NSPA Steering Committee
30 October 2026

State aid in The Northern Sparsely Populated Areas (NSPA)

The Northern Sparsely Populated Areas network, NSPA, represents the interests of the four northernmost regions of Sweden (Norrbotten, Västerbotten, Jämtland Härjedalen and Västernorrland), seven northernmost and eastern regions of Finland (Central Ostrobothnia, Kainuu, Lapland, North Karelia, Northern Ostrobothnia, Pohjois-Savo and South Savo) and North Norway (Finnmark, Troms and Nordland).

Europe's northern sparsely populated regions face permanent structural disadvantages stemming from very low population density, long distances and remoteness. At the same time, they are becoming increasingly important for Europe's security, preparedness, energy supply, critical raw materials, strategic infrastructure and resilience. The Regional Aid Guidelines for 2028–2034 should reflect both realities by maintaining sufficient flexibility for investment and permanent operating aid in these regions.

State Aid in the Northern Sparsely Populated Regions

The NSPA consist of 14 regions in northern Sweden and eastern and northern Finland within the EU, and northern Norway within the EEA. They account for 0.5% of the EU population across 10% of its land area and form a distinctive northern border area of cooperation at the heart of the European Arctic.

Other European areas are also sparsely populated, but the NSPA's scale of remoteness and sparsity is distinctive. The EU defines very sparsely populated areas as regions with fewer than 12.5 inhabitants per km²; the NSPA have about 5 per km².

The need for special attention to these regions is recognised in Protocol No 6 to the 1994 Act of Accession for Sweden and Finland, referring to the extremely low population density and defining the affected regions. Article 174 TFEU further declares the unions responsibility to pay special attention to regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density. The special attention is necessary due to the sparse population, harsh climate and long distances. These are extremely low-density economies, where underdeveloped markets and higher investment risks limit innovation and private-sector growth without targeted support. EU policies must therefore account for these geographic conditions.

Alongside specific additional allocations under the EU Structural Funds, the NSPA have benefited from state aid provisions reflecting their special status. These include exceptions allowing higher regional aid intensities in sparsely populated areas to compensate for structural market disadvantages.

The current state aid regulation and exceptions provided for the NSPA in the General Block Exemption Regulation (GBER) and Regional Aid Guidelines (RAG) have been essential for the development of the NSPA and the EU's Arctic areas. Key provisions include:

- Regional investment aid (Article 107(3)(c) TFEU; RAG 2022–2027; GBER Article 14);
- Regional operating aid for transport costs (GBER Article 15; Commission decision SA.49515 – Regional transport aid scheme for Northern Sweden);
- Regional operating aid to reduce labour costs (GBER Article 15);

- National aid to agriculture in northern regions (Article 142 of the Act of Accession; Commission Decision (EU) 2022/2460);
- Aid for broadband infrastructure (GBER Article 52).

While restrictive state aid rules are vital for European competitiveness and preventing distortions of the Single Market, targeted exceptions for the NSPA nevertheless enable economic activity, employment and infrastructure development by addressing the permanent handicaps for these regions to fully compete on equal terms on the EU's internal market.

Together with the support schemes under the EU structural funds in northern Sweden and eastern and northern Finland, exceptions to the state aid rules have been essential in enabling the regions to participate more effectively in the single market and have strengthened their capacity to contribute to key EU priorities, including critical raw materials, clean energy, space, innovation, defence and dual-use capabilities.

For the Norwegian regions of the NSPA, the EU state aid regulations play a vital role for the national regional policy to deliver a more equal playing field between regions with different conditions. The specific exceptions for sparsely populated areas within the current state aid framework are therefore essential, as they enable structurally disadvantaged regions to compete on more equal terms within the internal market. In this context, it is important to underline the specific institutional framework created by the EEA Agreement. While the GBER is a key instrument for enabling efficient and flexible use of state aid, its relevance in Norway depends on timely incorporation into the EEA framework and consistent interpretation by the EFTA Surveillance Authority (ESA). Delays or divergences in this process may create legal uncertainty and reduce the practical usefulness of the regulation for regional and local authorities.

Ensuring homogeneity and predictability across the EU and EEA is therefore essential for maintaining a level playing field for businesses operating in the European Arctic. Moreover, Norwegian regions do not have access to EU Structural Funds, which increases the relative importance of national state aid instruments for achieving regional development objectives. Maintaining and further developing exceptions within the GBER. Particularly regarding aid intensities, cumulation possibilities, and support for green transition, innovation and strategic infrastructure, is therefore of critical importance.

The specific exceptions for sparsely populated areas within the current state aid framework are therefore essential, as they enable structurally disadvantaged regions to compete on more equal terms within the internal market. These exceptions are applied selectively and only where justified by the specific structural challenges faced by sparsely populated regions, under close scrutiny by the relevant national authorities. In conclusion, ensuring that these exceptions are preserved and strengthened is vital for enabling the NSPA to overcome structural barriers and supports the NSPA's long-term contribution to shared European objectives.

Key messages

Several aspects of state aid rules are especially important to help NSPA businesses and regions realise their potential for innovation, cooperation and sustainable economic development.

State aid for innovation clusters in sparsely populated regions:
Funding for innovation activities through clusters is particularly important for unlocking the economic and innovation potential of sparsely populated areas in the NSPA region. In these regions, where micro and small enterprises predominate, administrative and financial capacity is often limited. Innovation, collaboration and the development of value chains are therefore frequently organised through clusters, with a coordinating organisation bringing together businesses and other relevant actors.

Where private capital markets are limited and industrial ecosystems are weak, the levels of private participation required under current rules may be unrealistic for cluster organisations operating with a public-interest mandate. In particular, the current ten-year limitation and the effective maximum aid intensity of 50%, which requires substantial private co-funding, may constrain the establishment and long-term operation of such clusters.

The State aid framework should therefore provide greater flexibility for sparsely populated regions, including the possibility of combining public funding sources and, where justified, allowing higher levels of public financing for the establishment and operation of innovation clusters. Such flexibility would help ensure that State aid rules take account of the structural challenges facing these regions while supporting innovation, competitiveness and the development of regional value chains.

Potential cluster organisations in the NSPA are generally small, consisting of few and small participants, and lack the capacity of clusters in densely populated industrial regions, which are often backed by large private companies. Applying identical rules to these different models does not ensure a level playing field. One option is to review the GBER definition of “cluster” so that small collaborative organisations are not classified as clusters and do not face the 50% private co-financing requirement.

The NSPA therefore calls for targeted changes to GBER Article 27: higher public aid intensities, more flexible private co-financing and operating support beyond the current ten-year limit. Without large anchor companies, micro- and small-enterprise economies struggle to meet existing co-financing requirements. Changes are needed to make clusters financially sustainable where private contributions are insufficient.

Also, the potential for using the framework for Services of General Economic Interest (SGEI) as a complementary legal basis for the long-term financing of clearly defined innovation and business support services in sparsely populated regions could usefully be explored further at European level. This could be particularly relevant for cluster organisations providing essential services to micro and small enterprises in regions where market conditions do not allow such services to be adequately provided or sustained. Exploring this possibility could offer an additional way to address structural market failures and strengthen the long-term capacity of regional innovation ecosystems in the NSPA.

Safeguarding permanent regional operating aid:
The NSPA calls for maintaining and strengthening the legal basis for permanent regional operating aid, including measures to compensate for higher transport and labour costs. Permanent geographical disadvantages require long-term and predictable support measures. While the importance of such aid is particularly evident in regions with differentiated employer social security contribution schemes, the underlying principle applies across the NSPA. The NSPA welcomes greater flexibility in the eligibility

criteria for regional operating aid in sparsely populated areas to help prevent or reduce population decline, to compensate for the structural disadvantages of the NSPA region.

Recognising cumulative structural and demographic disadvantages:
The NSPA calls for a broad understanding of the sparsity-related disadvantages that the specific State aid provisions are intended to address. These disadvantages should not be assessed solely on the basis of low population density or actual depopulation, but should also take account of their cumulative effects, including ageing populations, shrinking working-age populations, labour shortages, small labour markets and limited access to capital and services. Recognising how sparsity amplifies these interconnected challenges is essential to ensuring that State aid rules adequately reflect the long-term structural conditions of sparsely populated regions.

Extending the scope of Article 20a GBER:
Article 20a of the General Block Exemption Regulation (GBER), which facilitates the provision of small amounts of aid to undertakings participating in European Territorial Cooperation (ETC) projects, has proven valuable in simplifying procedures for both project applicants and granting authorities. It enables targeted cooperation between undertakings and project partners while keeping administrative burdens proportionate. The scope of this provision should be extended beyond ETC projects to cover eligible regional development projects more broadly, including projects supported by the European Regional Development Fund (ERDF) and, for the 2028–2034 programming period, under the relevant National and Regional Partnership Plans (NRPP). This would facilitate cross-regional cooperation and reduce administrative burdens while maintaining appropriate safeguards for the internal market.

Linking State aid to security, resilience and viable communities:
The NSPA highlights that maintaining economic activity, employment, essential services and viable communities in Europe's northern Arctic and eastern border regions is important not only for regional development but also for European security, preparedness and resilience. State aid rules should recognise the role of predictable support in sustaining businesses and economic activity in these strategically important regions, helping ensure the NSPA long-term viability and continued contribution to European objectives in strategically important sectors, including critical raw materials, clean energy, clean industry and digital and dual-use infrastructure, which are particularly relevant industries in the NSPA region.

Regional operating aid for undertakings in difficulty:
The NSPA calls for a review of restrictions affecting undertakings in difficulty, particularly in relation to permanent regional operating aid. Automatically withdrawing such support when an undertaking faces financial difficulties may accelerate closures and job losses, especially in communities with few alternative employers or essential service providers. The framework should allow sufficient flexibility to address these situations, subject to appropriate safeguards, while ensuring that temporary financial difficulties do not unnecessarily undermine the long-term viability of businesses and communities in sparsely populated regions.

Recognising different degrees of sparsity:
Sparsely populated regions face different levels of geographical and demographic challenges, depending on their actual population density. With around 5 inhabitants per km², the NSPA face particularly severe

structural disadvantages. The State aid framework should therefore include flexibility to take the actual degree of sparsity into account when designing support measures, ensuring that aid can be proportionate to the specific challenges faced by different regions. Also, formal eligibility for regional aid is not sufficient if the permitted aid intensities do not meaningfully influence investment decisions. The State aid framework should therefore allow aid intensities and flexibility to reflect the severity of structural disadvantages, particularly in the most sparsely populated and geographically remote areas.

Harmonised and simplified application of State aid rules:
A harmonised application of State aid rules is essential for the proper functioning of the internal market. The European Commission should monitor the implementation and provide guidance to the member state authorities ensure consistent application of state aid rules across Member States. Disproportionately restrictive interpretations can distort the Single Market by limiting some regions' ability to pursue innovation, cooperation and economic development on equal terms.

Small intermediary organisations serving many micro and small enterprises also face disproportionate administrative burdens, including under de minimis rules. State Aid rules should ensure that the administrative obligations are proportionate to the organisations' scale and the actual risk of distorting competition.

Seal of Excellence and competitive EU funding programmes:
A Seal of Excellence allows high-quality proposals that meet the criteria of competitive EU funding programmes but cannot be funded due to budget limits to seek alternative support, for example through the European Regional Development Fund (ERDF) following a Horizon Europe evaluation. However, similar projects may then face different state aid conditions depending on the funding source, potentially limiting their development. Where legally feasible, projects awarded a Seal of Excellence should retain state aid conditions reflecting those of the original competitive programme when they receive alternative funding from shared-management funds.

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