors) and paragraph 17 (financial and insurance sectors, as well as undertakings within a group performing intra-group activities in the form of head office activities or business and other management consultancy activities). These sectors are precisely defined in the RAG, and the scheme will be designed in compliance with these limitations.

Sectors falling outside the scope of the Guidelines

According to paragraphs 10 and 11, the Guidelines will not be applied to state aid to the transport sector, the energy sector or to airports. The Norwegian authorities will limit the scope of the notified differentiated employer SSC scheme by listing the non-eligible sectors based on the statistical classification of economic activities in the European Community (NACE Rev.2).

As neither the transport sector nor the energy sector are defined in the RAG or in any other relevant sources we are aware of, the Norwegian authorities have been in considerable doubt as to which activities should be considered to form part of these sectors. We assume that the definitions of these sectors will be clarified at a later stage by definitions in the relevant guidelines, by the European Commissions' and the Authority's practice, and by case law. However, as the Norwegian authorities depend on receiving an approval of the notified SSC scheme as soon as possible, and well before 1 July 2014, we have drafted definitions of these sectors based on anticipations and assumptions of what these definitions comprise.

It is vital to the Norwegian authorities to be able to maintain a SSC scheme without disruption after 30 June 2014. We have therefore chosen to make the definitions of excluded sectors as wide as we consider necessary to avoid delays over this issue in the process of achieving the Authority's approval of the notified SSC scheme. The definitions of these sectors in this notification may therefore at a later stage turn out to be wider than the correct definitions as they may be clarified through future case law etc. The Norwegian authorities will therefore follow closely the future development of these sector definitions, and consider notifying amendments to the definitions if our definitions turn out to be too extensive.

Accordingly, the Norwegian authorities will demarcate the notified SSC scheme against the following activities:

Transport sector:

All activities comprised by the NACE Section H – Transportation and storage.

Energy sector:

All activities comprised by the following parts of the NACE:

- Division 05 – Mining of coal and lignite
- Division 06 – Extraction of crude oil and natural gas

- Class 07.21 – Mining of uranium and thorium ores
- Class 08.92 – Extraction of peat, but only in so far as the extraction is for energy purposes.
- Group 09.1 – Support activities for petroleum and natural gas extraction
- Group 09.9 – Support activities for other mining and quarrying, but only in so far as the activity supports either mining of coal and lignite or uranium and thorium ores.
- Class 16.29 – Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials, but only in so far as the activity consists of manufacturing fire logs and pellets for energy.
- Division 19 – Manufacture of coke and refined petroleum products, but only in so far as the products are manufactured for energy purposes.
- Class 20.13 – Manufacture of other inorganic basic chemicals, but only in so far as the activity consists of enrichment of uranium and thorium ores.
- Class 24.46 – Processing of nuclear fuel
- Classes 35.11, 35.12 and 35.13 – Production, transmission and distribution for electricity
- Classes 35.21 and 35.22 – Manufacture and distribution of gas
- Group 35.3 Steam and air conditioning supply

The demarcations against the excluded sectors will at the starting point be considered at the level of the different activities carried out by the undertaking. This implies that an undertaking will in principle be comprised by the SSC scheme for any labour costs related to the activities eligible under the notified SSC scheme (eligible activities). However, if an undertaking carries out both eligible and non-eligible activities, the undertaking will as such be excluded from the notified scheme unless it establishes a separation of activities or distinction of labour costs which ensures that the type of activities excluded from the scope of the notified SSC scheme do not benefit from aid under this scheme.

Hence, unless the undertaking is capable of presenting accounts, based on consistently applied and objectively justifiable principles, which clearly allocates all labour costs, both direct and indirect, related to the non-eligible activities, the undertaking will as such not be eligible for any aid under the scheme.

Exclusion of undertakings in difficulty

According to RAG paragraph 18, aid may not be granted to undertakings “in difficulty” covered by the Guidelines on state aid for rescuing and restructuring non-financial undertakings in difficulty. Undertakings deemed to be in such position will be excluded from the notified scheme. In addition, an obligation will be imposed upon all relevant undertakings falling within the definition to refrain from using the reduced rates when calculating the employer SSC. Furthermore, they will be obliged to inform the Norwegian authorities when they are no longer eligible under the scheme due to their situation.

Undertakings with an outstanding recovery order

In line with RAG paragraph 19, the Norwegian authorities confirm that we will ensure that undertakings with an outstanding recovery order will not be eligible for aid under the notified scheme.

Sectors or activities which fall outside the scope of the EEA Agreement

The Norwegian authorities intend to continue the differentiated employer SSC scheme to employers with activities falling outside the scope of the EEA Agreement, cf. the Article 8 of the Agreement. This will be the case, *inter alia*, for the production, processing and wholesale of agricultural, forestry and fishery products. This includes the activities comprised by the following parts of NACE:

- Section A (all divisions, with the exception of timber measurement under Class 2.40),
- Section C (Groups 10.1 to 10.6, Classes 10.85 and parts of 10.39 and 10.89, Group 10.9 and part of 16.10).
- Section G (Group 46.2, Classes 46.31-46.33 and parts of 46.38) and
- Section H (parts of Class 50.20 (operation of fish carrier) and 52.10 (operation of grain silo)).

We assume that the wording of the last sentence of RAG paragraph 10 is in line with previous understanding regarding the scope of the EEA Agreement², and is not intended to narrow the scope for aid to entities carrying out the above mentioned activities.

Reduced rates for employers performing activities as listed above are not part of the *notified* scheme, and are only pointed out for the sake of clarity.

4. Form of aid

The scheme is intended to prevent depopulation and stimulate settlement by promoting employment in specific regions. It is designed as an operating aid scheme where aid is granted to offset employment costs. The lower employer SSC rates are directly linked to the employees' gross salary payments. The direct link to the salary payments and the fixed regional rates implies that the operating aid is limited to reducing labour costs at a fixed proportion of the labour costs.

² This matter was discussed and agreed upon between the Authority and the Norwegian authorities in connection with the notification and implementing of the scheme which was decided upon in the Authorities Decision No 228/06/COL.

Description of the current scheme

All employers in Norway pay employer SSC as a fixed percentage of the gross salary of employees. The general contribution rate is 14.1 per cent. Under the scheme of regionally differentiated employer SSC, employers located in the most sparsely populated areas of Norway pay employer SSC at a reduced rate, i.e. at differentiated rates below 14.1 per cent. All aid under the notified scheme is granted automatically to undertakings in eligible sectors without any discretion as to the level of aid.

Aid intensities vary according to the place of registration.³ The designated regions are divided into five geographical zones (zones 2-5). Each zone has been assigned a fixed level of aid, as shown in table 3 below.

Table 3. Aid intensities.⁴ Per cent

	Zone1	Zone 2	Zone 3	Zone 4	Zone 4a	Zone 5
Aid as a percentage of labour costs	0	3.1	6.8	7.9	5.4	12.4

Source: Ministry of Finance

The tax rates are shown in table 4 below.

Table 4. Tax rates

	Zone 1	Zone 2	Zone 3	Zone 4	Zone 4a	Zone 5
Tax rate	14.1	10.6	6.4	5.1	7.9	0

Source: Ministry of Finance

5. Eligible expenses

Aid is calculated on the basis of the total labour costs directly linked to employees working in the designated regions. Total labour costs mean the total amount of wage actually payable by the employer, i.e. the gross wage before taxes. The tax benefit of the reduced SSC rates accrues to the employer, not the employee.

6. Cumulation

The Norwegian authorities do not operate any other national labour cost aid schemes under which aid is granted automatically. Aid for labour costs granted under any other scheme must take into account the aid granted under this scheme. Furthermore, reduced employer SSC cannot be cumulated with *de minimis* aid for labour costs.

³ Special rules apply to employers with employees engaged in ambulant activities. Given that the employee perform 50 per cent or more of his/her working hours during the calculating period in a zone different from the one in which the employer is located, the contributions shall be based on the applicable rate in the former zone. The calculating period is as the main rule either monthly or bimonthly.

⁴ Aid intensities are calculated as the difference between full social security contribution and reduced social security contribution divided with the sum of wage costs and full social security contribution.

The aid recipients will have an obligation to give a statement in which he/she confirms to be in compliance with the limitations above. The statement shall cover the period for which the employer claims a reduction in the amount payable under the notified reduced employer SSC scheme (bimonthly/monthly).

7. Budget and duration

The planned date of entry into force of the notified scheme is 1 July 2014. The notified scheme is planned to be in operation until 31 December 2020.

Since the actual amount of aid granted under the notified scheme is a result of the beneficiary's gross wage costs, the total aid amount cannot be established in advance, hence there is no budget for the scheme as such. Based on Prop. 1 S (2013-2014) Kommunal- og regionaldepartementet (budget proposal to the parliament), it is estimated that the cost of the notified scheme is about 6.85 billion NOK in 2013 (approximately 0.83 billion Euro), cf. section 3. This implies that the revenue of employer's SSC from undertakings comprised by the notified scheme would have been 6.85 billion NOK higher if undertakings in all areas had paid the standard contribution rate of 14.1 per cent.

Norwegian authorities do not have precise information on what share of public services is regarded as economic activity. In the national accounts prepared by Statistics Norway the public sector is defined as institutional sectors responsible for the implementing and maintaining of regulation, the production of services (mainly non-market) for individual and collective consumption and also the redistribution of income and wealth. Publicly owned undertakings (state or municipal) are defined as market producers and are therefore not defined as part of the public sector.

In a new report from the law firm ALT, an attempt is made to form a distinction between economic and non-economic activities in the municipalities. From the summary of the report we quote:

“In this report, considerable resources have been dedicated to discussing examples of services offered by Norwegian municipalities that are illustrative for the distinction between economic and non-economic activities. The following categories of services will be addressed specifically:

- *Kindergarten services*
- *Education*
- *Health and social services*
- *In-house production and the offering of excessive capacity.*
- *Sports activities*
- *Port operations*
- *The acquisition, sale and lease of publicly owned property.*

- *Cultural activities*
- *The car park sector*
- *Swimming pools and aqua parks*
- *Cinemas*

Broadly speaking, the offering of kindergarten services, education services and health services will amount to non-economic activities when they are provided for free as an integral part of the public welfare-system. This starting point might be altered, however, if the same services are offered on a market. As regards the other services listed above, many of these are likely to constitute economic activities. “

According to Statistics Norway the activities in the sectors kindergarten, education and health services and public administration constituted about 97 percent of the total man-hours in the municipalities in 2012.

8. Introduction to the method deciding the eligible area

Very sparsely populated regions are given special treatment in the Guidelines. According to paragraph 16, operating aid may only be awarded to tackle specific or permanent handicaps faced by undertakings in disadvantaged regions, such as to prevent or reduce depopulation in very sparsely populated areas. The criteria for such aid are strict. The population density criterion, ensuring that operating aid can only be granted in very sparsely populated areas, and the requirement of a contiguous area, prevent EFTA States from pinpointing smaller areas surrounded by more densely populated areas. This ensures that the granting of operating aid is limited. The requirement that the EFTA State should demonstrate that the measure is considered appropriate and necessary to prevent or reduce depopulation in the designated area further strengthens the limitation.

The Norwegian authorities have a three level methodological approach to the process of deciding the area eligible. In this section we give an introduction to this approach. Further details are found in the different sections below.

The point of departure for Norwegian authorities is the additional costs in certain regions due to very sparse population and long distances to larger markets. In these regions, the conditions for production and competition are more demanding than in more central areas. This is, in addition to sparse population and negative or poor population development, expressed by the periphery index.⁵ The periphery index

⁵ The former Ministry of Local Government and Regional Development (now Ministry of Local Government and Modernisation) calculated the periphery index for 2013, using the same method as used by the Institute of Transport Economics, cf. Institute of Transport Economics, report 824/2006 (only available in Norwegian). The new calculations are available in the report *Distriktsindeksen 2013*, cf. www.regjeringen.no/distriktsindeksen2013.

expresses the degree of structural and regional development challenges in Norwegian municipalities.

The Norwegian periphery problem has been elaborated on in *Report No. 13 (2012–2013) to the Storting On rural and regional policy (Meld. St. 13 (2012-2013) Ta heile Noreg i bruk. Distrikts- og regionalpolitikken)*⁶ and other documents, such as *Regional Development Trends 2013 (Regionale utviklingstrekk 2013*, only available in Norwegian)⁷. These documents, together with the RAG and earlier versions of the periphery index, constituted a framework for the development of a new periphery index. It takes account of Norwegian periphery problems, their history, and guidelines on regional aid, and reflects the four major socioeconomic factors in Norwegian periphery problems: geography, demographic changes, economic development, and the residential and labour markets and living conditions. The periphery index ranks all the 428 Norwegian municipalities with regard to these factors. Table 5 shows the indicators and weights used to construct the index.

Table 5. Indicators in the periphery index

		Weight (pct)	Sum weight (pct)
Geography	Centrality, no. of inhabitants in local centres of different sizes (11 classes of centrality)	20	
	Population densities (inhabitants per km ²)	10	
	Travel distance to Oslo in minutes	10	40
Demography	Population growth last 10 years (%)	20	
	Proportion of people +67 years old (%)	5	
	Proportion of women 20-39 years old (%)	5	30
Economic development, labour market	Proportion of employees residing in the same municipality, share of population 20-64 years old (%)	10	
	Employment growth last 10 years (%)	10	20
Income	Income per inhabitant +17 years old (NOK)	10	10

Source: Distriktsindeksen 2013. Report by the Ministry of Local Government and Regional Development, 27.6.2013 (revised version 1.7.2013)

The periphery index can be used to assess the need for regional aid in Norwegian municipalities, or any other type of region, such as residential and labour market regions, economic regions, or Statistical regions at level 2 and 3. The periphery index for each municipality is given one (and only one) value between 0 (most peripheral and weakest development) and 100 (most central and strongest development). This means that the periphery index can be used to distinguish peripheral from central areas.

The periphery index reflects the major socioeconomic factors relevant to distinguish between the degrees of disadvantages regarding economic development. It therefore provides evidence of the necessity and appropriateness of the scheme, by showing that the eligible area faces severe difficulties, often due to a mix of factors including

⁶ http://www.regjeringen.no/nb/dep/krd/tema/regional-og_distriktspolitikk/bakgrunn-og-malsettinger-i-distrikts-og_stortingsmelding-for-distrikts-og-reg-2.html?id=715732

⁷ <http://www.regjeringen.no/rut2013>

peripheral location, poor accessibility, population decline, unfavourable gender and age composition, low work participation rates, low employment growth and finally lower standard of living (income). Unfavourable gender and age composition implies a low proportion of women of fertile age and a high proportion of persons above the age of 66. This is particularly important because it has implications for the potential for reproduction of the population. Furthermore, it is an important tool to help the Norwegian authorities to treat regions facing the same challenges equally.

In section 10-14 of this notification letter, the periphery index is used to demonstrate the regional challenges faced by the area eligible.

The second level of the methodological approach is the justification of the scheme in terms of the specific criteria mentioned in the Guidelines. According to paragraph 149, operating aid may be awarded to Statistical regions at level 2 (level 2 regions) with less than 8 inhabitants per km² or smaller contiguous areas adjacent to those statistical regions. Population density is therefore a key factor in assessing the eligible area. Furthermore, special attention is given to the population development, since the aim of the scheme is to reduce or prevent depopulation, cf. paragraph 16 of the Guidelines. In section 10-14 the Norwegian authorities demonstrate that the area designated is compatible with these requirements of the Guidelines.

As a general comment to the documentation of depopulation, it is relevant to underline that according to the guidelines (paragraph 16), operating aid may be awarded to prevent or reduce depopulation. This implies that the population development in the eligible area does not have to be negative (depopulation). It may also be compatible to include areas where the population development is poor in order to prevent a negative development. In this context it is useful to compare the population development in the eligible area with the non-eligible area to illustrate the differences in the regional challenges faced by the eligible and non-eligible areas.

The third level of the methodological approach is the demonstration of the proportionality of the scheme. In section 14, we reflect upon the proportionality of the scheme regarding the level of employer SSC. In order to target aid according to the specific regional challenges, the scheme is divided into different geographical zones. Special attention is given to migration, accessibility and remoteness to demonstrate the problems the aid is intended to address.

9. Contribution to a common objective

Below, the Norwegian authorities will show that the scheme contributes to reaching a common objective. Furthermore, we will reflect upon the main obstacles to attracting or maintaining economic activity referred to in paragraphs 41 and 43: the risk of depopulation in the absence of operating aid.

As stated in the white paper to the Parliament on rural and regional policy:, *Report No. 13 (2012–2013) to the Storting On rural and regional policy (Meld. St. 13 (2012–2013) Ta heile Noreg i bruk Distrikts- og regionalpolitikken)*, the Norwegian authorities aim to preserve the distinctive features of our settlement pattern. This goal has broad consensus among all parties in the Parliament. The aim is to utilise human and natural resources throughout the country, in order to create the greatest possible national prosperity, ensure equal living conditions and offer everyone the freedom to settle wherever they choose. The aid scheme aims at stimulating the labour market. This is in line with the common objective of EU regional policy: It supports job creation, competitiveness, economic growth, improved quality of life and sustainable development.

The labour market is the most important factor influencing on people's choice of where to live. The mechanisms through which the labour market influence people's choice of where to live are complex.

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).⁸ NIBR concludes that an employment possibility is the most influential factor in a person's choice of where to take up residence.

Their analysis demonstrates that when young people move to larger cities, their primary motivation for making this decision is related to education and employment. To the extent that migration goes from central areas to peripheral areas, employment is often the reason (i.e. the persons moving have a job to go to). As much as 42 per cent of all migrants explain their change of residence by change of job. Some of these moved because they lacked a job (the push factor), while some 25 per cent moved because they got a new job (the pull factor). Young people's entry into the labour market is also important. In particular, young people often find vacancies in larger cities. The argument, therefore, is that employment is fundamental to most choices of where to live.

Relevant employment is found in cities and central areas. Sørli (2010) has compared two cohort groups (born in 1950-1954 and born in 1965-1969).⁹ Both cohorts are studied when they reach the age between 15 and 40. His studies show that there has been a development where more and more young people attend higher education. Fewer people in the last cohort migrate back to peripheral areas than compared to the first cohort. The migration loss from peripheral areas is therefore increasing.

⁸ NIBR report 22/2012. Kjetil Sørli, Marit Aure and Bjørg Langseth. *Hvorfor flytte? Hvorfor bli boende? Bo- og flyttemotiver de første årene på 2000-tallet.* (in Norwegian only).

⁹ Kjetil Sørli (2010). *Bosetting, flytting og regional utvikling.* Chapter 20 in *Det norske samfunn* (6th edition). Ivar Frønes and Lise Kjølsvold (eds.). Gyldendal norsk forlag.

The eligible area is characterised by a narrow industrial base and a high level of dependence on public sector employment. The average income lies significantly below the average of regions not included in the scheme, cf. table 6.

Table 6. Average wage in eligible and ineligible areas, 2010 and 2011. NOK

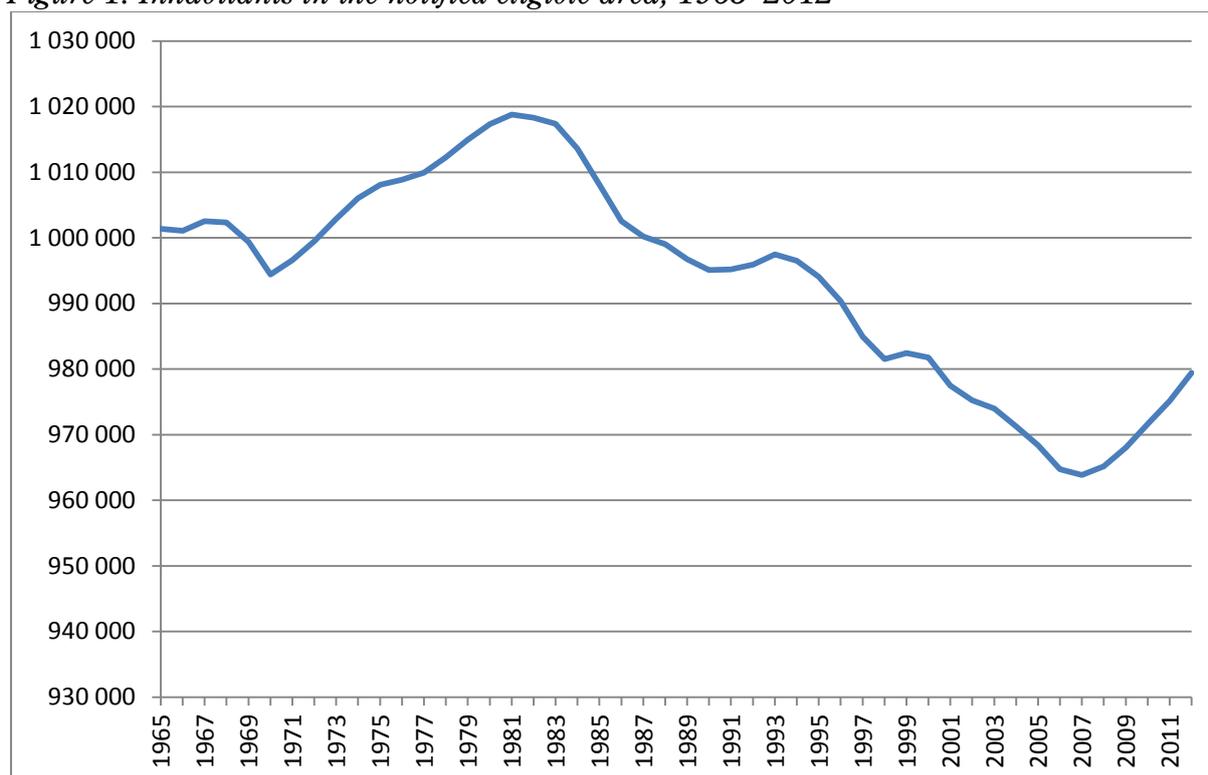
Area	2010	2011
Ineligible	364,013	374,302
Eligible	309,995	318,164
Total	354,398	364,376

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Continuing depopulation partly due to the lack of employment opportunities has been a problem in sparsely populated regions in Norway for decades. In order to stimulate settlement, a system of regionally differentiated employer SSC has been in place since 1975. During these years this instrument has been the most comprehensive regional state aid measure in Norway.

Regionally differentiated employer SSC is designed to promote employment and settlement in the zones in the least distorting way possible. The lower contribution rates are directly linked to gross salary payments in the designated areas. This implies that the measure is directly linked to the cost of employing people.

Figure 1. Inhabitants in the notified eligible area, 1965–2012



Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Figure 1 shows the population development in areas which today are eligible for regionally differentiated employer SSC. The development is shown for the period in which we have available data, i.e. from 1966 until 2012. The figure shows that since 1981, there has been a more or less continuous downward trend in these areas. This has been the case, even with the scheme in operation for years. Hence, one may assume that the aid level applied has at least not been higher than appropriate. Without the system of differentiated employer SSC it is fair to assume that the population decrease in the regions covered by the scheme would be higher.

The population decrease, as illustrated above, cannot be explained by a general decrease in the population in Norway in the same period. On the contrary, the Norwegian population has increased by 22.5 per cent since 1982 and by 11.0 per cent during the last ten years. The high population increase over the last 10 years can be explained by high economic growth and immigration to Norway. Immigration to Norway in the coming years is, however, uncertain and will depend both on the economic development in Norway and in the EU. Nevertheless, Sørli (2010) points out that even if the immigration to peripheral areas has slowed down the depopulation of peripheral areas continues, inland peripheral areas has lost 20 per cent of the population in the age group of 15-40 years. For coastal peripheries, the loss is 30 per cent.¹⁰ In order to attain the common objective of preventing

¹⁰ Kjetil Sørli (2010). *Bosetting, flytting og regional utvikling*. Chapter 20 in *Det norske samfunn* (6th edition). Ivar Frønes and Lise Kjølørød (eds.). Gyldendal norsk forlag.

depopulation in the eligible areas, it is therefore necessary to strongly support and stimulate economic development and settlement in these areas.

Population development is further elaborated upon in sections 10-12 and 14.

10. Necessity of the scheme

As stated in paragraph 44 of the Guidelines, state aid should be targeted towards the situation where the aid can bring about a material improvement that the market cannot deliver itself. It follows from paragraph 46 of the Guidelines that, within the area covered by the regional aid map, the Authority considers that the market is not delivering the expected cohesion objectives set out in the EEA Agreement without state intervention. Hence, investment aid granted in those areas, should be considered compatible with the internal market pursuant to Article 61(3)(c) of the EEA Agreement. In this section, we will demonstrate the need for state intervention in the form of regionally differentiated employer SSC in part of the area covered by the regional aid map.

In line with paragraph 44 of the Guidelines, we will demonstrate the necessity of the scheme. This is described below in the terms of the population density and population development, as referred to in the Guidelines paragraphs 16 and 20x. Special attention is given to internal migration trends (i.e. migration within Norway). We will demonstrate the necessity of the notified scheme by comparing it with the current scheme.

Population density and population development trends

Table 7 below illustrates that there has been a growth in employment by work-place over the last ten years in the eligible area by 5.2 per cent. This is, however, significantly less than in the non-eligible area (zone 1), with a growth in employment by 16.2 per cent. It is reasonable to assume that the difference in growth would have been even higher in the absence of aid, cf. the figures from the report from Cappelen and Stambøl (2003), "*Virkningene av å fjerne regionale forskjeller i arbeidsgiveravgiften og noen mulig mottiltak*".

With reference to works by Cappelen and Stambøl, the reduction in employment in eligible areas is calculated to approximately 24,000 employees in 2012 figures. As a rule of thumb, there are two inhabitants for every employee. Therefore, in the absence of aid, the population could have been reduced by some 48.000 inhabitants.

Table 7. Aggregated statistics on current and notified scheme

	Population growth (%) 94-04 ¹	Population growth (%) 02-12	Population density	Periphery Index 2013	Growth in employment by work place (%), 2002-2012 ²
Inside current scheme	-2.6	0.7	3.7	37.4	5.9
Outside current scheme	8.0	13.2	48.4	73.5	15.7
Inside proposed scheme	-2.5	0.4	4.1	36.9	5.2
Outside proposed scheme	8.4	13.8	58.8	75.0	16.2
Norway overall	5.9	11.0	16.2	67.5	14.1

¹The period 31.12.1994–31.12.2004 was essential in the notification of the current scheme, and is used for comparison of the ten year period 31.12.2000–31.12.2010. This also applies for tables and figures below.

² Statistics Norway publishes two sets of employment statistics: employment by employee’s residential municipality and employment by employee’s workplace municipality. Employment by workplace measures how many employees who work in any particular municipality, whereas employment by residence measures how many employees who live in a particular municipality. Hence, *growth in employment by workplace* means the relative (percent) growth in employment by place of work. Figures by 4th quarter.

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Table 7 demonstrates the very low population density in the notified area. Both the current scheme and the notified scheme have a population density well below the population density criterion set out in the Guidelines.

Table 7, furthermore, compares aggregated statistics for the current and the notified scheme. The table shows that the population growth is close to zero in eligible areas both in the current scheme and the proposed scheme. This is true even in a period with a large population growth in Norway as a whole. There is a significant gap in population development between the areas inside and outside the current scheme, and the table shows that this gap has increased significantly. The current area, therefore, should remain within the scheme. Furthermore, employment growth is significantly lower in eligible areas, versus ineligible areas. Table 7 also demonstrates that the difference between eligible and ineligible areas is greater for the proposed areas than for the current areas. This reflects the poor labour market development in the new, proposed areas.

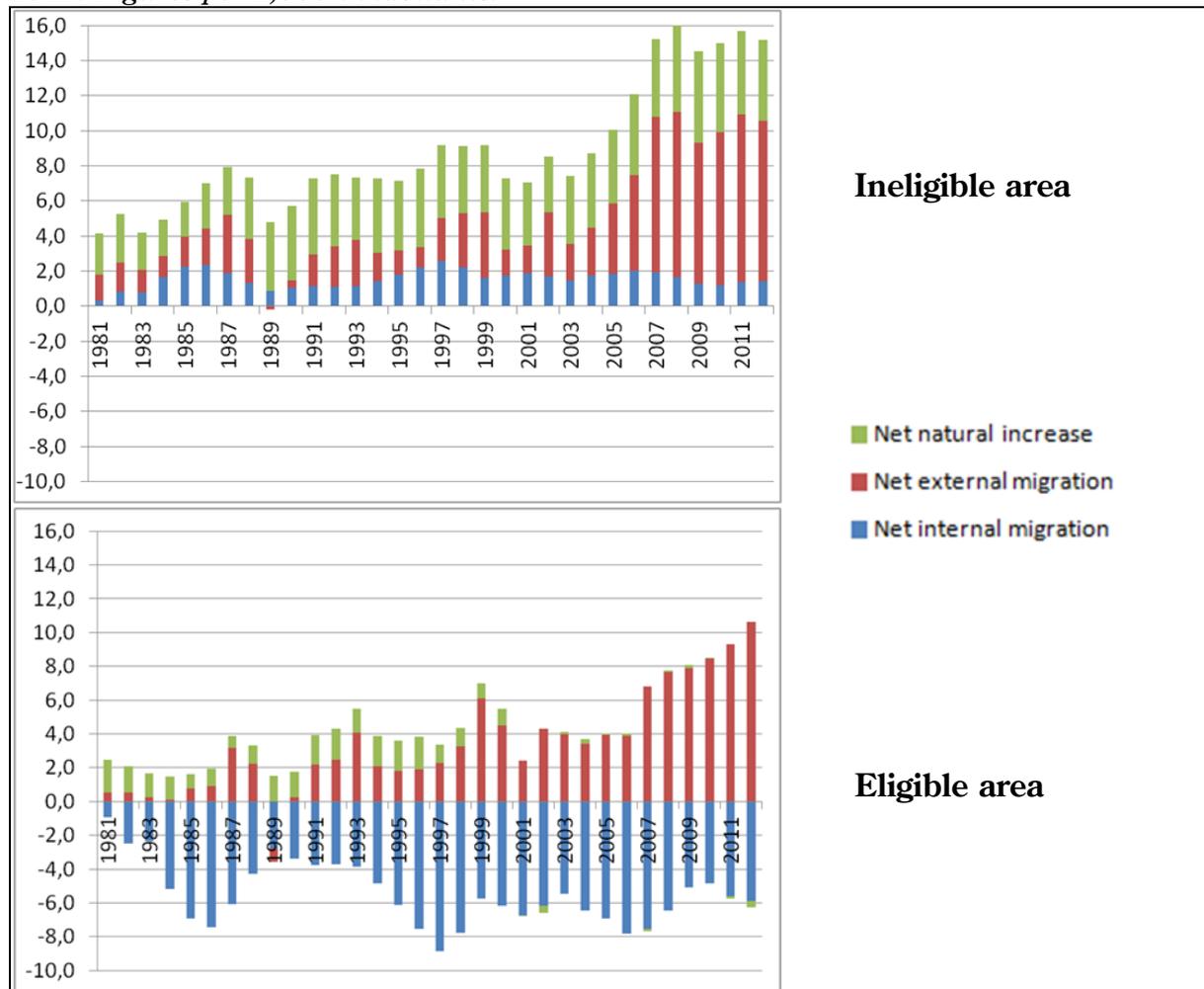
There are three demographic forces influencing on the population development. Firstly, the net natural growth rate (the difference between births and deaths) is a significant contributor to national population growth. However, net natural growth is only occurring as a major contributor in non-eligible municipalities. In eligible areas, there is a balance between the number of deaths and births. In recent years, however, there have been instances of deaths outweighing births, resulting in a negative net natural growth rate in these years.

Secondly, both net internal migration (NIM) and net external migration (NEM) are subject to cyclical variations. The typical pattern is that internal migration from eligible areas in times of economic growth tends to be large, whereas internal migration in recessions tends to be relatively small. This is a result of the functioning of the labour market. In recessions, jobs are relatively less available in non-eligible areas.

Thirdly, immigration is a result of both a push effect and a pull effect. The economic recession in the Euro-zone is an important explanation as to why the level of immigration reaches unprecedented levels in eligible municipalities. Further, even if there are signs of recession in Norway as well, it is the relative difference that influences on the external immigration patterns. Immigration to Norway in the coming years is uncertain and will depend both on the economic development in Norway and in the EU. Internal migration from eligible municipalities to non-eligible municipalities will outweigh external immigration to eligible municipalities in the long run. This is true even if we consider the development of the last two years, figure 2 below.

Internal migration trends are fundamental for the population development from year to year, but also for future natural reproduction. Migration, whether it is immigration or internal migration, involves mainly young people (age between 20 and 35). In the long run, the internal migration trends in Norway are less volatile than the external migration trends, involve more people, and thus potentially have a greater impact on future population growth. Immigration to the eligible area does not offset the internal migration from the eligible area. Hence, the net loss of people in the age group 20-35 leads to a reduced potential for natural reproduction as well as an increase in the ageing of the population. These are, of course, reciprocal and reinforcing mechanisms.

Figure 2. Comparison of population development in eligible and ineligible areas, 1981–2012. Figures per 1,000 inhabitants.

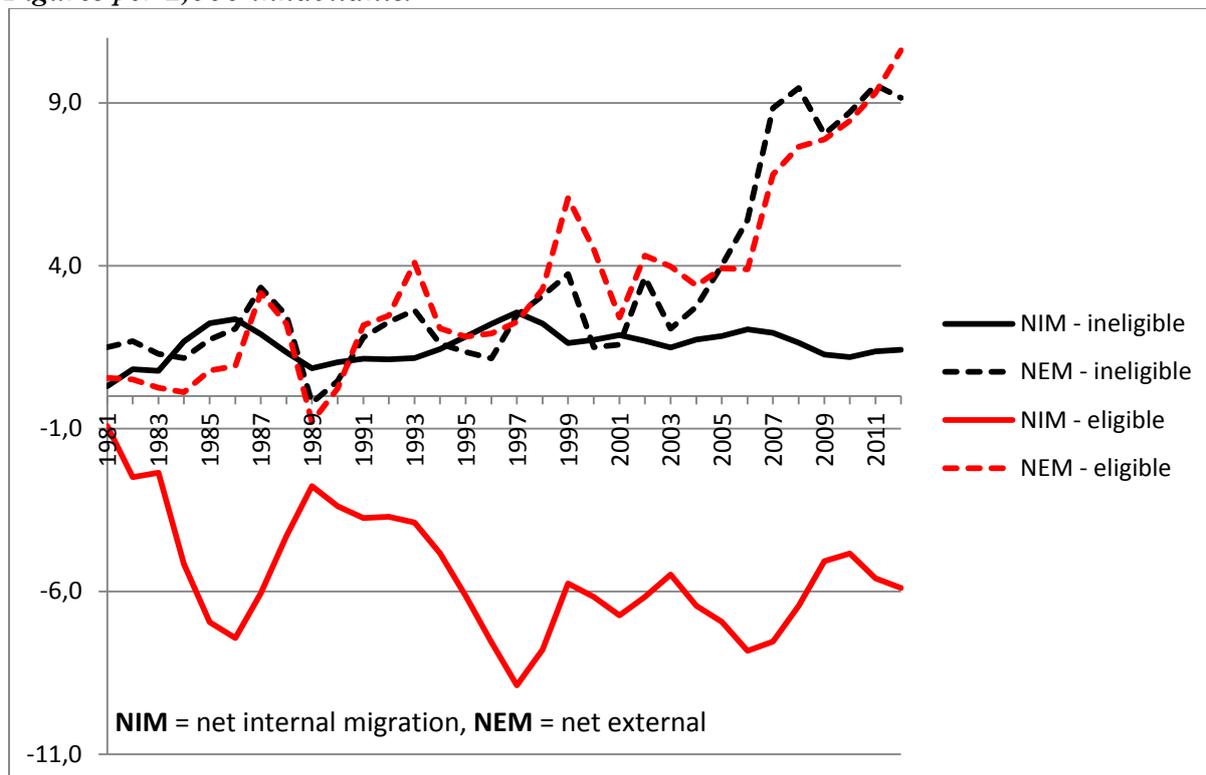


Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Figure 2 compares the population development in the eligible and ineligible areas in Norway from 1981 to 2012. The figure shows that the net immigration trends and figures are approximately the same for both areas. The net immigration to Norway has been considerable over the last years. However, the net natural increase numbers, and, in particular, the net domestic migration figures, vary fundamentally between the eligible and the ineligible areas. There has been large and continuous internal migration from the eligible to the ineligible areas for the last 30 years. The average net domestic migration loss varies from about 900 people in 1981 to 8,800 in 1997. In the period of 2000-2010, the average loss in the eligible area as a whole is about 6,200 people a year. In comparison, the average net immigration number is about 5,100 a year.

Figure 2 also shows that although the eligible area had a continuous natural increase in the population from 1981 to 1999, it has since been about zero or negative. This is, among other factors, a consequence of the negative internal migration trend, which has led to an ageing population in the eligible area. In figure 3 below, these migration trends are demonstrated in a graph.

Figure 3. Comparison of migration trends in eligible and ineligible areas, 1981–2012. Figures per 1,000 inhabitants.



Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Immigration to Norway has reached unprecedented levels over the last 6-7 years. An important explanation for the rapid increase is the economic recession in the Euro zone, which has not yet hit the Norwegian economy significantly. The latest available figures from Statistics Norway on the national level show that net external immigration is declining. In 2013, net external immigration was just above 40,000, the lowest level since 2009. This can be compared to the top year of net external immigration, 2012, when net external immigration passed 47,000¹¹. More details on population development trends are presented in section 12 of this notification letter.

To conclude, in the long run, net internal migration from eligible areas (to non-eligible areas) is larger than net external migration to eligible areas. The unprecedented levels of net external migration cannot be expected to continue. Even so, the population in eligible areas have declined in the long run.

¹¹ The difference is smaller than indicated in the figures. The Norwegian Tax Administration (Skatteetaten) has started an audit of the national register (Folkeregisteret). There are instances of persons who have migrated from Norway which has not notified the national register.

Market failure

According to Hervik and Rye (2013), there are indications of a labour market failure where the equilibrating mechanism working through the regional wage formation process is weak, and when the regional wage responses to regional unemployment are small. The Norwegian wage formation process is characterized by a high degree of coordination.

New municipalities

In addition to the area covered by the current scheme, the Norwegian authorities intend to include 31 additional municipalities in the new scheme. These are described in more detail in section 14 below. Table 16 and 17 demonstrates that these municipalities constitute an area with a poorer development than areas covered by the current scheme. This is true both in terms of the periphery index and population growth from 2000–2010. Hence, the new scheme meets the necessity criterion also for these municipalities.

11. Appropriateness of the scheme

According to section 3.4 of the Guidelines, the notified measure must be an appropriate policy instrument to address the policy objective concerned. 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.

The objective of the aid scheme is to prevent depopulation in regions where the population density is less than 8 persons per km². In this section of the notification letter, we will demonstrate that reduced employer SSC is the most appropriate instrument to prevent depopulation in these areas.

The general standard of living within the different regions will influence people's choice of where to live. The notified regions are characterised by a narrow industrial base and a high level of dependence on public sector employment. The average income lies significantly below the average of regions not included in the scheme. Most of these companies have few employees. According to Statistics Norway, 90 per cent of all companies in Norway have less than 10 employees.

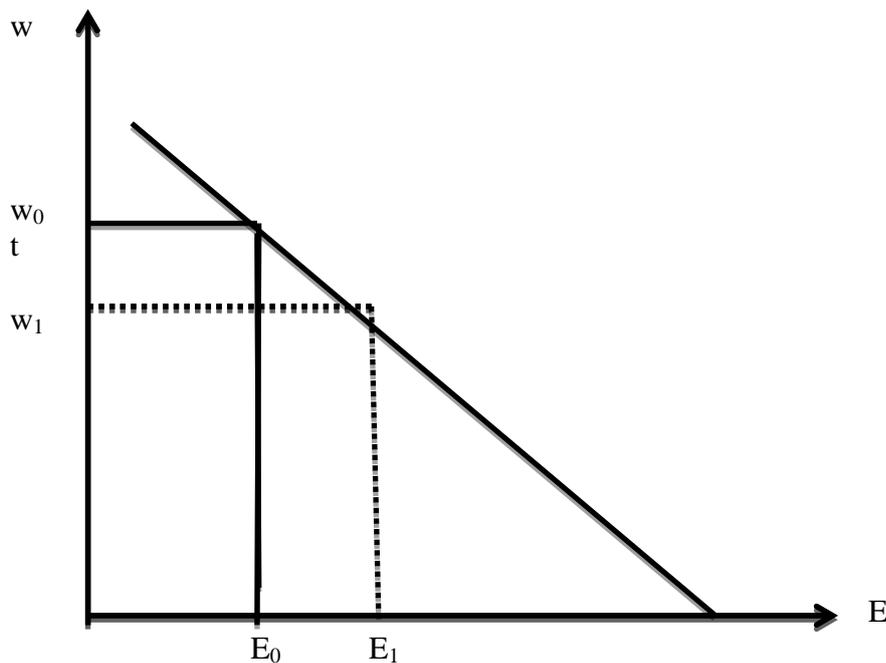
The aid scheme aims at stimulating the labour market. The labour market is the most important factor when people choose where to live. The regional differentiation of employer SSC is designed to promote employment in the zones in the least distorting way possible. The lower contribution rates are directly linked to gross salary payments in the designated areas. This implies that the measure is directly linked to the cost of employment. The lower rates will apply automatically to all eligible undertakings covered by the notified scheme, as well as to the public sector.

The decisive factor is the location of the employer. The scheme will help reducing depopulation in the designated area in two ways: by reducing labour costs and thus increasing employment opportunities, and by increasing the real income of people residing in these regions.

The immediate effect of a regional reduction in employers' SSC will be a corresponding decrease in their total labour costs. Lower labour costs will constitute a benefit to the employers in these regions. The incentive structure is clear. The scheme will favour the use of labour over the use of capital in these regions, i.e. it will favour labour-intensive industry or production methods. In addition, the scheme will favour employment in these regions, rather than in other regions.

The effect of a decrease in wages is illustrated in figure 4. If the initial wage level is w_0 , demand for labour will be at E_0 . If the employers SSC is reduced (or removed) from w_0 to w_1 , demand for labour will increase from E_0 to E_1 .

Figure 4. Effect of a decrease in wage costs on employment



Provided that the regional differences in employer SSC-rates are expected to be maintained for a sufficient period of time, employers will take this into account when deciding on regional location, method of production and changes in the number of employees. In this way, subsidies linked to labour costs will prevent or reduce depopulation by increasing employment (opportunities) in the designated area.

A decrease in employer SSC might also result in an increase in wages to the employees. Thus the benefit of the employer SSC reduction could be partly shifted to

employees (wage earners) and consumers. This would imply a similar reduction in the benefit employers receive from the scheme. However, the primary aim of the scheme, i.e. to reduce depopulation, will not be adversely affected. A region-specific increase in wages (or a reduction in the price of local goods and services) would raise the standard of living for employees residing in the region compared to other regions, and thereby make existing jobs comparatively more attractive and migration from the region less attractive.

In Cappelen and Stambøl (2003) an attempt has been made to estimate the effect on employment if all employers in Norway have to pay a social security contribution of 14.1 per cent. In the study, two alternatives are presented. In the first alternative, it is assumed that increased labour costs in the municipalities are compensated from the state. In other words, employment in the municipalities is assumed to be unchanged in the first alternative. In the second alternative, it is assumed that the municipalities are not compensated, hence the employment is reduced. As table 8 below shows, the reduction in overall employment is twice as large in the second alternative than in the first.

The relative effects will be largest in the counties Finnmark, Troms and Nordland (the level 2 region Northern Norway). In Finnmark, employment would have been reduced between 4 to 9 per cent, depending on whether the municipalities will be compensated or not. It is reasonable that the effect is largest in Finnmark, which is the only county where the social security contribution is 0 in the whole county. The decrease in employment is also substantial in Troms, Nordland and Nord-Trøndelag, which are counties with an overall low social security rate (for the most zone 4). The table also illustrate that the level 2 region Hedmark/Oppland, that satisfy the population density criterion, would be one of the regions effected the most.

In the study, the difference between the two alternatives is presented in per cent (the first two columns in the table). We have then used employment data for 2012 to illustrate the effects on employment in absolute numbers (columns 3 and 4), corresponding to the percentages in the first two columns. In absolute numbers, the reduction in employment is largest in Nordland, Troms and Finnmark. In Nordland the reduction in employment can be between 3,700 and 6,500 persons if the social security rate is increased to 14.1 per cent.

Table 8. Effects on employment by an increase in employer social contribution to 14.1 per cent.

	Per cent		Persons	
	Alt. 1	Alt. 2	Alt. 1	Alt. 2
Østfold	0	0	0	0
Akershus	0	0	0	0
Oslo	0	0	0	0
Hedmark	-0.68	-1.18	-600	-1,000
Oppland	-0.96	-1.69	-800	-1,400
Buskerud	-0.25	-0.36	-300	-400
Vestfold	0	0	0	0
Telemark	-0.28	-0.58	-200	-400
Aust-Agder	-0.14	-0.31	-100	-100
Vest-Agder	-0.04	-0.09	0	-100
Rogaland	-0.09	-0.14	-200	-300
Hordaland	-0.16	-0.27	-400	-600
Sogn og Fjordane	-1.94	-2.82	-1,000	-1,400
Møre og Romsdal	-0.44	-0.91	-500	-1,100
Sør-Trøndelag	-0.29	-0.94	-400	-1,400
Nord-Trøndelag	-1.10	-2.07	-700	-1,200
Nordland	-3.43	-5.98	-3,700	-6,500
Troms	-3.61	-6.22	-2,800	-4,700
Finnmark	-4.28	-8.84	-1,500	-3,100
Aggregated/National effects on employment			-13,200	-23,700

Source: Statistics Norway, calculations by the Ministry of Finance

These calculations are likely to underestimate the negative effect in the eligible areas. Firstly, employment relative to the population tends to be smaller in eligible areas than in non-eligible areas, cf. table 9 below. Secondly, internal migration from eligible areas tends to exacerbate the unfavourable age composition of the population, further reducing the potential for population growth.

Table 9. Employment relative to population size

Area	Population by Dec 31 2012	Employment by 4th quarter 2012	Employment relative to population size
Non-Eligible	4,071,854	2,107,639	51.8
Eligible	979,421	461,120	47.1
Norway	5,051,275	2,568,759	50.9

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Other instruments

Alternative state aid measures are less efficient, or insufficient, to promote employment and settlement in these vulnerable regions. When the objective is to stimulate employment in the specified regions, labour subsidies are the most efficient measure. Below some alternative instruments are discussed.

Investment aid is a less effective instrument for stimulating employment. Investment aid will tend to favour capital intensive industries, and therefore reduce demand for labour relative to capital. In addition, investment aid is insufficient to address the question of weak or negative population development in very sparsely populated areas. Table 10 below, illustrates the development trends for areas eligible for investment aid and for operating aid.

Table 10. Development in current areas for investment aid and operating aid. Per cent.

	Investment aid			Operating aid		
	Periphery Index	Population growth 2002-2012	Growth in employment by workplace (pct.), 2002-2012 ¹²	Periphery Index	Population growth 2002-2012	Growth in employment by workplace (pct.), 2002-2012 ¹³
Currently eligible	41.7	2.0	7.1	36.9	0.7	5.9
Currently ineligible	77.8	14.9	16.7	75.0	13.2	15.7
Total	67.5	11.0	14.1	67.5	11.0	14.1

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Table 10 documents that development is weaker in the eligible areas for operating aid compared with the eligible area for investment aid.¹⁴ This is true both in terms of the periphery index, the population growth rate and growth in employment.

Investment aid will promote the use of capital in these regions. Regional investment aid can be justified by specific regional imperfections in the capital market. The private capital market is the most important source of finance to businesses, but the access to private capital varies significantly between regions. Such imperfections can be reflected in a lack of capital for profitable projects. However, in the least populated areas with very long distances to central markets, the main problem may often be a lack of profitable new investment projects, rather than a lack of risk capital. Although investment aid would favour capital over labour, it could also increase employment by an increase in production volume. The effect on employment would, however, be less direct and more uncertain than when labour is directly subsidised.

Increased investment in infrastructure will generally also be insufficient to stimulate increased employment in low-population areas. It will normally also be far more costly, due to the nature of the terrain and 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.

¹² Figures by 4th quarter.

¹³ Figures by 4th quarter.

¹⁴ All municipalities in the operating aid scheme are located within the regional aid map.

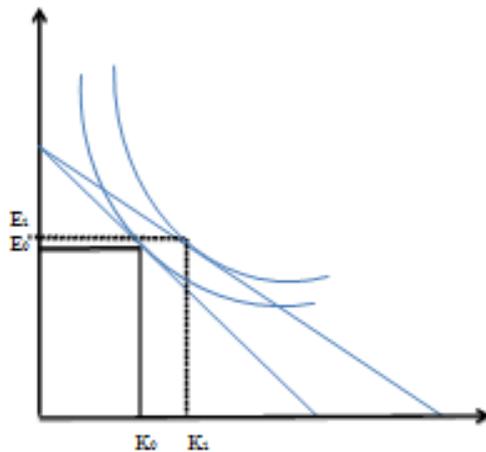
Subsidies, including operating aid, that are limited to new enterprises may be justified in cases where newly established enterprises face specific regional capital imperfections. In the same way as for ordinary investment aid, such subsidies are however not the most efficient measure for increasing regional employment.

The effect of a subsidy on capital (investment) is illustrated in figure 5. Initially, demand for labour and capital is at E_0 and K_0 . The curved lines represent combinations of the input factors labour and capital that yields the same production level. If an investment subsidy is introduced, the relative prices between labour and capital changes. This is represented by the change in the slope of the straight line. The subsidy implies that the price of capital is reduced, and demand for capital is increased from K_0 to K_1 .

As a result of the subsidy on capital, demand for labour can increase or decrease depending on the characteristics of the employer. In figure 5, demand for labour has increased due to the investment subsidy, but the situation could just as well have been a decrease in the demand for labour. Theory does not give any clear results on what happens with demand for labour when the price of capital is reduced.

To understand the mechanism, it is useful to distinguish between a *substitution effect* and a *scale effect*. The substitution effect says something about what happens to demand for capital and labour assuming that production is constant. When the price of capital is reduced, the substitution effect will lead to a greater demand for capital and lower demand for labour. The substitution effect thus leads to reduced demand for labour. But since the price on capital is reduced, more capital can be used and consequently production will increase. An increase in production generally requires increased use of both capital and labour. The scale effect says something about what happens with the input factors when production is increased. The total effect on demand for labour therefore depends on whether the scale effect or the substitution effect dominates. If the scale effect is larger than the substitution effect, demand for labour will be increased, and vice versa.

Figure 5. Effects of subsidy on capital on demand for capital and labour



Summary

As we have shown above, a subsidy of labour will lead to an increased demand for labour. Both the substitution effect (labour costs are reduced) and the scale effect (increased production) leads to higher demand for labour.

A subsidy on capital (investment aid) might, or might not, lead to increased demand for labour. This depends on whether the scale effect is larger/smaller than the substitution effect.

In our view a regionally differentiated employer SCC is therefore the most appropriate instrument to prevent depopulation in very sparsely populated regions.

12. Eligible areas in the notified scheme

In this section, the Norwegian authorities present the notified eligible area for the scheme. Below, we will elaborate on the periphery index, population density and population development in the eligible and non-eligible area. Special attention is given to changes from the current scheme.

The municipalities we propose eligible are:

- (a) All municipalities in the Statistical region at level 2 “Northern Norway” as well as an adjacent area comprising the following municipalities:

Leka, Nærøy, Vikna, Flatanger, Fosnes, Overhalla, Høylandet, Grong, Namsskogan, Røyrvik, Lierne, Namdalseid, Namsos, Snåsa, Verran, Inderøy, Ørland, Bjugn, Åfjord, Roan and Osen.

- (b) The following municipalities belonging to the Statistical region at level 2 “Hedmark/Oppland”:

Trysil, Os, Folldal, Alvdal, Tynset, Tolga, Engerdal, Rendalen, Stor-Elvdal, Grue, Våler, Åsnes, Eidskog, Åmot, Nord-Odal, Kongsvinger, Sør-Odal, Nordre Land, Søndre Land, Ringebu, Sør-Fron, Nord-Fron, Vang, Øystre Slidre, Vestre Slidre, Nord-Aurdal, Etnedal, Sør-Aurdal, Sel, Vågå, Lom, Skjåk, Lesja and Dovre,

as well as an adjacent area comprising the following municipalities:

Meråker, Tydal, Holtålen, Røros, Oppdal, Rennebu, Snillfjord, Hitra, Frøya, Hemne, Meldal, Agdenes, Sunndal, Tingvoll, Sandøy, Rauma, Stranda, Norddal, Aure, Smøla, Halså, Rindal, Surnadal, Vanylven, Nettet, Sande, Stordal, Vestnes, Jondal, Kvinnherrerad, Tysnes, Masfjorden, Fedje, Granvin, Ulvik, Eidfjord, Ullensvang, Odda, Utsira, Kvitsøy, Suldal, Hjelmeland, Sauda, Bykle, Valle, Bygland, Evje og Hornnes, Åmli, Risør, Gjerstad, Drangedal, Nome, Hjartdal, Vinje, Tokke, Fyresdal, Nissedal, Kviteseid, Seljord, Tinn, Nore og Uvdal, Hol, Ål, Hemsedal, Gol, Nes, Flå and Rollag, as well as the municipalities of the county of Sogn og Fjordane, with the exception of Flora, Førde and Sogndal.

More than 80 per cent of the population of Norway lives outside the designated area, cf. table 11.

Table 11. Population and population density inside/outside the eligible area

	Population 31.12.2010	Share of population	Population- density	Number of municipalities
Norway	4,920,305	100	16.2	428
- Eligible area	971,658	19.75	4.1	233
- Area not eligible	3,948,647	80.25	58.8	195

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Table 12. Relevant figures for proposed eligible and non-eligible areas

	Population 31.12.2010	Population density (per km ²)	Population growth 1982-2012	Population growth 1992-2012	Population growth 2002-2012	Population growth 2007-2012	Periphery Index
Northern Norway, all eligible	468,251	4.4	1.0	2.1	2.6	2.7	41.6
Adjacent area to Northern Norway	62,643	3.7	-6.3	-3.6	-0.3	1.3	33.8
Eligible area in Hedmark and Oppland	147,087	3.5	-8.8	-5.5	-2.3	-0.1	30.1
Adjacent area to Hedmark and Oppland	293,677	4.1	-7.8	-4.9	-1.4	0.8	33.4
Norway	4,920,305	16.2	22.5	17.5	11.0	6.6	67.5
Eligible area	971,658	4.1	-3.8	-1.7	0.4	1.6	36.9
Area not eligible	3,948,647	58.8	31.2	23.3	13.8	7.9	75.0

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

The necessity and appropriateness of operating aid in the form of differentiated employer SSC is analysed with regard to the periphery index, population density and growth.

The figures in table 12 above, show a clear pattern. The weighted average periphery index for the eligible area is less than half of the weighted average for the rest of Norway. The notified area has a very low population density, and is characterised by continuing depopulation (except for Northern Norway, cf. section 14 below). The population density in these groups of eligible municipalities varies from 3.5 to 4.4 inhabitants per km². This is well below the criterion in the Guidelines' paragraph 20x of 8 inhabitants per km². Population growth in these areas has been negative over both the last thirty and twenty years, and close to zero in the last ten and five years. This is in line with paragraph 16 of the Guidelines. By way of comparison, the population of the rest of Norway, where population density is 58.8 inhabitants per km², has increased by 12.1 per cent over the last ten years, and almost 30 per cent the last thirty years.

Following paragraphs 16, 20x and 149, the key statistical unit for operating aid is Statistical regions at level 2. The wording of paragraph 149 does not, however, require that the borders of the designated area follow the borders of level 2 regions. The

designated area may represent a part of a level 2 region. The designated area may also consist of smaller contiguous areas adjacent to those level 2 regions, as long as the population density criterion is met and the total population coverage does not exceed 25.51 per cent. This flexibility is necessary because depopulation problems only occasionally follow the borders of level 2 regions. It would be very difficult to justify treating adjacent and contiguous areas facing the same problems differently.

In the following, the Norwegian authorities, therefore, present statistics for level 2 regions, eligible parts of level 2 regions, and for the areas that are adjacent to level 2 regions and have been included in the scheme. There are two level 2 regions in Norway that meet the population density criterion of 8 inhabitants per km² or less. These are Northern Norway, which consists of the counties Nordland, Troms and Finnmark, and a region encompassing the two counties of Hedmark and Oppland. The notified areas are regions that represent or belong to these two level 2 regions and smaller contiguous areas adjacent to those level 2 regions.

Table 13 Population coverage of the adjacent areas to Hedmark and Oppland in comparison to the eligible municipalities in Hedmark and Oppland

Adjacent areas to Hedmark and Oppland in comparison with	Population coverage (pct.)
All municipalities in Hedmark and Oppland	77.8
Eligible municipalities in Hedmark and Oppland	199.7

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Table 13 illustrates that the population in the adjacent areas is less than 80 per cent of the total population in the level 2 region Hedmark/Oppland. Furthermore, the population in the adjacent area is twice the size of the population in the eligible area in the level 2 region Hedmark/Oppland.

Table 14 Population coverage of the adjacent areas to Nord-Norge in comparison to the eligible municipalities in Nord-Norge

Adjacent areas to Nord-Norge in comparison with	Population coverage (pct.)
Nord-Norge (all eligible)	13.4

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Table 14 illustrates that the population in the adjacent areas to Northern Norway is just above 13.4 per cent of the total population in the level 2 region Northern Norway.

In addition, we have included some statistics on level 3 regions, as this is a unit referred to in the Guidelines when it comes to investment aid.

Table 15 below, shows statistics on level-2 and level-3 regions for the eligible and ineligible areas in Norway. The table offers a status of the present situation (i.e. per 31.12.2010), as well as a comparison to the situation prior to the notification of the current scheme (i.e. statistics for the period 1994-2004). On the left hand side of the table, we see that all the eligible parts of the level 2 and level 3 regions have a population density well below 8 inhabitants per km². In addition, all the regions, with

the exception of Sør-Trøndelag and Troms counties (and therefore also Trøndelag and Northern-Norway), have had a population decline the last ten years. This was also the case prior to the current scheme.

However, the national population growth is far higher today than prior to the current scheme (i.e. a growth rate of 11.0 per cent compared to 5.9 per cent). Therefore, even if there is a close to zero population growth in the last ten year period (2002-2012), there is now a larger gap between the area eligible and the ineligible area. This is also demonstrated in the columns at the far right in the table, which compares the differences in growth rates between the eligible and ineligible area.

Overall, the tables in this section clearly demonstrate both the necessity for and appropriateness of the scheme. The area notified as eligible is consistent with the Guidelines paragraphs 16, 20x and 149. We have demonstrated that this is the case even if we substitute statistics on level 2 (as required in the Guidelines) for statistics on level 3.

In annex 2, we also give an assessment of the notified area in relation to residential and labour market regions.

Table 15. Comparison of proposed eligible and ineligible areas. Statistical regions at level 2 and 3

		Eligible area							Ineligible area							Comparison	
		Pop. growth (%) 94-04 ¹	Pop. growth (%) 02-12 ²	Diff. growth rate 94-04 to national average ³	Diff. growth rate 02-12 to national average ⁴	PI ⁵ 2013	Diff. PI national average (%) ⁶	Pop. density ⁷	Pop. growth (%) 94-04 ¹	Pop. growth (%) 02-12 ²	Diff. growth rate 94-04 to national average ³	Diff. growth rate 02-12 to national average ⁴	PI ⁵ 2013	Diff. PI national average (%) ⁶	Pop. density ⁷	Diff. growth rate 94-04 eligible vs. ineligible area	Diff. growth rate 02-12 eligible vs. ineligible area
Level 2	Oslo og Akershus	-	-	-	-	-	-	-	11.6	19.0	5.6	8.0	86.0	27.4	228.7	-	-
	Hedmark og Oppland	-3.4	-2.3	-9.3	-13.3	30.1	-55.3	3.5	3.2	5.7	-2.8	-5.3	55.4	-17.9	27.6	6.5	8.0
	Sør-Østlandet	-3.0	-0.9	-8.9	-11.9	35.4	-47.6	3.0	7.3	9.8	1.4	-1.2	67.4	-0.1	59.7	10.3	10.7
	Agder og Rogaland	-3.2	-0.8	-9.1	-11.8	36.7	-45.7	3.5	9.1	15.3	3.1	4.3	76.1	12.8	46.2	12.3	16.0
	Vestlandet	-4.7	-2.2	-10.6	-13.2	32.4	-52.0	5.0	7.0	12.3	1.1	1.3	74.1	9.7	49.8	11.6	14.5
	Trøndelag	-2.8	0.3	-8.8	-10.6	33.2	-50.8	3.6	7.3	14.0	1.3	3.0	70.4	4.4	30.8	10.1	13.7
	Nord-Norge	-1.3	2.6	-7.2	-8.4	41.6	-38.3	4.4	-	-	-	-	-	-	-	-	-
Level 3	Østfold	-	-	-	-	-	-	-	8.0	10.5	2.1	-0.5	65.9	-2.4	70.7	-	-
	Akershus	-	-	-	-	-	-	-	13.8	17.2	7.8	6.2	87.3	29.3	119.2	-	-
	Oslo	-	-	-	-	-	-	-	9.6	20.6	3.7	9.6	84.8	25.7	1405.7	-	-
	Hedmark	-2.5	-1.8	-8.5	-12.7	31.5	-53.3	3.7	4.0	6.7	-1.9	-4.3	54.7	-19.0	29.4	6.5	8.5
	Oppland	-4.4	-3.0	-10.4	-14.0	28.3	-58.0	3.3	2.5	4.8	-3.5	-6.2	56.1	-16.9	26.2	6.9	7.8
	Buskerud	-1.5	0.8	-7.4	-10.1	40.4	-40.1	3.0	7.5	12.6	1.6	1.6	75.0	11.2	41.7	9.0	11.8
	Vestfold	-	-	-	-	-	-	-	8.6	9.4	2.7	-1.6	69.3	2.7	108.8	-	-
	Telemark	-4.1	-2.2	-10.0	-13.2	31.6	-53.2	3.0	3.6	4.4	-2.4	-6.6	54.0	-20.0	44.8	7.7	6.6
	Aust-Agder	-2.1	-0.6	-8.0	-11.5	37.4	-44.5	3.2	5.4	11.4	-0.5	0.4	62.9	-6.8	33.9	7.5	12.0
	Vest-Agder	-	-	-	-	-	-	-	7.9	10.8	2.0	-0.2	68.3	1.2	25.8	-	-
	Rogaland	-4.8	-1.1	-10.8	-12.1	35.5	-47.4	3.9	10.5	18.0	4.5	7.0	82.2	21.9	77.0	15.3	19.2
	Hordaland	-4.8	-2.7	-10.7	-13.7	31.8	-52.9	4.6	8.0	14.1	2.1	3.1	78.7	16.7	60.6	12.8	16.8
	Sogn og Fjordane	-4.1	-1.7	-10.1	-12.7	33.7	-50.0	4.9	10.5	9.5	4.6	-1.5	60.7	-10.0	16.0	14.6	11.2
	Møre og Romsdal	-5.2	-2.6	-11.2	-13.5	30.9	-54.2	5.5	4.3	9.0	-1.6	-2.0	65.4	-3.1	46.2	9.6	11.5
	Sør-Trøndelag	-2.0	0.6	-7.9	-10.3	30.6	-54.6	4.3	8.5	15.9	2.6	4.9	76.2	12.9	43.0	10.5	15.2
	Nord-Trøndelag	-3.7	0.0	-9.6	-10.9	35.9	-46.8	3.2	3.8	8.9	-2.2	-2.1	53.4	-20.9	16.7	7.5	8.8
	Nordland	-1.9	1.1	-7.8	-9.8	39.0	-42.2	6.6	-	-	-	-	-	-	-	-	-
Troms	1.4	5.4	-4.5	-5.6	47.1	-30.2	6.3	-	-	-	-	-	-	-	-	-	
Finnmark	-4.6	1.4	-10.6	-9.6	38.3	-43.2	1.6	-	-	-	-	-	-	-	-	-	
Total	-2.5	0.4	-8.5	-10.5	36.9	-45.3	4.1	8.4	13.8	2.5	2.8	75.0	11.2	58.8	11.0	13.4	
Norway	5.9	11.0	0.0	0.0	67.5	0.0	16.2	5.9	11.0	0.0	0.0	67.5	0.0	16.2	-	-	

Table explanation: 1 = Population growth (%) 31.12.1994–31.12.2004; 2 = Population growth (%) 31.12.2002–31.12.2012; 3 and 4 = Difference in growth rate between level 2 and 3 regions and national average; 5 = Periphery Index; 6 = Difference in Periphery Index (%) between level 2 and 3 regions and national average; 7 = Population density as of 31.12.2010

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Changes in the geographical scope from the current scheme

Below we account for the 31 new municipalities taken into the scheme. No municipalities are suggested removed from the current scheme.

New municipalities are listed by county:

- Nord-Trøndelag:
 - o Inderøy
- Sør-Trøndelag:
 - o Ørland, Agdenes, Bjugn, Meldal
- Møre og Romsdal:
 - o Vanylven, Sande, Stordal, Vestnes, Nesset
- Hordaland:
 - o Tysnes, Kvinnherad, Jondal
- Rogaland:
 - o Sauda
- Aust-Agder:
 - o Risør, Gjerstad, Åmli
- Telemark:
 - o Drangedal, Nome, Hjartdal
- Buskerud:
 - o Rollag
- Oppland:
 - o Søndre Land, Nordre Land
- Hedmark:
 - o Kongsvinger, Nord-Odal, Sør-Odal, Eidskog, Grue, Åsnes, Våler, Åmot

All municipalities are included in zone 2, except for Vanylven (Møre og Romsdal), Bjugn and Meldal (Sør-Trøndelag), which are taken into zone 3. Zones and aid intensities are further elaborated on in section 14 below. Ten of the new municipalities belong to the level 2-region Hedmark/Oppland, that satisfy the population density test of less than 8 inhabitants per km².

Table 16. New municipalities proposed into the scheme

	Population density	Population 31.12.2010	Population growth 1982-2012	Population growth 1992-2012	Population growth 2002-2012	Population growth 2007-2012	Periphery Index	Growth in employment by workplace (pct.), 2002-
0402 Kongsvinger	18.3	17,436	1.0	1.4	1.7	1.6	38.9	1.1
0418 Nord-Odal	10.8	5,113	-3.3	-0.4	2.8	1.9	37.7	8.0
0419 Sør-Odal	16.3	7,831	6.8	6.0	3.6	0.2	42.8	-9.9
0420 Eidskog	10.4	6,299	-1.1	-2.7	-2.2	-1.8	32.3	3.8
0423 Grue	6.5	5,024	-17.6	-11.5	-7.4	-1.6	22.3	-3.2
0425 Åsnes	7.6	7,597	-15.2	-10.8	-4.7	0.3	25.8	1.6
0426 Våler	5.7	3,882	-17.8	-12.0	-3.5	-1.1	23.5	-5.5
0429 Åmot	3.3	4,317	-8.3	0.4	0.0	1.3	36.4	9.0
0536 S. Land	8.9	5,837	-9.9	-9.2	-6.9	-2.6	29.3	-7.4
0538 N. Land	7.3	6,716	-4.4	-3.2	-1.7	1.8	36.6	11.5
0632 Rollag	3.2	1,382	-9.1	-8.2	-8.4	-4.5	39.0	1.3
0817 Drangedal	4.1	4,124	-9.4	-5.3	-1.1	0.7	35.2	1.2
0819 Nome	17.0	6,561	-7.5	-0.6	0.7	0.4	38.6	3.5
0827 Hjartdal	2.2	1,597	-7.1	-5.0	-0.4	-0.6	39.5	2.2
0901 Risør	38.4	6,871	-1.8	-2.0	-2.0	-0.6	34.3	-1.7
0911 Gjerstad	8.1	2,497	-9.5	-3.3	-1.1	-1.4	36.3	8.3
0929 Åmli	1.7	1,829	-15.7	-4.1	-0.8	-1.1	30.2	-0.4
1135 Sauda	9.2	4,703	-13.9	-10.2	-3.5	0.2	30.5	4.4
1223 Tysnes	11.2	2,756	-4.0	-4.8	-3.0	-1.3	37.3	10.2
1224 Kvinnherad	12.3	13,243	2.1	1.6	1.1	1.9	36.6	1.3
1227 Jondal	5.2	1,041	-19.8	-16.1	-2.3	-0.1	23.4	-7.7
1511 Vanylven	9.4	3,417	-15.2	-13.7	-12.7	-5.5	13.6	-2.6
1514 Sande	29.1	2,625	-24.6	-19.6	1.1	5.0	38.3	12.7
1526 Stordal	4.2	1,022	1.3	2.2	5.8	7.5	39.7	-7.1
1535 Vestnes	18.7	6,504	5.1	2.6	2.9	3.0	41.2	1.7
1543 Nettet	3.0	2,988	-12.8	-9.8	-7.7	-2.2	32.5	-32.5
1621 Ørland	69.9	5,133	7.0	4.8	0.7	2.6	37.5	-0.6
1622 Agdenes	5.9	1,745	-13.4	-8.1	-5.3	-2.6	29.6	8.9
1627 Bjugn	12.8	4,570	-6.2	-6.8	0.2	1.3	21.0	9.5
1636 Meldal	6.6	3,903	-13.9	-6.2	-0.7	2.5	29.0	3.9
1756 Inderøy	19.2	6,717	1.9	-0.5	-1.1	-0.1	37.7	9.5
New municipalities (total)	8.8	155,280	-5.6	-3.5	-1.2	0.4	34.1	1.2

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

¹⁵ Figures by 4th quarter.

Table 16 sums up some comparative statistics with regard to the 31 new municipalities. The population development in the new municipalities in the period 2000-2010 is as poor as in the period 1994-2004. The poor development in the 2002-2012 period compares to that of the increased overall population development in Norway. This is also true for employment growth, which for the new municipalities is close to zero, whereas the national growth in employment is 14.1 per cent.

Table 17 shows that the difference between the new municipalities and municipalities outside the scheme has increased. We also see that prior to the notification of the current scheme, the new municipalities as a whole scored somewhat better on the periphery index compared to the municipalities in the scheme. Now, however, the new municipalities score somewhat poorer than those currently eligible.

Table 17. Comparison of proposed and current scheme

	New municipalities	Current scheme	Proposed scheme	Proposed ineligible area
Population density	8.8	3.7	4.1	58.8
Population growth (pct.) 94-04	-2.2	-2.6	-2.5	8.4
Population growth (pct.) 02-12	-1.2	0.7	0.4	13.8
Periphery Index 2013	34.1	37.4	36.9	75.0
Weighted rank on Periphery Index 2013 ¹	266.1	250.1	252.7	65.6
Weighted rank on Periphery Index 2006	232.7	245.0	243.0	63.0
Growth in employment by workplace (pct.), 2002-2012 ¹⁶	1.2	5.9	5.2	16.2

¹ Municipalities are ranked from 1 (best) to 428 (poorest). Weighted rank is an expression of the average rank in the different groups of municipalities in 2006 and 2012 respectively. The higher the rank number, the poorer is development in that particular group relative to other municipalities. For each municipality, rank is weighted by population.

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

In annex 3, statistics on eligible residential and labour market regions or eligible municipalities within residential and labour market regions in addition to all municipalities in Norway are enclosed.

13. Incentive effect

According to the Guidelines, regional aid can only be found compatible with the internal market if it has an incentive effect. An incentive effect is present when the aid changes the behaviour of an undertaking in a way it engages in additional activity contributing to the development of an area which it would not have engaged in without the aid or would only have engaged in such activity in a restricted or different manner or in another location. 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

¹⁶ Figures by 4th quarter.

area or region concerned would be significantly reduced due to the problems that the aid is intended to address.

The scheme reduces the labour costs as shown in table 18 below. A reduction in labour costs gives an incentive to increased employment which in turn increases the economic activity. Lower labour costs also stimulate the creation of new enterprises in addition to stimulate increased employment in existing enterprises.

To the extent that the scheme results in lower long-term labour costs, it will constitute a benefit to the employers in these regions. The incentive effect is clear. The scheme will favour the use of labour over the use of capital in these regions, i.e. it will favour labour-intensive industry or production methods. In addition, the scheme will favour employment in these regions, rather than in other regions.

Provided that the regional differences in tax rates are expected to be maintained for a sufficient period of time, employers will take the lower employment costs in the eligible areas into account when deciding on regional location, method of production and changes in the number of employees. In this way, subsidies linked to labour costs will prevent or reduce depopulation by increasing employment (opportunities) in the designated regions.

The SSC scheme has been in effect over a long time period. A renewal of the scheme will therefore not lead to changes in employment in the eligible regions. For the 31 new municipalities, the scheme is expected to reduce labour costs and increase employment opportunities as described in section 11.

The incentive effect is best illustrated with what would happen if the social security contribution were to be raised to 14.1 per cent, see section 11 and table 8.

In a study by Norut/Menon (2012) *Tiltakssonen for Finnmark og Nord-Troms*, accounting data for companies in zone 5 have been used to analyse the effect on the operating result by increasing the social security rate from zero to 14.1 per cent. The results shows that 63 per cent of all companies in the region will experience a negative operating surplus if the social security rate is raised to 14.1 per cent (2000 of 3200 companies). A negative operating surplus cannot be sustained over a long period of time, and cost-cuts will be necessary. For many of the companies in question, the labour costs will be a substantial part of total costs. Hence, it is reasonable to assume that an increase in the social security rate would induce lay-offs in the eligible areas.

The calculations done by Norut/Menon show that the scheme leads to an increase in the economic activity in zone 5. These results may be transferred to the other eligible areas under the notified scheme. Due to the initial social security rate being higher in the other zones, one would expect the effects on the economic activity to be more moderate than in zone 5.

There are several empirical studies analysing the effect of the benefit of lower employer social security contributions. One of the studies mentioned in the report from Hervik and Rye (2014) finds that a reduction of the social security contribution by one percent increases employment by 1 per cent (a long-run elasticity of -1). Other studies shows different results (see Hervik and Rye), but the main conclusion is that the instrument has a significant effect on employment and reduction in labour costs, and thus proves the incentive effect. It is however difficult to estimate an absolute number of persons that has been employed due to the scheme or an absolute number of companies that have been established or moved due to the scheme.

No studies/evaluations/statistical information concerning how many new companies established or existing companies expanding their activities in the eligible area due to the scheme has been made. However, as an indication, in Norut/Menon (2012), a survey among 287 leaders of companies in Norway, 75 per cent of the respondents said they were aware of the existence of the scheme with differentiated SSC. When asked whether the scheme would affect localization decisions, 15 per cent of the respondents in Northern-Norway answered that the scheme would affect localization decisions.

See also section 11 concerning the incentive effect and section 9 concerning the risk of depopulation.

14. Proportionality

As stated in paragraph 73 of the Guidelines, the amount of regional aid must be limited to the minimum needed to induce activity in the eligible area. Employer SSC has been regionally differentiated in Norway since 1975. Both aid levels and the differentiation between zones have been almost constant since 1990, except for the period 2004-2007, where the scheme was considered incompatible with state aid rules. The aid levels are low.

Aid intensities

Aid intensities under the notified scheme will vary according to where the undertaking is located. The designated regions will be divided into five geographical zones. Each zone has been assigned a fixed level of aid, as shown in table 18 below. As a proportion of labour cost the levels in the zones 2, 3, 4, 4a and 5 ranges from 3.1 per cent to 12.4 per cent.

Table 18. Aid intensities

	Aid as a percentage of labour costs ¹⁷	Rate for employer SSC, per cent	Number of municipalities
Zone 1	0	14.1	195
Zone 2	3.1	10.6	92
Zone 3	6.8	6.4	35
Zone 4	7.9	5.1	78
Zone 4a	5.4	7.9	2
Zone 5	12.4	0	26

Source: Ministry of Finance

All aid levels are lower than the aid intensities allowed for most types of aid. It is also well below the maximum investment aid intensities. When assessing long-term population figures in Norway, account should be taken of the fact that the situation might have been even worse if this measure had not been in place, i.e. the counterfactual development. The figures also show that the aid intensities have not been sufficiently high to prevent depopulation, but have the effects of reducing depopulation.

According to paragraph 105a, 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. The link between employment and settlement structure is elaborated upon in section 9 of this notification letter. The Norwegian authorities have in the previous sections presented the link between the scheme and the situation in the eligible area by using the periphery index, population density and population development.

Different aid rates are applied to different geographical zones, in order to reflect the differences in periphery problems. Below, we will demonstrate that the level of aid is proportionate to the problems that the aid is intended to address. Following our methodological approach, we will use the periphery index, population density and population development. Special attention is given to migration, accessibility and remoteness.

When assessing the proportionality of the aid intensity, the point of departure is the different zones. The nature of the notified scheme, being automatic and open to all undertakings in sectors eligible for regional aid, does not allow for evaluations per beneficiary. However, to reduce the distortive effects of the scheme, differences in contribution levels should be reduced to a minimum. The economic development between municipalities can therefore vary slightly also within each zone.

Aid zones

The various municipalities comprising the eligible area have been divided into zones as listed by counties below.

¹⁷ Aid intensities are calculated as the difference between full social security contribution and reduced social security contribution divided with the sum of wage costs and full social security contribution.

Zone 2:

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

Zone 3:

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

Zone 4:

- Troms:
 - o Harstad, Kvæfjord, Skånland, Ibestad, Gratangen, Lavangen, Bardu, Salangen, Målselv, Sørreisa, Dyrøy, Tranøy, Torsken, Berg, Lenvik, Balsfjord
- Nordland:
 - o 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, Moskenes
- Nord-Trøndelag:
 - o Namsos, Namdalseid, Lierne, Røyrvik, Namsskogan, Grong, Høylandet, Overhalla, Fosnes, Flatanger, Vikna, Nærøy, Leka
- Sør-Trøndelag:
 - o Hitra, Frøya, Åfjord, Roan, Osen
- Møre og Romsdal:
 - o Smøla

Zone 4a:

- Troms:
 - o Tromsø
- Nordland:
 - o Bodø

Zone 5:

- Finnmark:
 - o 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:
 - o Karlsøy, Lyngen, Storfjord, Gaivuotna-Kåfjord, Skjervøy, Nordreisa, Kvænangen

Zone 1 (1+1a) comprises all parts of Norway that are not included in one of the zones above, and is not included in the notified scheme. Zone 2 and 3 cover a slightly larger area than under the current scheme, due to the inclusion of 31 new municipalities. In annex 1, a map of the notified eligible area with zones is enclosed.

Table 19. Comparison of zones in the current scheme

Zone	Population growth (%) 94-04	Population growth (%) 02-12	Share of population 2005	Share of population 2010	Periphery Index (PI) 2013	Diff. PI national average (%)	Population density	employment by work-place (pct.), 2002-2012 ¹⁸
1	8.0	13.2	82.3	83.4	73.5	8.9	48.4	15.7
2	-4.3	-1.7	4.4	4.1	33.3	-50.6	3.5	1.5
3	-4.2	-2.8	2.1	1.9	27.1	-59.9	2.3	1.6
4	-4.3	-1.0	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	2.0	1.9	34.6	-48.7	1.6	10.3
Norway	5.9	11.0	100.0	100.0	67.5	0.0	16.2	14.1
Current scheme	-2.6	0.7	17.7	16.6	37.4	-44.6	3.7	5.9

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Table 19 and table 20 shows and compare the current scheme with the notified new scheme as to zone differentiation, population growth, the Periphery Index, employment growth, and thus, proportionality.

Tables 19 and 20 clearly demonstrate that the ineligible areas have a significantly better development than the eligible areas. The proportionality of the inclusion of the additional 31 municipalities is also clearly demonstrated by studying the difference between table 19 and table 20. The differences in development are demonstrated through a higher periphery index, higher population growth rates, higher growth rates in employment and a higher population density in ineligible areas when the new municipalities are excluded from zone 1 and included in zones 2 and 3.

We also demonstrate that the difference between the periphery index in the eligible areas compared to the national average increases in the notified scheme compared to the current scheme. It is noteworthy that the average periphery index in the scheme is lower than in the current scheme due to poorer development in these municipalities. Another point is that whereas in the period 1994-2004, the population development was poorer in the current scheme, this has changed in the last period. In the period 2002-2012, the proposed areas have poorer population development than the current areas.

¹⁸ Figures by 4th quarter.

Table 20 Comparison of zones in proposed scheme

Zone	Population growth (%) 94-04	Population growth (%) 02-12	Share of population 2005	Share of population 2010	Periphery Index (PI) 2013	Diff. PI national average (%)	Population density	Growth in employ- ment by work-place (pct.), 2002-2012 ¹⁹
1	8.4	13.8	78.9	80.3	75.0	11.2	58.8	16.2
2	-3.4	-1.4	7.5	7.0	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	-1.0	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	2.0	1.9	34.6	-48.7	1.6	10.3
Norway	5.9	11.0	100.0	100.0	67.5	0.0	16.2	14.1
Proposed scheme	-2.5	0.4	21.1	19.7	36.9	-45.3	4.1	5.2

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Above (in section 10) we have argued that it is also essential to assess the internal migration pattern when analysing the population development. Overall and over time internal migration is more important to population development than both immigration and natural reproduction in eligible areas.

Table 20 illustrates that there has been a growth in employment by work-place over the last ten years in the eligible area by 5.2 per cent. This is however significantly less than in the non-eligible area (zone 1), with a growth in employment by 16.2 per cent. It is to our opinion obvious that the difference in growth would have been even higher in the absence of aid, cf. the figures from the report from Cappelen and Stambøl (2003) referred to below.

Table 21 Net internal migration in current scheme. Average per year per 1,000 inhabitants

Zone	1994-2004	1992-2012	2002-2012
1	1.7	1.5	1.4
2	-7.3	-7.7	-8.5
3	-5.6	-6.0	-7.1
4	-8.6	-7.8	-7.3
4a	-0.4	0.2	0.1
5	-14.6	-11.9	-9.1
Zone 2-5	-7.6	-7.0	-6.8

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

¹⁹ Figures by 4th quarter.

Table 21 and 22 compares the current scheme with the notified scheme with regard to internal migration. The tables show that every zone, with the exception of zone 1 (where no aid is granted) and, to some extent, zone 4a, have a net internal migration loss. Over all, the migration loss varies according to the aid intensities. Regarding zone 4a, this zone is composed by the two municipalities Bodø and Tromsø. Being larger urban centres, they naturally have a different migration pattern than more sparsely populated areas. Still, the net internal migration is close to zero.

Table 22 Net internal migration in proposed scheme. Average per year per 1 000 inhabitants

Zone	1994-04	1992-2012	2002-2012
1	1.9	1.7	1.6
2	-5.1	-5.5	-6.3
3	-5.7	-6.0	-6.7
4	-8.6	-7.8	-7.3
4a	-0.4	0.2	0.1
5	-14.6	-11.9	-9.1
Zone 2-5	-6.7	-6.3	-6.2

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

Accessibility and remoteness

The criterion of proportionality is also accentuated by the remoteness from central markets. Remoteness can be measured both in travel time to Oslo or distance to Oslo. Table 23 shows both indicators of remoteness. Both indicators are weighted by population size per 31. December 2010.

Table 23. Remoteness from central markets

Zone	Weighted travel time ²⁰ to Oslo (minutes)	Weighted distance to Oslo ²¹ (kilometers)
1	99	276
2	176	332
3	210	382
4	253	1,207
4a	207	1,499
5	276	2,034
Eligible areas	218	921
Norway	122	402

Source: Statistics Norway, calculations by the Ministry of Local Government and Modernisation

²⁰ Nils Gaute Voll (2012), *Avstander fra kommunesenter til Oslo*, Working paper 50222, Institute for Transport Economics (In Norwegian only: Distances from municipality center to Oslo).

²¹ Source: Institute for Transport Economics via PANDA (Plan- og analysesystem for Næringsliv, demografi og arbeidsmarked). Figures are from 2006 (latest available figures)

The table shows that the remoteness from central markets is to a large extent proportional to the aid intensity following the different zones.

Specific comments on Zone 5:

Zone 5 covers Finnmark and Northern Troms, all together 26 municipalities. This is an area larger in size than Belgium, Denmark or the Netherlands, but with a population of just over 90,000 persons. This accounts for 1.9 per cent of the Norwegian population. Consequently, population density is extremely low (1.6 inhabitants per km² per 31 December 2010), the lowest among the zones.

Depopulation has been high over the last twenty, thirty and forty years. The population growth has been close to zero the last ten years, due to external immigration the last five years. As table 22 also demonstrates, the underlying trend of a large internal migration from zone 5 is significant. The (net) internal migration from zone 5 is largest among the zones. If the population continues to decline, many communities may no longer be viable, and/or become unable to provide necessary basic services.

Economic activity in Finnmark and Northern Troms has traditionally been based on natural resources. In the private sector, fishing, fish processing and agriculture still dominate economic activity in this region.²² Finnmark and Northern Troms, therefore, are vulnerable to changes in natural conditions such as the stock of fish and the global markets. In municipalities like Gamvik, Hasvik, Måsøy and Båtsfjord, more than 30 per cent are employed in fishing and fish processing.

In addition, a considerable part of the workforce is employed in the public sector. Four out of every ten employees are employed in the public sector. They are primarily employed in the municipal sector. Kvæningen municipality has almost 50 per cent employed in the municipality. The manufacturing industry in the region is low compared to the national average, and the lowest between the zones (except for zone 4a, Bodø and Tromsø).

Urban industries, like trade, private and financial services, are underrepresented in Finnmark and Northern Troms.

Labour markets are small, and the capacity to restructure business is weak. The largest labour market in zone 5 has just above 10,000 employees (Alta). The smallest two labour market regions comprise 437 employees each (Berlevåg and Gamvik).

Internal distances within zone 5 are considerable (it stretches approximately 1,000 kilometres, from Kirkenes in the east to Karlsøy in the west), as are distances to central markets outside zone 5, and especially to Oslo, cf. table 23. The distance between the

²² The industrial sectors used in the description in section 14 of this notification letter is documented in Annex 4.

administrative centre in Finnmark (Vadsø) and the largest centre in terms of population (Alta) is 443 km by road. Due to the long distances, daily commuting is difficult. Travel distances to other small centres, towns and villages in Northern Finland and Sweden are also long. The population centre with the shortest travel distance to a centre in Finland or Sweden is Karasjok, a Sami centre with 2,768 inhabitants, which lies about 20 km from the nearest village in Finland, a small place with approximately 300 inhabitants (Karigasniemi). Elsewhere in zone 5, the distance between centres on either side of the border is at least 100 to 200 km by road. This makes the municipalities in the region the most peripheral in the country.

Zone 5 is the main home region of the Sami population in Norway. Out of a total population of 93,000, an estimated number of 39,000 are of Sami origin²³. The Norwegian Sami Parliament (Sámediggi) is located in Karasjok.

Although the most important regional aid instrument in zone 5 has been SSC, successive Norwegian governments, over an extended period of time, have given Finnmark and Northern Troms special attention and treatment. Other measures have also been introduced, such as maximum investment aid intensities, lower income tax, child benefits, etc. Despite the zero tax rate of SSC and other measures that have been introduced, as illustrated above, the region still face severe regional challenges. The duration indicates that this is a more or less permanent condition.

Specific comments on zone 4

Zone 4 consists of the rest of Northern Norway not included in zone 5, as well as adjacent areas in Trøndelag's periphery and the peripheral island municipality of Smøla in Møre og Romsdal county, all together 76 municipalities. Zone 4 excludes Northern Norway's two main urban centres, Tromsø and Bodø, which function as both local and regional centres.

Zone 4 comprises 315.000 inhabitants. This is 6.4 per cent of the Norwegian population. Compared to the share of population in 2005, this is a reduction of 0.5 percentage points. The underlying trend of net internal migration from zone 4 is significant (cf. table 22). It is larger than the net internal migration from zone 3 the last ten years. However, it is somewhat lesser than net internal migration from zone 5.

Primary industries like agriculture, forestry, fishing including fish processing are a large and important private industries in zone 4, although to a marginally lesser degree than zone 5. 10 municipalities have more than 30 per cent employed in fishing and fish processing. In Træna, Røst, Værøy and Torsken, more than 40 per cent are employed in fishing and fishing industries. The manufacturing sector is below national average. The public sector is almost equally important in zone 4 as it is in zone 5. In 14 municipalities,

²³ Statistics Norway. Figures by January 1st, 2013.

more than 40 per cent are employed in the municipality. In Kvæfjord almost 60 per cent are employed in the municipality.

The overall profitability of business and industry in zone 4 as a whole is low compared to the national average. In 2011, the return on total assets for non-financial joint stock companies registered in the four Northernmost counties was well below national average.

The municipalities in zone 4 are characterised by their remoteness from central markets. Travel time and distance to Oslo are smaller than in zone 5, and larger than in zone 3. This is particularly true in terms of travel distances.

Specific comments on zone 4a

Zone 4a includes Northern Norway's two main urban centres, Tromsø and Bodø, which function as both local and regional centres. Bodø and Tromsø have a total population of approximately 120,000. As shown in table 23, they are located far from central markets.

The population development in Bodø and Tromsø has been above national average the last ten years. Although these two particular towns are experiencing a population increase, the population development in the surrounding zone 4 is negative, cf. table 19 and 20. The general weak population trend continues in Northern Norway, despite the fact that business and industries in Northern Norway have benefitted from lower SSC rates in zones 5, 4 and 4a for many years. Due to the relative favourable population growth in Tromsø and Bodø, the rate in Tromsø and Bodø is set 2.8 percentage points higher than in the surrounding areas. The rate is set to 7.9 per cent, compared to 5.1 per cent in the surrounding area. This is a prolongation of the aid intensity in the current scheme.

The population development of urban centres in Northern Norway cannot be seen in isolation. There is a risk that a tax rate increase in Tromsø and Bodø could over time increase migration both from these towns and their surrounding areas, undermining the overall aim of preventing the depopulation of Northern Norway as such. A higher increase in the tax rate in Tromsø and Bodø could have undesirable effects on the wider population development in Northern Norway. The Norwegian authorities therefore consider that the proposed tax rate is the maximum that could be applied in view of the risk of depopulation.

Migrants from this region are to a large extent moving to central parts of Southern Norway. Northern urban centres reduce migration from Northern Norway, partly by competing for immigrants with centres in central parts of Southern Norway, and partly by supporting settlement in surrounding areas. Table 22 demonstrates that there are approximately the same number of people who migrate from other places in Norway to Bodø and Tromsø, as there are people migrating from Bodø and Tromsø to other parts of Norway. The increase in population in Bodø and Tromsø, therefore, is the result of

external immigration and a positive balance between births and deaths. The latter is a result of a favourable age composition.

To the extent that migrants from Northern Norway move to central areas in Southern Norway, only a smaller share (20 per cent) moves back to the municipality of origin. Most of them, if they return to Northern Norway, will settle in urban centres like Bodø and Tromsø, or other relatively central parts of Northern Norway. The few urban centres in the province reduce depopulation in Northern Norway, partly by competing for immigrants with centres in central parts of Southern Norway, and partly by supporting settlement among migrants from Northern Norway who migrated to central areas in Southern Norway and who moves back to Northern Norway. To the extent that migrants from Northern Norway to Southern Norway return to Northern Norway, two thirds move to a more central municipality. In particular, they return to Bodø or Tromsø, but also to other, but smaller, important centres in Northern Norway. This amounts to 40 per cent of those who migrated from Northern Norway in the first place. However, migration by people originating from Southern Norway, will offset 15 percentage points of this loss. Net loss in the long run is therefore 25 per cent.

Bodø and Tromsø provide employment opportunities, basic and special services, and thus momentum for development that the rest of Northern Norway lacks, due to small and very sparsely populated municipalities. Because these are isolated towns located in areas in which there are no alternative urban centres that can offer the same services and labour opportunities, the inclusion of these cities are particularly important.

The manufacturing sector in Bodø and Tromsø is below national average. In Bodø and Tromsø the public sector is larger than it is in zone 5. This is partly explained by the presence of universities, hospitals and military units, i.e. the public sector.

A central objective of Norwegian regional policy is to promote balanced population development in all parts of the country. The strength of Tromsø and Bodø is the key to preventing an even greater decline in the population of Northern Norway. If the few urban centres in these particularly vulnerable parts of the country are weakened, this could have a significant negative effect on the surrounding regions. Robust regional centres are crucial to the stabilization of settlement patterns in vulnerable regions that are facing significant restructuring challenges. Such centres are important engines for the economic development of the larger regions. Consideration must also be given to the aim of preventing depopulation of Northern Norway as a whole.

Specific comments on zone 3:

Zone 3 is made up of the most peripheral areas of Southern Norway in Trøndelag, Møre og Romsdal, Hedmark and Oppland, largely consisting of mountain areas. It comprises 35 municipalities and 107,000 inhabitants. The largest municipality in zone 3, Oppdal, has less than 7,000 inhabitants. The municipalities are located further away from central markets in Southern Norway than municipalities in zone 2, both in terms of travel time and distances, cf. table 23. Despite their relative proximity to central markets compared

to Northern Norway, zone 3 suffers from depopulation, cf. table 20. As in all eligible areas for the scheme, the net internal migration rate is negative. The net internal migration from zone 3 is larger than the net internal migration from zone 2, but lesser than the net internal migration from zone 4 and 5. The share of the population in zone 3 has decreased by 0.2 percentage points.

The primary sector in zone 3 is larger than in any other zone. Contrary to zone 4 and 5, it is the agriculture and forestry industries which dominate. Agriculture and forestry are five times higher in zone 3 than the national average. 5 municipalities have more than 20 per cent employed in agriculture and forestry. Construction is also large in zone 3.

The public sector is above national average. In particular, the municipal administration and services account for three out of every 10 employee. In Tydal, almost 50 per cent is employed in the municipality. State administration, however, is well below national average, reflecting the lack of larger urban centres.

The proposed tax rate/aid intensity is close to the proposed tax rate for zone 4. As Table 20 demonstrates, population growth in zone 3 has been negative over the last 10 years.

Specific comments on zone 2:

Zone 2 consists of those parts of Southern Norway's periphery that are not included in zone 3. It includes municipalities in all counties notified as eligible south of Northern Norway. Although the areas in question are somewhat less remote than those in zone 3, depopulation nevertheless constitutes a problem. The population has declined the last ten years (cf. table 20), despite the high level of external immigration. Net internal migration has been significant the last ten years, although less pronounced than in zones with higher aid intensity. Their share of population has decreased by 0.5 percentage points.

Zone 2 comprises a greater variation in size among the 92 municipalities. The smallest municipality is Utsira, which has 209 inhabitants as of 1 January 2013. Kongsvinger, the largest municipality has 17,638 inhabitants as of 1 January 2013. Only Kongsvinger and Kvinnherad (13,305 inhabitants) have more than 10,000 inhabitants. They are, nevertheless, all small.

Zone 2 is both primary sector intensive and intensive in manufacturing. Both industries are overrepresented compared to the national average. The primary sector in zone 2 is predominantly agriculture and forestry. Zone 2 has the largest percentage of the workforce employed in manufacturing (16.1 percent compared to the national average of 12.6 percent).

The public sector is above national average. In particular, the municipal administration and services account for more than three out of every 10 employee. 10 municipalities have more than 40 per cent employed in the municipality. State administration, as is the

case for zone 3 as well, is well below national average. As is the case for zone 3, this reflects the lack of larger urban centres.

Under the current scheme, lower aid intensity in zone 2 than in zones 3 and 4 did not result in greater depopulation in zone 2. Although one explanation could be that zone 2 regions are somewhat less peripheral, their continuing depopulation indicates that there is still a need for preventive measures.

Summary

For the period during which Norway has operated this specific tax measure to prevent depopulation, figures for population growth clearly indicate the continued need for a measure to prevent or reduce depopulation. The population development also shows that the proposed differentiation of aid rates between zones is appropriate. In this context, account should also be taken of the fact that migration from e.g. Northern Norway to the proposed zones 2 and 3 will be very small. Therefore, the crucial factor is the difference between the tax level in the eligible area (zone 2-5) and the tax level in zone 1 (1+ 1a). A higher tax rate in one of the zones would primarily lead to increased migration to zone 1 (1+1a)

15. Negative effects on competition

In the RAG, it is stated that the negative effects of the aid measure in terms of distortions of competition and impact on trade between EFTA States must be limited and outweighed by the positive effects in terms of contribution to the objective of common interest.

As demonstrated above, the aid levels applied are not excessive in relation to the objective of preventing depopulation in these regions.

Moreover, as shown above, the regional differentiation of employer SSC is designed to promote employment and settlement in the relevant areas in the least distorting way possible. The purpose of the measure is not to support specific industries or types of companies. It focuses on the employment of people in disadvantaged regions.

Most of the undertakings receiving aid under the notified scheme will be offering local services, and the potential trade effects of the aid will in reality be minor. Similarly, the distortionary effects on competition can be assumed to be small when the recipients of aid are providing services in local markets. The highest aid intensity is proposed in Zone 5, in which the distance to service and central markets in Norway and other EEA countries is very great.

Taking into account that the scheme applies to all eligible employers and the very peripheral location of the undertakings that will benefit from the notified scheme, the effect on trade cannot be considered to be contrary to the common interest.

16. Transparency

According to RAG paragraph 135, the Norwegian authorities are obliged to publish on a central website, 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.

The Norwegian authorities will establish a website with the above mentioned information. Given the nature of the notified scheme, it is impossible to calculate the amount received by the individual beneficiary until ultimo January the year following the fiscal year. Neither is it possible before this time to give a complete list of all undertakings actually receiving aid under the notified scheme.

We intend to publish the text of the scheme and its implementing provisions by 1 July 2014 at the latest.

We have considered whether it will be appropriate to publish a list of beneficiaries based on the record of undertakings receiving aid under the current scheme within the same time limit. However, due to the extensive and unforeseeable consequences of the new sectorial limitations, such a list may be highly inaccurate. This is i.a. due to the fact that undertakings which perform both eligible and non-eligible activities, will have to decide whether or not to establish the necessary distinctions of labour costs in order to use the reduced contribution rates regarding the eligible activities. For instance, an undertaking with a share of non-eligible activities may very well, based on a cost-benefit consideration, choose not to establish such distinction, and rather use the general contribution rate of 14.1 per cent also on the labour costs related to eligible activities. A list of *assumed* aid beneficiaries under the SSC scheme after 1. July 2014, based on the actual recipients under the current scheme, would therefore to some extent be misleading. Hence, we do not believe such a list would serve the aim of transparency in an appropriate way.

The Norwegian authorities will therefore publish the individual beneficiaries, together with the aid amount received by each beneficiary and the aid intensity as soon as the Tax authority has established the final, relevant information. Hence, the information regarding the second half of the fiscal year 2014 will be published in January/February 2015.

The Norwegian authorities would like to inform the Authority that the Norwegian tax authority is imposing a major alteration of the employers reporting obligations as of 1 January 2015. From this date on, employers are obliged to report i.a. final information about wages to the employees and the final calculation of the social security contributions, on a monthly basis. This implies that, as soon as the new reporting obligations are established, it will be possible to publish the relevant information under RAG paragraph 135 at an earlier stage, even within the fiscal year. We would like to discuss this matter further with the Authority, with the aim of publishing the relevant information more frequently and at an earlier stage, when the new reporting obligations

are established. In the meantime, as stated above, the information will be published as soon as possible after the expiration of the fiscal year.

17. Evaluation

Norwegian authorities will ask for tenders from external consultants/institutions to evaluate the scheme on differentiated social security contributions within 4 years from the approval of the scheme. The evaluation will be carried out according to the forthcoming methodological guidance paper from the DG Competition.

The draft methodological guidance paper suggests the following requirements for an evaluation plan:

- Objective of the study, key assumptions objective of the evaluation, identifying the relevant result indicators
- Methodology
- Monitoring, data gathering and availability
- Timeline
- The body conducting the evaluation (or the selection principles)
- Peer review
- Use of results

The draft methodological guidance paper suggests the following possible result indicators for regional aid:

- Private investment matching public support
- Employment increase in the supported enterprises

Since the aim of the scheme is to increase employment, the evaluation will focus on the employment effects of the scheme. The exact content of the evaluation and the evaluation method will be subject to discussions between the EFTA Surveillance Authority and the Norwegian authorities and will be developed and specified at a later stage, but some relevant aspects for the evaluation could be:

- What are the employment effects due to the scheme in the various zones?
- What are the employment effects for various sectors?
- What would be the effects on the operating surplus for the companies if they have to pay the full rate of 14.1 per cent?
- Are there other instruments that are better suited for stimulating employment?
- An assessment of how much of the aid that goes to economic and non-economic activities in the public sector.
- The evaluation should also look at possible negative effects on competition and trade due to the scheme.

The Norwegian authorities foresee a discussion with the EFTA Surveillance Authority on a more detailed framework for the evaluation to make sure that all relevant aspects are covered in the evaluation.

18. Reporting and monitoring

In line with RAG paragraph 168, the Norwegian authorities will submit annual reports on the scheme to the Authority.

Furthermore, we will transmit information to the Authority on each individual aid exceeding 3 million Euro granted under the scheme in the format set out in Annex IV to the RAG. This information will be provided within 20 working days from the day on which the aid is granted.

In order to reach the threshold of 3 million Euro, the undertaking must receive approximately 3.6 million NOK in aid per year. Since 2008, the number of undertakings receiving this amount of aid has been:

Year	Number of undertakings
2012	412
2011	376
2010	367
2009	366
2008	382

Hence, the Norwegian authorities expect the reporting obligation set out in RAG paragraph 169 to be relevant for approximately 350-400 undertakings between 2014 and 2020.

Annexes: 4

Annex 1: Operating aid map

Annex 2: Assessment of the eligible area in relation to residential and labour market regions

Annex 3: Supplementary regional statistics

Annex 4: Industrial structure