Enhancing the Contribution of Business on Islands to Economic Development: A Proposal for a Flexible Application of the De Minimis Amount within the State Aid Framework

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1. Challenges for Business in EU Islands to fulfil the Potential within the EU Single Market

Despite the heterogeneity in the characteristics of EU islands[2] in terms of size, population density, connectivity and distance to mainland, it is widely recognised that islands face multiple socio-economic development challenges that are well-documented. It is however also true that islands as a distinct territorial specificity have a key role to play towards the development of the European Union and the Single Market[3].

The generally recognised disadvantages faced by islands include the lack of suitable access to critical masses of resource inputs and consumer bases which limits the capacity of businesses on islands to exploit economies of scale, of scope and of diversification (ESPON, 2019). This curtails the potential opportunities offered by the European Single Market for businesses of all sizes based on islands. It is also true that the effects of shocks on business in islands are propagated by their detachment and peripherality from centres of economic activity and governance.

These realities have tended to be at least superficially recognised in EU national and supranational policy frameworks, reflected in some special considerations being made for island territories. The constraints faced by islands however result in a number of other specific problems for business on islands which deserve deeper consideration to be followed by concrete and urgent action.

One such major problem is that business on islands tend to be excessively dependent on niche market specialization and struggle to develop new niches (Camilleri, M., Formosa, S., Galea, R., & Moncada, S. (2009). They would therefore benefit from more holistic approaches to business formation and especially business growth, which would better exploit the ability of economic actors in islands to network and their inherent need and capability to address multiple problems and opportunities with a small number of concerted actions.

Business on islands tends to be disproportionately curtailed by shortages of human capital. Islands tend to be characterised by low fertility rates (ESPON, 2013). Another problem arises from the lower rate of educational attainment of populations living on islands. In particular, Mediterranean islands have a low education attainment level, even for islands with high GDP per capita and presence of a University (ESPON, 2013).

Island regions also tend to have fewer resources and capabilities to devote to R&D activity, with obvious consequences for business performance. The indicators for Mediterranean islands are even worse than those of the EU average (ESPON, 2013).

Land-resources are constrained on islands in comparison to other EU member states. This gives rise to constraints and environmental conflicts with respect to living space, infrastructural facilities, agricultural production and industrial development (ESPON, 2013). These issues create obvious problems for business productivity and competitiveness on islands. Often unique for their biodiversity,

[2] Eurostat (1994) defines an island as any territory meeting the following five criteria: 1) having an area of at least one square kilometre; 2) being located more than one kilometre from the mainland; 3) having a permanent resident population of at least 50 people; 4) having no fixed link with the continent; 5) not containing an EU capital. From a statistical perspective, island regions are classified as NUTS 3. The classification can correspond to a single island, be composed of several islands, or be part of a larger island containing several NUTS 3 regions. A number of islands in Europe are statistically classified as NUTS 2 – e.g. the Balearic Islands, Sicily and Corsica – and there are also two island Member States (Malta and Cyprus).

[3] The total population of islands in the EU amounted to just under €20 million in 2018, equivalent to 4% of the EU-28 population. The Gross Value Added as a percentage of the EU-28 amounted to 3% in 2016 whilst per capita GDP amounted to €17,740 in comparison to the EU average of €26,261 in 2016.

most European islands have highly fragile habitats which are vulnerable to human pressure. All islands face more or less serious problems concerning sea pollution, desertification, landscape degradation, water scarcity, lack of waste management facilities and fossil fuel dependency (EESC, 2017). This tends to constrain business growth, especially if this would exacerbate the effects of environmental fragility.

Remoteness from the continent often leads to a situation where islands have isolated and weak energy networks, with a low possibility of interconnection. As a result, islands tend to rely to a greater extent on the use of fossil fuels and energy imports (ESPON Bridges, 2019). The lack of diversification and security in energy markets, and higher costs, have important impacts on business activity on islands.

Remoteness from urban centres gives rise to a high dependence on external transport linkages (ESPON Bridges, 2019). The standard of the service provided by sea ferries and other forms of physical connectivity has direct implications on the population levels, business competitiveness and quality of life on islands. Remoteness and insufficiencies in transport infrastructures, especially in situations of double insularity, are often at the root challenges related to human capital and higher costs of doing business noted above. Reflecting these considerations, the 'European Parliament resolution on the special situation of islands' dated 2016, requested the Commission to launch an in-depth analysis on the extra costs incurred as a result of being islands, in terms of the transport system for people and goods[4].

Small islands are often characterized by an over-reliance on central Government (ESPON Bridges, 2019) with higher per capita public expenditure levels and elevated levels of bureaucracy, impinging on business competitiveness. On one hand, the provision of essential public sector services on islands tends to be disproportionately high on islands, especially those with a small number of inhabitants (Briguglio, 1995). On the other, the majority of EU islands find themselves being part of bigger administrative units and lack the necessary powers to provide optimally for the public service needs Both these factors tend to increase the costs of doing business in islands in terms of direct outlays as well as the quality of the level of public services available (Cordina, 2008).

Addressing the special challenges facing business within islands requires the mainstreaming of the relevant issues within the overall approach the economic and social policy at various levels, so as to ensure a sustainable development for island business based on their potential comparative advantage. Promoting and exploiting the territorial potential of islands contributes not only to the region itself but also to the nation and the European perspective (ESPON,2013). Business in islands is not only worth saving, but is above all worth nurturing for the development, diversification and strength of the EU Single Market.

2. The need to integrate special mechanisms, identify new policy areas and set up place-based strategies with respect to Islands

Various studies suggest that through fair and proportionate compensatory measures mainstreamed within policies and measures, islands can become 'lands of opportunities' (European Parliament, 2016). These would build upon the flexibility of resources and of governance structures in islands, their strong social and community ties and the consequent wider space for networking opportunities.

[4] The EESC supports the call of the European Parliament (EESC, 2017)

From a policy perspective, the EU recognises the specificity of the geographic characteristics of islands[5] particularly in terms of accessibility[6], Cohesion Policy[7] and Energy Policy[8]. On the other hand, Competition Policy recognises a special arrangement with respect to State Aid[9] only in relation to less favoured regions[10], without making a direct or specific reference to islands.

It is within this context that the January 2016 European Parliament briefing entitled 'Islands of the EU: Taking account of their specific needs in EU policy' calls for the development of an 'insular dimension' in EU policies and Regional Policy. This reflects the findings of the 2013 ESPON GEOSPECS report that concludes that by treating EU territories in the same way, almost all EU sectoral policies are effectively discriminating towards territories with specific characteristics such as those of islands. It also states that the outputs and results of EU sectoral policies are not necessarily adequate and/or strong enough to change the attractiveness of islands as residential and economic centres. The 2017 EESC Opinion Paper on 'Islands in the EU: from structural handicap to inclusive territory' advocates the need for a greater degree of flexibility in the application of key policy areas, among which Competition Policy, to island economies.

Complementing this line of thought, the 2019 ESPON BRIDGES project acknowledges the success of instances of policy flexibility in Cohesion Fund interventions and procurement procedures aimed at enhancing connectivity for islands, both physical (eg. the treatment of islands in TEN-T guidelines[11]) and digital (eg. care infrastructures in Sareema), and consequent retention and attraction of human capital, as well as innovation activities (eg. food projects in Bornholm[12] and in North Aegean Islands[13]) and business funding mechanisms (eg. JAIME[14] financing package in Malta and Gozo, and the InnovFin SME guarantee scheme[15]). The report further calls for integrated, place-based strategies to promote the territorial potential of EU islands based on their unique characteristics. The key areas identified for the development of islands with particular relevance to their business competitiveness include:

- **Research and Innovation**, with a recommendation to develop clusters and smart specialisation initiatives of sufficient critical mass (possibly also through networks between islands) to address niche activities in culture, e-services, food production and non-seasonal tourism;
- **Education and Training**, to attract specialised skills and overcome brain-drain challenges, in good part also by providing attractive employment opportunities within islands themselves;
- **Sustainable Tourism**, taking into account the ecological and infrastructural capacities of islands , focused on appropriate market niches, with potential important spill-over effects into the promotion of cultural activities;
- **Climate Change**, to address the special difficulties which business on islands would potentially face through climate change effects, including the availability of natural resources, the sustainability of health services and tourism demand.

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[5] TFEU art, 174, 175.
[6] EU Council Regulation (EEC) No 3577/92 restricts freedom to provide maritime transport services in specific instances
[7] The ESIF Common Provisions Regulation allows for the modulation of co-financing rates which can be applied for areas with severe and permanent natural or demographic handicaps including islands
[8] The Clean Energy for Islands Initiative calls for investment in renewable energy sources for islands to overcome constraints related to limited space, intermittency and governance.
[9] State aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities.
[10] TFEU art 107(3)
[11] http://www.europarl.europa.eu/factsheets/en/sheet/135/trans-european-networks-guidelines
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3. Flexibility in State Aid Rules for Enhanced Business Development in Islands

In spite of various efforts and selected cases of good practice, islands in the EU continue to lag behind in terms of socio-economic development, in part because State Aid rules create a non-level playing field for business in islands. Indeed, the policy area of State Aid remains significantly underdeveloped in terms of the need for providing flexibility with respect to island territories.

EU State aid control requires prior notification of all new aid measures to the Commission. Member States must wait for the Commission's decision before they can put the measure into effect. There are a few exceptions to mandatory notification, including:

- aid covered by a Block Exemption (giving automatic approval for a range of aid measures defined by the Commission such as investment aid and risk capital);
- aid granted under an aid scheme already authorised by the Commission;
- de minimis aid not exceeding €200,000 per undertaking over any period of three fiscal years (€100,000 in the road transport sector).

In applying the €200,000 per undertaking rule, the maximum amount applies to the total of all public assistance irrespective of the form it takes or the objective pursued. De minimis aid cannot be cumulated with other aid in respect of the same eligible costs if it results in an aid intensity exceeding the maximum intensity specified in guidelines or that is block exempt[16].

One of the criteria for the compatibility of aid measures with the Treaty is the need for state intervention when faced with a problem of equity or cohesion for which the market does not itself provide significant improvements. In this sense the aid granted in assisted zones, under the terms of articles 107.3.a and c[17], are considered compatible with the market. However, de minimis regulations do not take into account the specific nature of territories such as islands whose handicaps are explicitly recognised by Article 174 of the Treaty.

Against this background, the CPMR Islands Commission convened a seminar in 2012 to consider the integration of Europe's islands into EU Cohesion Policy 2014-2020. One of the salient conclusions reached concerned the need for a flexible application of State Aid rules with respect to island territories[18]. In particular, the CPMR had to raise the de minimis ceiling from €200,000 to €500,000 per three-year period in the case of business on islands to take into account the additional costs of

[16] The Regulation also specifies that aid provided under a guarantee schemes to undertakings which are not in difficulty constitutes de minimis aid when the underlying loan does not exceed €1,500,000 per undertaking (in the road transport sector, this amount is limited to €750,000) (European Commission, 2008).

[17] Type "a" assisted zones are covered by Article 107.3.a, and these are regions where the standard of living is abnormally low or where there is serious underemployment, as well as the regions referred to in Article 349, namely the ORs. They are defined in these regulations as the NUTS2 whose GDP per capita in PPS is less than 75% of the average of the EU 27 based on the last three available years (2008-2010) and ORs. Type "c" assisted zones are covered by Article 107.3.c, and are defined as disadvantaged areas compared to the national average within their Member State and for which aid enables development "without being limited by the economic conditions set out in 107.3.c". These type "c" zones are made up of:
- predefined "c" zones made up of former "a" zones during the 2011-2013 period and low population density zones (NUTS2 <8 inhabitants per km² or NUTS3 <12.5 inhabitants per km²). - non-predefined "c" zones which may be made up of territories defined by 5 territorial criteria, including islands of less than 5,000 inhabitants with a GDP per capita below or equal to the EU27 average or an unemployment rate higher than or equal to 115% of the national average.

[18] These proposals were presented to Commissioner Almunia in 2012

doing business that arise from insularity[19]. In 2017, the technical paper of the CPMR Islands Commission entitled 'Perspectives of Islands Commission Action on State Aid', has proposed the establishment of differentiated de minimis ceilings depending on the nature of the territories (CPMR Islands Commission, 2017). Higher ceilings would be allowed in territories suffering from severe and permanent handicaps, without the operation of the EU's internal market being disrupted, helping instead to create more equal opportunities between those industries having to cope with specific territorial constraints and others.

The CPMR proposals highlights that economic fabric in islands relies on small and medium sized companies. De minimis aid is considered to be one of the instruments best suited to meeting the needs of the islands, especially since the amount of funding required by island SMEs is generally proportional to their small size. Conversely, the Commission has downplayed the importance of the de minimis proposal by arguing that the current ceiling of €200,000 is only rarely reached and increasing it "would entail significant risks for competition and trade in the single market" (European Commission Press Release, 2013 and CPMR Islands Commission, 2017).

This Opinion Paper proposes a way forward in this regard by:

- providing a technical justification for the need for a higher de minimis amount of business operating on islands, founded on business and regional statistics data published by Eurostat;
- extending the implementation framework of the increased de minimis amount for islands to ensure the achievement of the intended objectives of the measure while minimising the potential for EU market distortion.

Towards this end, a review State Aid rules is hereby proposed whereby, specifically for islands, the de minimis amount is increased from €200,000 to €500,000, subject to the following provisions.

1. Business benefitting from the increased de minimis amount would be involved in activities, either through output produced or inputs utilised, which would contribute to enhance the performance of the island in which they are located with respect to one or more of the following themes: Creativity and Innovation (including activities aimed at valorising and commercialising traditional skills, products and cultural heritage); Sustainable Tourism; Clean Energy; New-to-Island Mobility; Social Enterprises.
2. The increased de minimis amount is operated in a tapered manner to individual businesses, allowing an amount of €500,000 for the first three rolling years, €350,000 for the next three-year period, until reaching the statutory level of €200,000 thereafter, so as to discourage long term dependence on aid and encourage activities which neutralise the costs of doing business on islands.
3. An eligible business would be entitled, at any point in time, to apply to benefit from the flexible de minimis amount on a tapered basis - it would be eligible to apply again after the expiry of a nine-year period from the first year of benefitting from the maximum de minimis limit, to meet the requirements of new investment or changing business environment;
4. In order to enable the building of critical mass and reaping of economies of scale, separate businesses with the same ultimate beneficiary owners shall not be subject to the cumulation of aid amounts under one de minimis limit provided that they are contributing to different thematic areas within the list set out in (1) above;

[19] Other proposals made by CPMR in relation to State Aid include the eligibility of islands, or at least those with smaller population to the provisions of Article 107.3c of the TFEU, the consideration of operating aid in addition to Public Service Obligation provision for air and sea transport, and increased collaboration between the European Commission and island authorities.

5. There would be a limit on in total budget to beneficiary firms operating on an island so as to prevent any undue influence on EU trade, up to an amount of €5,000 per year per inhabitant on the island.
6. This framework would ideally be applicable to all islands as per Eurostat NUTS3 statistical definition – alternatively, it would be applicable at least to all individual island territories with a population of at most 50,000 or island regions at NUTS 3 level with a population of at most 450,000. Furthermore, a transition period of nine years is suggested for territories which cease to be eligible under these criteria, in consideration of the need for long-term planning in business.

Further comments on the main elements of these provisions follow.

Methodology for the establishment of the €500,000 maximum de minimis ceiling

The establishment of the ceiling[20] is based on the estimates as derived in the Annex to this paper regarding the higher costs to turnover ratio which firms experience when operating from islands (77.6%) in comparison to those that operate from mainland EU countries (76.2%). Therefore, the cost of doing business from islands, as a percentage of turnover, is estimated to be 1.4p.p higher than that of mainland EU countries. As discussed in further detail in the Annex to this study, this constitutes an average increase in cost of around €93,000 per firm per year. Taken over the context of three years, this would justify an increase of €300,000 in the de minimis limit to €500,000.

It is worth noting that even though firms within the micro category (employing up to 9 workers) are predominant both in the EU as well as in islands, the calculation of the €500,000 ceiling is based on the needs of firms that employ 20 to 49 workers. This is because the increase in the ceiling of the de minimis amount would be most needed within this category. Firms of this size are less numerous than micro firms, especially in islands where business finds significant obstacles to achieve growth. This in good part explains the EU Commission's observation that the maximum de minimis limit is rarely reached in islands. Nevertheless, it is observed that firms of this size need to be compensated for the additional costs of doing business at least for two reasons. From a static perspective, these firms are already making a marked contribution to output and employment in islands (around 10.5% of the total as per the findings presented in the Annex to this paper). From a dynamic perspective, the possibility for firms to attain higher levels of support would incentivise micro firms to grow. This is essential to achieve the much-needed critical mass for island business activity, and the consequent expected improvement in the attraction of resources, productivity, innovation and overall competitiveness.

Business Development Themes

Any business would be eligible to the de minimis €500,000 for the first three years of the introduction of the new rules if it is investing and/or operating in activities which are encompassed within any one or more of the business development themes set out above. This determination would be done on the basis of a specific test which would be devised for the purpose and adapted to specific island situations, including criteria for the minimum generation of employment on the island that should be commensurate with the aid received.

[20] A detailed explanation of the methodology is presented in the Annex to this paper.

Business development themes are here proposed specifically for their role in helping island business to maximise its contribution to socio-economic development and to target market failures creating an unlevel playing field for business in Islands. The themes have been selected to be in line with the findings of studies as well as the best practice examples discussed earlier on.

Businesses covered by this framework should, through their outputs or utilisation of inputs, make a contribution to their respective islands under one or more of the identified themes. This framework also includes the promotion of social enterprise, which is rapidly gaining traction to fulfil market niches, promote social inclusion through economic activity and introduce innovative practices in a number of business areas.

The Need for and Plausibility of the Budget Limit

A maximum budget for a given island benefiting from this arrangement is needed to reduce the possibilities for business with no nexus to the particular island from benefitting from this regime. This complements the eligibility tests described above which would require the creation of employment specifically on the island, apart from other contributions under the selected development themes. This minimises the potential for trade distortion through the implementation of this proposal.

As an example, under the special arrangement for islands proposed here, an island with a population of 50,000 persons would have a total de minimis maximum budget allocation of €250 million to provide in terms of aid, equivalent to around 500 firms on the island benefiting from the maximum ceiling of €500,000. These amounts are considered to be adequate and proportional to the needs for State Aid regime flexibility with respect to island territories.

The Tapering Provision

Tapering is needed to allow new firms to benefit from the maximum ceiling to reduce the cost of doing business from islands[21], within the limits of the budget allowed to the island territory. Once that firms start to benefit from this support, the amount is slowly reduced to the current maximum limit to allow other firms to benefit from higher limits within the context of the budget available.

4. Conclusion

This paper is presenting an approach towards applying flexibility in relation to the de minimis amount for business on islands that is:

1. **justified**, through a study on the additional costs of doing business in islands underpinned by Eurostat data;
2. **targeted,** in terms of focusing on business that operate in key thematic areas that are the centre of policy objectives at the level of island regional needs and development of the EU as a whole;
3. **proportionate,** by allowing for a maximum budget per island territory in the extent to which the flexibility of the de minimis amount is to be applied;

[21] The cost of doing business is calculated by the Costs to Turnover ratio, by deducting the Gross Value Added from Turnover divided by Turnover

4. **efficient**, in providing dynamic incentives for reduced dependence on aid through a tapering mechanism, together with increased incentives for the growth of micro firms.

All of the above characteristics are intended for the flexibility measure to achieve its business development objectives without imposing any undue interference on the Single Market.

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Annex: A Methodological Approach Applied to Determine an Optimal Ceiling for Effective De Minimis Aid

Despite policy efforts towards business development in the EU, island regions continue to lag behind possibly due to inadequate State Aid rules which prevent an effective implementation of policies and initiatives through business in islands.

The following methodology provides a justification as to why EU island regions merit flexibility with regards to the de minimis aid which is currently capped with a ceiling of €200,000 per undertaking over a period of three fiscal years. Given that statistical data on EU island regions is lacking, this analysis is based on six EU countries whose island regions are considered to have the highest contribution to the national economy[22].

Table 1: Ranking of countries according to the highest contribution of Island Regions to the national economy

Rank	Contribution of Island Regions to the National Economy	Comparision Group of Countries*
1	13.2%	Greece
2	7.9%	France
3	4.5%	Portugal
4	4.3%	Malta
5	1.2%	Spain

Source: E-Cubed Consultants workings based on Eurostat Regional Statistics

**Data on Croatian islands is limited given the fact that it joined the EU in 2013. Nonetheless, this country was also included in this analysis given its numerous islands.*

As shown in Table 1, Greece ranked first with its islands contributing around 13.2% to the national economy. This is followed by France with the islands` contribution estimated at 7.9%, Portugal and Malta[23] estimated at 4.5% and 4.3% respectively and Spain with the islands` contribution to the national economy estimated at 1.2%.

Throughout the analysis, the comparison group[24] is compared to the EU average in order to derive the difference in the cost of doing business in countries where island regions are major contributors to the economic activity vis-à-vis other EU countries whose economic activity is not quite dependent on islands. Eurostat data on the number of firms, turnover, Gross Value Added and Employment was utilised to derive the cost of doing business in both the comparison group and the EU average based on an average five-year period between 2012 to 2016.

Table 2 provides an analysis of these variables for both the EU average and the Comparison Group of countries. Whilst the average number of firms in the EU during the period under study was estimated at 23.2 million, the Comparison Group registered an average of around 7.2 million firms. Moreover, the average turnover per firm earned by the EU average was estimated at around €1.2 million whilst that of the Comparison Group was estimated at around €0.8 million. The Gross Value Added per employee is also lower in the comparison group when compared to the EU average, estimated at

[22] Cyprus and Malta Region were not included as island regions given that these have a capital city.
[23] Considering only Gozo as Malta`s island region.
[24] Comparison group refers to Greece, France, Portugal, Malta, Spain and Croatia.

€45,805 and €48,700 respectively. Firms located in countries where islands have a high contribution tend to have a higher cost to turnover ratio, estimated at 75.2% and 75.1% for the comparison group and the EU average respectively.

Table 2: Analysis of all firms

All Firms	EU Average	Comparison Group*
Number of Firms	23,244,746	7,178,550
Turnover (€m)	26,654,059	6,035,604
Gross Value Added (€m)	6,643,437	1,494,055
Employment	136,415,489	32,617,841
Gross Value Added per Employee	48,700	45,805
Cost to turnover ratio	75.1%	75.2%

Source: E-Cubed Consultants workings based on Eurostat data

An analysis by firm size[25] was also conducted in order to identify the different cost to turnover ratio according to the size of firm to reach a level playing field with the EU average.

Table 3 shows a predominance of Micro firms in the EU particularly in the Comparison Group which account for circa 95.2% of the total number of firms in the EU. Micro firms in this group of countries account for a larger ratio of turnover, Gross Value Added and employment to the total firms when compared to the EU average.

Table 3: The ratio of micro firms to the total

Ratio of Micro Firms (0-9 employees) to Total	EU Average	Comparison Group*
Number of Firms	93.1%	95.2%
Turnover (€m)	18.2%	22.3%
Gross Value Added (€m)	20.8%	24.2%
Employment	29.4%	36.1%

Source: E-Cubed Consultants workings based on Eurostat data

Nonetheless, Table 4 indicates that the turnover per firm is lower in the Comparison Group when compared to the EU average, estimated at €196,809 and €224,637 respectively. Moreover, the cost to turnover ratio of micro firms in the comparison group is found to be 1.6 percentage points higher than the EU average, estimated at 73.1% and 71.5% respectively.

[25] In accordance with the Eurostat definition

Table 4: Analysis of micro firms

Micro-sized firms (0-9 employees)	Average per firm	
	EU Average	Comparison Group*
Turnover	224,637	196,809
Gross Value Added	63,915	52,958
Employment	2	2
Costs to turnover ratio	71.5%	73.1%

Source: E-Cubed Consultants workings based on Eurostat data

A distinction is made between small-sized firms which employ between 10 to 19 employees and those with around 20 to 49 employees in order to assess the extent to which each group necessitate a higher de minimis aid, due to the fact that the economic contribution of this category of firms is highly significant in island regions, albeit they account for a relatively small proportion of the total firms.

Table 5: Analysis of small firms employing 10 to 19 workers

Small-Sized firms (10-19 employees)	Average per firm	
	EU Average	Comparison Group*
Turnover	2,159,713	2,215,787
Gross Value Added	576,304	573,627
Employment	14	14
Costs to turnover ratio	73.3%	74.1%

Source: E-Cubed Consultants workings based on Eurostat data

Table 5 shows that although the turnover per firm of those employing between 10 to 19 employees is higher for firms in the Comparison Group when compared to the EU average, the cost to turnover ratio is also higher when compared to the EU average estimated at 74.1% and 73.3% respectively.

The category of small-sized firms which employ between 20 to 49 employees account for only 1.5% of all firms in countries with a relatively higher dependence on islands, as opposed to an average of 2.1% in other EU countries. Nonetheless, such firms provide a higher economic contribution per firm than those in the EU average. This category of firms registered an average turnover of around €6.5 million per firm in the Comparison Group as opposed to an average of €5.9 million in the EU average.

The Gross Value Added per employee is also higher in countries with a higher dependence on islands when compared to the EU average estimated at €45,744 and €44,727 respectively. Table 7 shows that despite such contribution, the cost to turnover ratio of small-sized firms employing between 20 to 49 employees in the Comparison Group is found to be higher than the EU average, estimated at 77.6% and 76.2% respectively. Hence, although this category of firms account for a relatively small proportion of the total firms in the Comparison Group, their economic contribution merits attention to remedy the cost to turnover ratio to put them on a level playing field with those in the EU average.

Table 6: The ratio of small firms employing 20 to 49 workers to the total

Ratio of Small-Sized firms (20-49 employees) to Total	EU Average	Comparison Group*
Number of Firms	2.1%	1.5%
Turnover (€m)	10.6%	11.6%
Gross Value Added (€m)	10.1%	10.5%
Employment	11.0%	10.5%

Source: E-Cubed Consultants workings based on Eurostat data

Table 7: Analysis of small firms employing 20 to 49 workers

Small-Sized firms (20-49 employees)	Average per firm	
	EU Average	Comparison Group*
Turnover	5,880,135	6,561,062
Gross Value Added	1,398,505	1,467,427
Employment	31	32
Costs to turnover ratio	76.2%	77.6%

Source: E-Cubed Consultants workings based on Eurostat data

Firms employing 50 to 250 employees, that is, medium and large firms are considered in one category as 'Other Firms' in this analysis based on the assumption that such firms are not particularly interested in the de minimis aid given their relatively large turnover per employee as opposed to smaller firms which require additional support to graduate and reach a level playing field with larger ones. In fact, the average turnover per firm in this category is estimated at €84.9 million and €85.2 million for the EU average and the Comparison Group respectively, highlighting a higher turnover earned by Medium and Large firms in countries with a higher dependence on islands. The costs to turnover ratio of Medium and Large firms within the Comparison Group is found to be around 0.4 p.p lower than that of the EU average highlighting that medium to large firms in those countries have a higher dependence on the economic activity of islands and incur lower costs when compared to other EU countries.

Table 8: Analysis of all other firms

All Other Firms	Average per firm	
	EU Average	Comparison Group*
Turnover	84,850,162	85,208,325
Gross Value Added	20,279,709	20,682,772
Employment	342	351
Costs to turnover ratio	76.1%	75.7%

Source: E-Cubed Consultants workings based on Eurostat data

As indicated above, de minimis aid is attractive to small enterprises, particularly those employing around 20 to 49 employees in order to be sustained and possibly graduate to a higher level. The cost of doing business of a small firm employing between 20 to 49 workers is found by deducting the costs to turnover ratio of the Comparison Group from that of the EU average and multiplying this by the turnover per firm of the Comparison Group.

It is estimated that a small firm operating in countries with a high dependence on islands incur an additional cost of around €93,027 per annum when compared to the EU average, which rounds up to around €300,000 over a period of three years[26].

This indicates that a small firm in an island region would need around €300,000 over and above the existing de minimis ceiling in order to remain competitive in line with others which are not located in territories with such geographical specificities. Hence, this position paper is proposing an increase in the de minimis ceiling from €200,000 to €500,000.

[26] It is to be noted that data available would have permitted a further adjustment for cost to turnover ratios between island regions and other regions within the countries in the comparison group. On average, the cost of doing business is found to be around 20%, but results vary quite significantly among countries between 0% and 40%. For this reason, and in order to avoid mixing the cost results from regional data with those of enterprise data, this further adjustment was not effected.