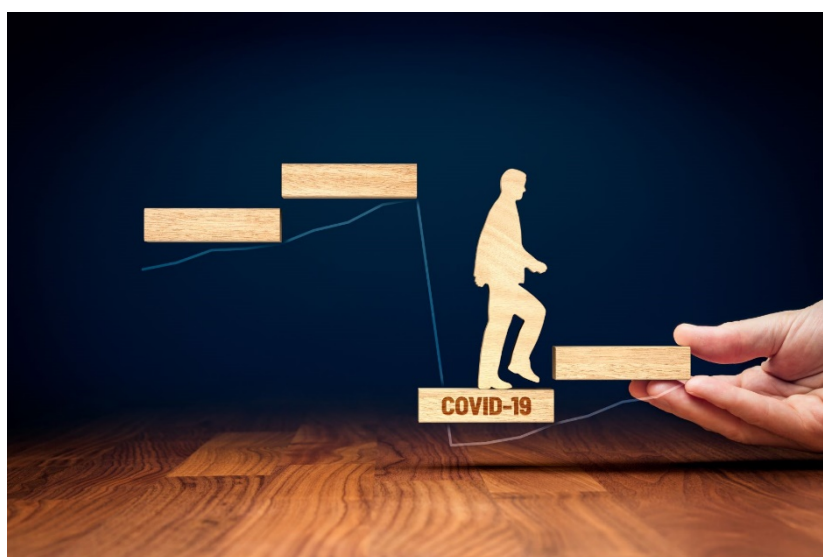


# Impact of state aid on competition and competitiveness during the COVID-19 pandemic: an early assessment

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## **Abstract**

This economic assessment of EU state aid principles and practises related to the COVID-19 pandemic confirms the clear focus on maintaining the level playing field in the EU single market. Future monitoring and policy fine-tuning, focusing on SMEs, and keeping all Member States involved are the main challenges. Moreover, current policies fail to incorporate a strong focus on broader, strategic policy goals like the green and digital transformation of the European economy or the enhancing of EU firms' global competitiveness.

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## CONTENTS

<b>LIST OF FIGURES</b>	<b>4</b>
<b>LIST OF TABLES</b>	<b>4</b>
<b>LIST OF ABBREVIATIONS</b>	<b>5</b>
<b>EXECUTIVE SUMMARY</b>	<b>6</b>
<b>1. INTRODUCTION</b>	<b>10</b>
<b>2. THE ECONOMIC IMPACT OF THE COVID-19 PANDEMIC</b>	<b>12</b>
<b>3. AN ECONOMIC PERSPECTIVE ON RECENT DEVELOPMENTS IN EU STATE AID POLICY</b>	<b>15</b>
3.1. Challenges in extraordinary circumstances	15
3.2. Enhancing the state aid policy framework	15
3.3. State aid for COVID-19 times	16
3.3.1. Proportionality conditions	16
3.3.2. Role of financial institutions	17
3.3.3. Recapitalisation	17
3.3.4. Supporting other policy areas	17
3.4. Evaluation of state aid principles: looking forward	18
<b>4. IMPACT ASSESSMENT OF STATE AID MEASURES RELATED TO THE COVID-19 PANDEMIC</b>	<b>20</b>
4.1. Impact assessment methodology	20
4.2. A first glance on recent state aid cases	21
4.3. Geographical spread of state aid measures	23
4.4. Type of support provided and type of firms targeted	27
4.5. Sectoral focus in state aid measures	30
4.6. Other features	34
4.6.1. Defensive features	34
4.6.2. Offensive features	35
<b>5. LINK TO FISCAL POLICY: DOES STATE AID POLICY CAPTURE IT ALL?</b>	<b>36</b>
<b>6. CONCLUSION AND POLICY RECOMMENDATIONS</b>	<b>38</b>
<b>REFERENCES</b>	<b>41</b>
<b>ANNEX: DETAILED OVERVIEW OF STATE AID CASES WITH AND WITHOUT SPECIFIC SECTOR FOCUS</b>	<b>42</b>

## LIST OF FIGURES

Figure 1:	Real GDP growth in major economies	13
Figure 2:	Real GDP growth in the euro area	13
Figure 3:	COVID-19 pandemic confirmed cases	14
Figure 4:	Frequency distribution of maximum budgets allocated to state aid cases	23
Figure 5:	Total COVID-19-related state aid provided by EU Member States, as % of GDP and in absolute terms (million EUR)	26
Figure 6:	Relation between total COVID-19-related state aid provided by EU Member States (% of GDP) and the economic damage caused by the first COVID-19 wave	27
Figure 7:	General government budget balance in % of GDP	37

## LIST OF TABLES

Table 1:	Summary of type of support provided in COVID-19-related state aid measures	22
Table 2:	Number of state aid measures approved by the European Commission as of March 2020 till 9 October 2020 by category and Member State	25
Table 3:	Summary of type of support provided in COVID-19-related state aid measures with a specific sectoral focus	28
Table 4:	Summary of type of support provided in COVID-19-related state aid measures without a specific sectoral focus, by type of firm	29
Table 5:	State aid measures approved by the European Commission as of March 2020 by sector and Member State (between brackets: state aid category and amount in million EUR)	32
Table 6:	Fiscal measures in response to the COVID-19 pandemic (% of GDP)	36

## LIST OF ABBREVIATIONS

<b>DG</b>	Directorate-General
<b>EC</b>	European Commission
<b>ECB</b>	European Central Bank
<b>EP</b>	European Parliament
<b>EU</b>	European Union
<b>GDP</b>	Gross Domestic Product
<b>IMF</b>	International Monetary Fund
<b>PPP</b>	Purchasing Power Parity
<b>qoq</b>	Quarter-on-quarter
<b>R&amp;D</b>	Research & Development
<b>SMEs</b>	Small and medium sized enterprises
<b>TF</b>	Temporary Framework
<b>TFEU</b>	Treaty on the Functioning of the European Union
<b>UK</b>	United Kingdom
<b>VAT</b>	Value added tax

## EXECUTIVE SUMMARY

EU state aid policy is playing a pivotal role in mitigating the socio-economic damage caused by the COVID-19 pandemic. Though the European economy showed remarkable resilience in the third quarter of 2020 with a strong rebound from the growth downfall in the first half of 2020, it is clear that European companies will be confronted with many, often structural, challenges in the longer run. Following liquidity challenges in the early stage of the pandemic, it is now obvious that many firms will face solvency issues and may require recapitalisation. A number of sectors have been hit particularly hard by the lockdowns and other precautionary measures, and the mere existence of many firms in these sectors is threatened. The COVID-19 crisis has also led to a speed-up in technological developments that are overhauling many existing business models. Moreover, the second wave of the COVID-19 pandemic indicates that many uncertainties persist that necessitate a policy response to stabilise markets and to shelter the economy from a devastating shock and its aftermath.

In this context, state aid is the right policy reaction. State aid measures adopted by the Member States are increasing at a fast pace, both in number and in estimated budgets. Approval by the European Commission is based on enhanced principles, in particular the Temporary Framework developed as an answer to deal with the extraordinary circumstances. This research report provides an early economic assessment of the principles and approval decisions taken so far. The evaluation focuses on the impact of state aid on free and fair competition on the EU single market, but also pays attention to the global implications in terms of international competitiveness and current key EU policy objectives like the greening and digitalisation of the European economy. The evaluation is based on an economic perspective of recent developments in EU state aid policy, and as such, should be considered as complementary to legal perspectives that typically dominate the debate. The report consists of an economic evaluation of several EU state aid principles as well as of a numerical analysis of the latest state aid trends.

A detailed numerical analysis of all EU state aid cases up till 9 October 2020 reveals a number of interesting features.

First, the **number as well as the budget size** of state aid cases launched to deal with the COVID-19 crisis is **historically unprecedented**. Over 2 trillion euro, and still counting, is being put forward to fight the crisis. The majority of state aid cases are approved under the Temporary Framework (85% of the total number of cases, 92.6% of the budget). Hence, it is clear that the recent policy change was a major stimulus to state aid use.

Second, all EU Member States have submitted cases to the European Commission, but the **total state aid budgets differ substantially across EU Member States**. Moreover, there is **no convincing evidence that total state aid is proportional to the economic damage suffered** during the first wave of the COVID-19 pandemic. Hence, this raises the question of whether the level playing field is maintained. There is a serious **risk that excessive state aid support by some Member States will jeopardise free and fair competition in the EU single market**. The only possible compensation would be **substantial positive cross-border spillovers**. In other words, state aid provided by one EU Member State could be beneficial to the other EU Member States. Whether this is the case remains to be seen in the future when state aid has actually been provided.

Third, there is an **enormous variety in the budget size of state aid cases**. Four cases, from large EU Member States, have a budget that exceeds EUR 100 billion, and one of them even has a budget of EUR 500 billion. Hence, these cases together represent more than half of the total state aid budget.

Fourth, the COVID-19-related state aid cases approved by the European Commission are **mostly sector-neutral**. This reduces the risk that Member States favour particular economic activities, possibly at the expense of competition in other Member States. If specific sectors are targeted, they are clearly the main victims of the COVID-19 crisis, and hence, the state aid support seems justified. **The number of cases targeted at individual companies is very limited, with the airline and aviation sector as a notable exception.** A limited number of cases are targeted at firms with a specific size. **SMEs are favoured more often than large companies**, though there are a few state cases specifically aimed at large firms, which seems at odds with the policy objective of supporting lean and mean competition in the EU single market. Many COVID-19-related cases target **export-oriented or internationally active companies**, but the European Commission takes the potential competition distortion seriously by conditions that the support should not be directly related to export activities.

Fifth, state aid support can take several forms. **The most dominant type of state aid are grants, but many cases consist of a mixture of state aid types**, mainly including guarantees and recapitalisation initiatives. It remains to be seen to what extent guarantees will lead to actual fiscal transfers to companies in the future, but these **fiscal transfers are potentially enormous**. It is clear that all of this has major consequences for public finances across the EU. Increased public budget deficits and rising public debt rates will cause challenges for many years. Though the latter is not part of state aid evaluation, it shows once again that state aid should be critically monitored, also in crisis periods. This concern has obviously not prevented the European Commission from approving an unprecedented number of state aid cases.

Finally, the evaluation of EU state aid cases is mainly based on defensive arguments only, i.e. whether the provided state aid jeopardises free and fair competition in the EU single market. **The focus on more offensive goals is barely present.** As such, EU state aid is not used as an instrument to directly boost international competitiveness via **incentives to international trade to non-EU markets (respecting international treaties) or to innovation**. In particular, recent EU state aid cases **hardly refer to the overall EU policy objectives of a green and digital transformation of the EU economy**.

The insights from this research report lead to a number of policy recommendations.

A first set of them is related to the evaluation process by European Commission's Directorate-General for Competition.

First, the **transparency of the state case evaluation process should be enhanced**. The motivation for approving cases as well as the conditions imposed are often only vaguely described. To avoid discussions on equal treatment as well as during the actual ex-post monitoring process, the motivation and the conditions should be better underpinned. The decisions miss structure, not as to the formalities but as to the argumentation put forward. Adding a structural 'tick-the-box'-system on which to base evaluations would facilitate the comparison across cases. **A better and more systemic reporting on which Member States and which economic activities are entitled to which kind of public support would be welcome.**

Second, the European Commission evaluates state aid cases on a case-by-case basis. There is a risk that the interconnectedness between cases is neglected, in particular if many smaller cases are submitted by the same Member States. Moreover, there is no basis for a comparative approach during the evaluation, although one could argue that clear state aid rules should be sufficient to guarantee such equal treatment. It remains to be seen whether the latter is true. It is recommended that **cases be evaluated while taking into account previous cases submitted by the same Member State as well as similar case submitted by other Member States**.

Third, there is an enormous variation in the estimated budgets across state aid cases. A more **differentiated treatment between smaller and larger cases would be appropriate** in order to avoid relatively excessive administrative challenges, in particular for smaller Member States. Related to this, there is no evidence that particular Member States are unable to participate in the current EU state aid procedures. However, some **additional capacity building in some (smaller or poorer) Member States** might facilitate the access to the evaluation procedure for all Member States.

Fourth, and related to the previous point, **extensive umbrella-deals**, submitted in particular by large EU Member States, though positive as they provide a broader overview of public support initiatives, **should be screened in more detail and with more precision. This connects future EU state aid policies to monitoring the general fiscal spending initiatives by the EU Member States.**

Fifth, given the substantial budgets and the number of state aid schemes involved, **further monitoring of the actual state aid provision is warranted**. At this stage, it is impossible to rule out that these public funds will be used to support particular sectors or companies in a disproportionate way. **The future monitoring process should be set out in detail and should be strictly respected**. A too lenient monitoring process would undermine the effectiveness and credibility of EU state aid rules.

A second set of recommendations deals with the potential competition distortive impact of COVID-19-related state aid case (defensive perspective).

First, it is positive that the majority of state aid cases are not focused on a particular economic activity, but rather aim to support all or a broad spectrum of sectors. Nevertheless, there is clearly evidence that some sectors have recently been supported substantially. **The airlines and aviation sector stands out, given the enormous budgets involved. Support to this sector requires enhanced screening and follow-up.**

Second, though support to export-oriented firms is in various cases clearly made conditional on providing aid independent of the export activities, this is not the case in all state aid measures. The European Commission should be **more cautious in allowing state aid to firms or sectors where the level of intracommunity exchanges is intense, as this particular kind of state aid has a high risk of distorting competition in the EU single market.**

Third, the specific focus on SMEs is clearly present in the EU state aid rules. However, in practice, support is often granted to all kinds of firms. A number of state aid schemes even clearly favour large companies, which seems at odds with the overall policy intention to support mainly smaller and medium-sized companies, which many other state aid schemes are doing. It remains unclear why the specific focus on larger companies has been accepted by the European Commission. At least the motivation for doing so, e.g. because of the expected (un)employment effects, should be better formulated. **The European Commission should be more attentive to make sure that SMEs receive an appropriate treatment in state aid schemes.**

Fourthly, as guarantees are clearly intensively used as a type of support, **a strict follow-up on the eventual use of the guarantees should be integrated into the monitoring process**. Not only the provision of guarantees, but also the actual use of guarantees can have market distorting effects.

Finally, the **substantial variation in state aid intensity** (state aid granted as a % of GDP) related to the COVID-19 crisis across EU Member States raises suspicion as to the potential distortion of the level playing field in the EU internal market. Moreover, it appears that total state aid provided is **not necessarily proportional to the initial economic damage from the COVID-19 crisis**. Though positive spillovers from state aid between EU Member States are possible and may mitigate these

concerns, a disproportional use of state aid **may jeopardise the level playing field**. Again, the actual situation requires intensive future monitoring as well as additional research.

A third set of recommendations focuses on making EU state aid rules future-proof (offensive perspective).

First, state aid is clearly not used by Member States to boost their international competitiveness on global markets. The restrictions on supporting exporters in the EU market clearly demotivates Member States to build their state aid cases based on arguments related to global competitiveness. It is recommended to **make EU state aid policy rules more assertive in order to enhance European exporters' competitiveness on global markets**.

Second, the objectives of a green and digital transformation of the EU economy are insufficiently integrated in EU state aid policies, and they are clearly hardly taken into account in the motivation for recent state aid measures. It is recommended that the **European Commission pays more attention to green and digital transformation in setting the conditions for future state aid by the Member States**.

To conclude, the updated state aid policy framework is generally deemed sufficient and efficient to deal with the unprecedented wave of notifications of state aid cases. Nevertheless, some improvements seem possible. On the one hand, it remains rather defensive and restricted to safeguarding the level playing field in the EU single market. It fails to incorporate a strong focus on broader, strategic policy goals like the green and digital transformation of the European economy or the enhancing of EU firms' global competitiveness. On the other hand, the current European Commission's evaluation may be too superficial to avoid abuse of state aid rules within some of the cases. Our society really needs public support to overcome the challenges of the COVID-19 crisis, but at the same time, it is confronted with demands for financial support from many different perspectives. COVID-19 is unfortunately sometimes used as an excuse to achieve other goals (cfr. discussion about zombie-firms). It is, however, very hard to distinguish ex-ante between genuine and urgent reasons for support and other objectives. Therefore, the ex-post monitoring of the effective implementation of the adopted state aid cases with respect for the conditions laid down in the European Commission approval decisions will be a major challenge and requires strong attention from all stakeholders.

## 1. INTRODUCTION

One of the major achievements of the EU has been the strong reduction in state aid provided by the EU Member States. In line with the EU competition policy objectives to maintain free and fair access to the EU single market for all European companies, limiting state aid guarantees a better level playing field for European businesses. Such an environment yields the best price-quality trade-off for European consumers. In the longer run, maintaining a level playing field in the European single market stimulates innovation, leading to new and better products and services for European consumers and strengthening European firms' competitiveness on global markets. From an economic perspective, the EU approach to state aid deserves all credit, as potential distortions in the market are avoided. Moreover, unlimited state aid could be a major drag on public finances. Obviously, in particular circumstances state aid can be justified, even from an economic perspective. For instance, policy initiatives in crisis periods, including the provision of financial support or guarantees to particular companies, may help mitigate the crisis impact and may contribute to a recovery in the aftermath of the economic shock. The current COVID-19 pandemic clearly causes such a major economic shock. Ultimately, this leads to a policy trade-off between the benefits from undistorted competition and global competitiveness and the benefits from mitigating the socio-economic damage of unfortunate events. This raises the question of whether the current EU state aid policy and practices are appropriate given the challenges caused by the COVID-19 crisis.

This research report aims to answer that question by focusing on potential distortions that could result from recently approved state aid provisions. Our major research objective is to look for empirical evidence in recently approved state aid measures that points to concerns either for free and fair competition on the EU single market, or alternatively, for European companies' competitive position on international markets. The former perspective is motivated by the original objectives of EU competition policy. The latter is highly relevant today in a global environment that is characterised by increasing protectionism and a rise in economic nationalism. Moreover, we will broaden the analysis to evaluate whether recent state aid practices support other EU policy objectives, including the greening and digitisation of the European economy, strengthening the position of SMEs or boosting innovation.

This study should be considered as an early impact assessment as state aid provision is still in full progress. New state aid cases are submitted to the European Commission on a daily basis. We take into account all Member State measures related to the coronavirus outbreak and approved by the European Commission under articles 107(2)b, 107(3)b and 107(3)c TFEU as well as under the state aid Temporary Framework until 9 October 2020. Moreover, the implementation of the approved state aid measures will take time too. As such, their ultimate economic impact is still uncertain. However, despite its preliminary status and undoubtedly incomplete coverage, an early assessment is essential as it allows a fine-tuning of EU state aid policy and its practical implementation at an early stage. This is particularly important given the second wave of the COVID-19 pandemic that will likely lead to many additional state aid cases in the near future. Given the historic magnitude of ongoing state aid provision and the challenges all EU Member States are confronted with, research insights that may help improve the effectiveness of state aid approaches are very valuable in the short run as well as in the longer run.

This research report is structured as follows. First, we briefly discuss the economic impact of the COVID-19 pandemic. This provides an overview of the exceptional economic challenges the EU is confronted with due to the pandemic. It serves as a justification for policy interventions, including the use of state aid measures. It also signals the asymmetric impact of the COVID-19 pandemic on EU Member States which could justify the asymmetric use of state aid measures across EU Member States to compensate for the asymmetric shock. In the next section, we provide a brief overview of recent developments in

EU state aid policy. We focus in particular on the extended criteria for state aid in the current circumstances. The fourth section provides a concise overview of recent findings related to European state aid. In the fifth section, we assess the impact of recent state aid measures based on various typologies and a screening of recently approved cases. The sixth section discusses a number of issues and insights that popped up in the screening of recent cases. The final section concludes and formulates policy recommendations.

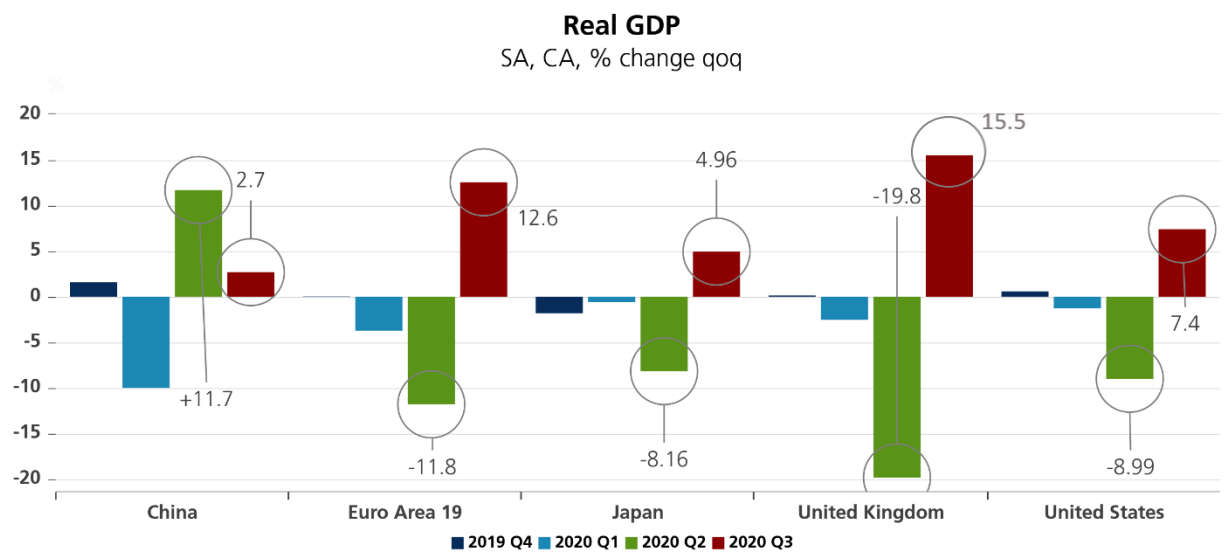
## 2. THE ECONOMIC IMPACT OF THE COVID-19 PANDEMIC

The economic damage caused by the COVID-19 pandemic is unprecedented. Figure 1 shows the sharp economic contraction in all major economies. As the COVID-19 outbreak took place in China, the Chinese economy was the first major economy that suffered from economic damage caused by the precautionary and sanitary measures implemented to put a halt to the virus spread. The Chinese economy, however, recovered impressively during the second quarter of 2020 (11.7% qoq growth), creating a so-called V-shaped crisis and recovery path. Moreover, the Chinese recovery continued during the third quarter of 2020 (2.7% qoq growth). Contrary to China, the western economies suffered a minor hit during the first quarter and a stronger hit during the second quarter of 2020. The western economies started their recovery in the third quarter. In particular, the euro area economy experienced a growth decline of 11.8% qoq in the second quarter of 2020, followed by a strong recovery of 12.6% qoq in the third quarter. The recovery was definitely stronger than expected, but most likely short-lived as the second wave of the COVID-19 pandemic will slow the recovery pace, in particular in Europe.

Economic growth experienced an historic decline in the second quarter of 2020 in all EU Member States following a major slowdown in most Member States during the first quarter of 2020. As illustrated in Figure 2 for the largest EU countries, the magnitude of the COVID-19 shock differs substantially across EU Member States. There are various reasons for that differentiation. First, the COVID-19 virus spread has been unequal across the EU, with particular countries, notably Spain, Italy and France, having been confronted with substantially more COVID-19 cases than other countries. This variation in the pandemic's evolution has been a feature of the first wave during March-April 2020 as well as of the second wave that started at the end of the summer of 2020 (see Figure 3). Germany and Italy initially appeared to be mildly hit by the second wave, but gradually both countries are confronted with increasing infection numbers too, following the trend in other EU countries. A second reason for the differentiation in economic impact is the composition of economic activity. Member States depending strongly on touristic activities have been affected more by the pandemic as international tourism dropped substantially. The lifting of precautionary restrictions on international travel mitigated the impact, as is visible in third quarter growth figures that are, generally speaking, better for those countries hit more during the second quarter. The latter were mostly the more touristic destinations in Southern Europe. A third reason is the different policy reactions to the COVID-19 crisis. These differences are related to political choices by the Member States in terms of precautionary and sanitary measures. More stringent lockdowns generally led to a stronger contraction in economic activity, but they have also been helpful in speeding up the recovery. At this moment, the net effect of the first coronavirus shock and the immediate recovery phase does not vary extremely across EU Member States, but there are still differences. Moreover, the second pandemic wave may enlarge those differences. The ultimate net effect will only become visible by the end of 2021 when one can expect, based on recent evolutions in vaccines development, that the coronavirus impact on the European economies will fade away. Amidst this uncertainty, differentiation in business cycle evolutions across EU Member States will also be caused by fiscal policy choices. Given the substantial fiscal capacity differences across the EU (see also section 5), it is likely that the recovery path of the COVID-19 pandemic will not be homogeneous across EU Member States.

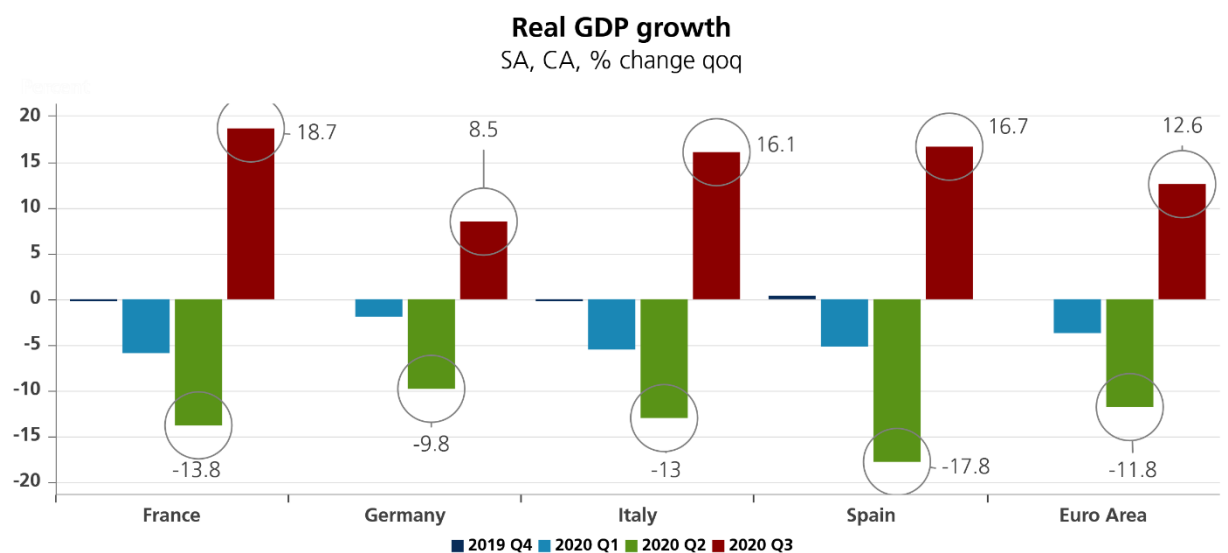
The enormous economic volatility caused by the COVID-19 crisis, the continued uncertainty related to the pandemic, and the expected long-lasting challenges in the aftermath of the COVID-19 crisis justify the intensive use of state aid by the EU Member States. It is also clear that state aid will be at the centre of EU decision-making for the months, and possibly years, ahead.

Figure 1: Real GDP growth in major economies



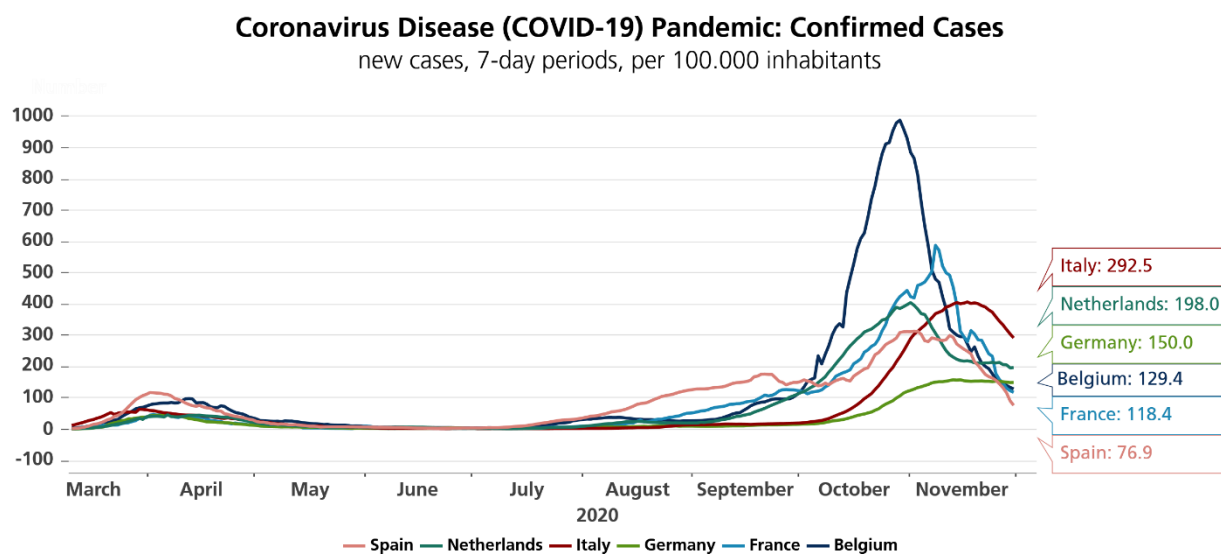
Source: Eurostat (2020).

Figure 2: Real GDP growth in the euro area



Source: Eurostat (2020).

Figure 3: COVID-19 pandemic confirmed cases



Source: WHO, IMF

Source: WHO and IMF (2020).

### **3. AN ECONOMIC PERSPECTIVE ON RECENT DEVELOPMENTS IN EU STATE AID POLICY**

#### **3.1. Challenges in extraordinary circumstances**

The COVID-19 outbreak is considered a severe public health emergency and an exceptional disturbance to the European economy. The Member States adopted various containment measures to limit the virus outbreak's impact on their citizens' health. The unfortunate collateral damage to the economy has been compensated by various national, regional and local aid programmes. EU state aid controls are required to make sure that these support measures respect the integrity of the internal market. Maintaining the level playing field within the European internal market will contribute to a faster recovery and a more resilient European economy – one of the main European policy goals in the aftermath of the COVID-19 pandemic. EU state aid policy aims to safeguard free and fair competition on the European market by evaluating the unprecedented and continuing stream of state aid schemes based on a number of criteria.

The pre-COVID-19 state aid framework was deemed clearly insufficient to deal with the current extraordinary circumstances. Based on this framework many of the Member States' aid programmes would have been ineligible. On 13 March 2020, the European Commission sent a communication to the European Parliament, the European Council, the Council, the European Central Bank, the European Investment Bank and the Eurogroup on a 'coordinated economic response to the COVID-19 outbreak' (COM(2020) 112 final – see European Commission (2020)). This communication sets out the various options available to Member States beyond the EU state aid rules which could be implemented without the involvement of the European Commission. These options were restricted to measures applied to all companies regarding wage subsidies, suspension of payments of corporate taxes, social security contributions or VAT, direct financial support for consumers for cancelled services, or to measures in line with block exemption regulations without the involvement of the European Commission.

#### **3.2. Enhancing the state aid policy framework**

Though this European Commission communication extended the possibilities for Member States to provide public support during the pandemic, a more structural extension was required. The Temporary Framework aims to provide such an extended framework for state aid during this severe economic disturbance. The eligibility criteria, laid down in the TFEU (Article 107(2)b, Article 107(3)b, Article 107(3)c), were enhanced by the Temporary Framework which has been first adopted on 19 March 2020 at the beginning of the COVID-19 outbreak and subsequently adapted on 3 April 2020, on 29 June 2020 and on 13 October 2020. All amendments have been published in the Official Journal of the European Union. Notifications, case descriptions and approval decisions of Member State measures are published on the website of DG Competition on a daily basis.

From an economic perspective, the combination of the existing relevant TFEU articles and the new Temporary Framework makes much sense. Temporarily revising the rules of the game is not only a clear signal to society that the EU takes up its responsibility in crisis periods, but, moreover, it is an appropriate policy answer to the unprecedented challenges many companies are currently confronted with. Without public support many companies will not survive the coronavirus crisis as their liquidity and solvency buffers are insufficient to deal with such an extreme shock. One can discuss whether these buffers should be increased in the future via regulatory initiatives, but the latter are obviously not a valid alternative to state aid in the short run, given the urgency of the situation. Providing public support to companies in exceptional circumstances also prevents a crisis from spilling over to other

companies, including those that are economically healthier. The Temporary Framework can be considered as the urgent policy answer required for avoiding more far-reaching economic damage.

Article 107(2)b TFEU can be used by Member States to compensate undertakings from the damage directly caused by the COVID-19 outbreak when these undertakings have received aid under the Rescue and Restructuring Guidelines. However, such compensation has to be directly related to damage due to a suspension of reduction in economic activities due to quarantines or other precautionary measures. As such, these criteria are too strict to encompass policy initiatives that aim to compensate for the structural economic damage caused by the pandemic. Nevertheless, many state aid measures have been reported to the European Commission under Article 107(2)b TFEU, with a clear concentration during or immediately after the spring lockdowns across the EU.

In principle, Article 107(3)b TFEU provides a sufficient argument for COVID-19-related state aid compatible with the internal market as it provides a legal basis for state aid ‘to remedy a serious disturbance in the economy of a Member State’. The European Commission accepted the COVID-19 pandemic as a serious disturbance opening the room for state aid approvals under Article 107(3)b TFEU. As such, a substantial number of cases have been reported to the EU, in particular during the first months of the pandemic. Most cases are related to liquidity shortages that companies have been confronted with. The adopted state aid measures aim to strengthen companies’ viability, in particular for SMEs, in line with the conditions set by the European Commission. The submitted schemes always have to be necessary, appropriate and proportionate to remedy the serious disturbance.

Finally, Article 107(3)c TFEU has been called upon in a few COVID-19-related state aid cases. According to this article, state aid should facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest. The few cases refer to economic or health emergency situations. However, Article 107(3)c TFEU has hardly been used as justification for adopted COVID-19-related state aid measures.

### **3.3. State aid for COVID-19 times**

#### **3.3.1. Proportionality conditions**

An important development related to Article 107(3)b TFEU has been some of the specific conditions set by the European Commission for granting aid during the current circumstances. Note that this is not an exhaustive overview, but rather a concise summary of conditions that matter for an economic assessment. The proportionality condition has been translated into a maximum of EUR 800,000 of aid per undertaking, regardless of the type of support provided. These limits are lowered to EUR 120,000 for fishery or aquaculture firms, and to EUR 100,000 for agricultural undertakings. Moreover, a maximum budget for the entire scheme has to be provided. Aid is also limited to undertakings with a sound financial situation. Hence, firms that were already in difficulty on 31 December 2019 are excluded, though exceptions are possible for micro and small enterprises. Furthermore, the aid has to be granted no later than 30 June 2021. Finally, the conditions exclude that financial support is transferred by food processing or food marketing companies to primary producers.

The provision of support in the form of guarantees on loans is subject to limitations too. These restrictions can be regarded as market-oriented, and hence they limit the potential distortions to the EU internal market. In particular, the setting of guarantee premiums at minimum levels per individual loan, with a progressive increase based on the duration of the loan is a correct approach. Moreover, the loan guarantees have to be proportional to the beneficiary’s annual wage bill or 2019 turnover. However, these conditions are rather ad hoc, and deviations are possible when well-motivated. Similar

to grants, loan guarantees cannot be provided to unviable undertakings, except for micro or small companies.

The conditions applicable to subsidised interest rates for loans are similar to the ones for guarantees on loans. Minimum credit risk margins are applicable, and the size of the support should be proportional to the size of the economic activity.

### 3.3.2. Role of financial institutions

The updated framework pays a lot of attention to the role of financial institutions. On the one hand, the framework acknowledges the crucial role financial institutions play in the transmission of state aid to the relevant undertakings. Moreover, financial institutions play a key role in the continued provision of financial services, and in particular credit, to companies. On the other, the European Commission wishes to prevent that financial institutions benefit from indirect aid which could distort competition. Hence, state aid cases are evaluated based on whether advantages are passed on by financial institutions to the final beneficiaries to the largest extent possible. Related to this, the European Commission acknowledges the insufficient availability of cover for marketable risks and the lack of sufficient private insurance capacity for short-term export credit insurance. Therefore, the ECB considers all commercial and political risks associated with exports to a selection of countries as temporarily non-marketable until 30 June 2021. This explains the substantial number of state aid measures adopted by the Member States and approved by the European Commission related to trade credit insurance, mainly under Article 107(3)b TFEU.

### 3.3.3. Recapitalisation

The Temporary Framework also sets out criteria regarding the use of recapitalisation measures to companies facing financial difficulties due to the pandemic. The general aim is to prevent the unnecessary exit from the market of companies that were viable before the COVID-19 pandemic. Hence, a crucial condition is that recapitalisation should be limited to restoring the capital structure to pre-coronavirus levels. Most importantly, recapitalisation should be a last resort solution. Obviously, recapitalisation could potentially have a major distortive impact, in particular in the form of a long-term public engagement in private companies. As a consequence, such initiatives are subject to clear conditions in terms of the Member State's entry and exit as well as to the applied remuneration, governance principles and possibly compensating measures. A priori, these conditions are detailed and aim at preventing market distortions.

### 3.3.4. Supporting other policy areas

The latest state aid rules also facilitate support to COVID-19 relevant research and development, for testing and upscaling infrastructures, and for the production of COVID-19 relevant products. It comes without saying that health considerations outweigh economic considerations. Nevertheless, the state aid criteria aim to prevent abuses and long-term market distortions. Moreover, they aim at combined public-private responsibilities. In particular, aid intensity cannot exceed 80% of the eligible costs for industrial R&D and for the production of COVID-19 relevant products (75% for testing and upscaling infrastructures), while loss cover guarantees are market-oriented. Nevertheless, it remains an open question whether these relatively flexible state aid criteria will distort competition in the longer run, for instance by favouring particular producers or developers in the current exceptional circumstances.

Though EU state aid rules are mainly based on considerations regarding the potential harmful effects of excessive or unequally distributed state aid initiatives by the Member States, they may also be used to achieve other policy objectives. As the European Commission aims to foster the ecological and digital transition of the European economy, one may wonder to what extent these objectives have

been integrated into the adapted state aid rules. As a matter of fact, they have been integrated though only gradually and partially. For instance, recapitalisation measures for large companies must be combined with a report on how the aid received contributes to the green and digital transformation, including the objective of climate neutrality by 2050.

### 3.4. Evaluation of state aid principles: looking forward<sup>1</sup>

Taken together, the arguments above indicate that the EU state aid rules are a dynamic policy area that is adapted to deal with changing circumstances. The launch of the Temporary Framework, similar to the exceptional policy initiatives developed during the financial crisis, indicates that deviations from regular state aid rules can be introduced if necessary. Such flexible approach is important from an economic perspective to successfully safeguard the EU single market in very difficult economic circumstances. The flexibility is, however, not unlimited as that could open the door to unfair practises. The detailed conditional approach reduces the risk of market distortions. The framework has been enhanced to deal with the extraordinary circumstances caused by the COVID-19 pandemic. From a theoretical perspective these enhancements make sense. They are economically logical and contribute to a better safeguarding of free and fair competition on the EU market.

However, there are several risks in the current approach. First, the policy principles are not necessarily correctly applied in practice. This will be part of the economic assessment made later in this research report. Second, various conditions are defined in an ad hoc way. Though this is a normal state aid technique, ad hoc thresholds may raise concerns about distortion of competition<sup>2</sup>. For instance, the minimum guarantee premiums as well as the minimum credit risk margins are defined in absolute terms, and hence do not reflect dynamics that may occur on financial markets. Similarly, the maximum thresholds for aid grants are neither based on economic insights nor differentiated across economic activities. Hence, though strongly underpinned from a legal perspective, the conditional approach is insufficiently embedded in the socio-economic reality. However, a potential improvement in the current conditions is a major challenge and requires extensive research into the optimal approaches. Given the urgency of any response to the COVID-19 pandemic, it is probably the best approach to start with particular conditions. However, the current set of conditions should be evaluated and potentially revised based on these evaluations. Third, the effectiveness of the EU state aid policy crucially depends on the ex-post monitoring of approved state aid measures. The current procedures (submission of an annual report, publication of effective aid provided beyond certain thresholds, listing of measures put in place, detailed records of aid provided) are vague. It is far from certain that these procedures will be sufficient to allow for correct monitoring and eventually for appropriate actions in case of violations. This caveat is applicable to state aid policy in general, but matters even more during the COVID-19 crisis as the monitoring has not been organised yet. Given the number of state aid cases, this monitoring process will be a tremendous job. Both the European Commission and the Member States would benefit from clear and well-known procedures.

Finally, the current state aid principles and practices are mainly defensive in nature, i.e. they are designed to avoid competition distortions and do not aim at achieving or facilitating other policy objectives. Though they fulfil the prerequisites for maintaining a level playing field in the European economy, they fail to elevate EU state aid policy beyond its defensive goals. The updated framework pays attention to some of the strategic goals set out by the EU institutions, notably the green and

<sup>1</sup> This subsection aims to make a concise further qualitative assessment of state aid principles by focusing on their implications in the longer run and beyond the mere key objectives as defined today. Some of the ideas put forward will be empirically studied in section 4.

<sup>2</sup> The ad hoc conditional approach poses an ex-ante risk to free and fair competition on the EU single market. Preferably, the competition impact of actual thresholds is empirically analysed. However, it is too early to make such evaluation for the COVID-19 crisis. Nevertheless, it is important to realise the potential distorting impact of some conceptual aspects in current EU state aid policy.

digital transformation of the EU economy. However, the attention is limited to a few lines in the enhanced set of rules. The current EU state aid policy also fails to boost European firms' global competitiveness. Apart from a more lenient approach to trade credit insurance, none of the conditions put forward aims to strengthen European firms' position in global markets. Hence, it is clear that more can be done to integrate EU state aid policy in a broader policy framework. EU state aid policy can be a fundamental building block in the ambitious transformation and global integration of the European economy. However, there is still a long way to go to achieve these objectives as will be argued in the impact assessment in section 4.

## 4. IMPACT ASSESSMENT OF STATE AID MEASURES RELATED TO THE COVID-19 PANDEMIC

### 4.1. Impact assessment methodology

Since the start of the COVID-19 pandemic, the EU Member States have relied intensively on state aid measures in order to mitigate the socio-economic impact of the crisis. Each measure is evaluated by the European Commission (DG Competition) based on conditions and principles laid down in the Temporary Framework that was adopted on 19 March 2020 and that was amended on 3 April 2020, on 29 June 2020 and on 13 October 2020. Moreover, there are COVID-19-related state aid measures that have been adopted under Article 107(2)b, Article 107(3)c and Article 107(3)c TFEU too. The list of state aid measures approved by the European Commission is published on a regular basis. This analysis takes into account all cases reported up to 9 October 2020. Information is obtained from the officially published cases and press releases by DG Competition<sup>3</sup>. Note that this list includes both individual cases, i.e. state aid granted to a specific firm, and general regimes, i.e. state aid cases that provide support to multiple companies.

A number of factors make an impact assessment a challenge, in particular at this early stage. However, these challenges for research are themselves interesting insights to evaluate the current EU state aid approach. First, there are many different kinds of state aid measures used to mitigate the impact of the COVID-19 crisis and to boost the recovery. Though each is permitted in the current EU state aid policy framework, it is hard to distinguish between them based on their potential impact. For instance, one may expect that grants to compensate for the economic damage caused by the coronavirus outbreak have a larger and longer-lasting impact than guarantees or loans. However, given the size of the economic shock, it is likely that many guarantees will ultimately lead to actual payments too.

A second challenge is caused by incomplete information. Though most state aid cases mention the exact amount of money that particular scheme involves, this is not always the case. In a rather substantial number of state aid cases, the actual or potential budget involved is not mentioned. This makes it impossible at this early stage to calculate the full sum of all COVID-19-related state aid provisions. More importantly, it also makes it impossible to exactly compare the extent of state aid provision across EU Member States, which would be an essential step in the evaluation of potential distortions in the EU single market.

Finally, many state aid schemes are not targeted at specific economic activities. Though this is a hopeful signal that state aid will be unlikely to lead to sectoral distortions, it makes a sectoral assessment or international sectoral comparisons hard. Hence, this will require an ex-post evaluation, i.e. after the recently approved state aid schemes are actually implemented.

Nevertheless, a screening of the recent state aid schemes provides a number of interesting insights that help us evaluate the current policy approach. We distinguish between five perspectives in this section. First, we provide a general overview of the size of recent state aid schemes. Secondly, we focus on the geographical distribution in all recent state aid cases. As state aid programmes are directed to domestic firms, EU Member States that fail to provide public support to their domestic firms while most other Member States are doing so, are likely to face competitive challenges. This holds in particular for state aid related to the COVID-19 pandemic as the latter affects all European economies. Obviously, the impact on EU Member States might be asymmetric and therefore state aid may mitigate these asymmetries. Nevertheless, a clearly geographically unequal distribution of state aid may point to

<sup>3</sup> European Commission (2020), *State aid rules and coronavirus*, [https://ec.europa.eu/competition/state\\_aid/what\\_is\\_new/covid\\_19.html](https://ec.europa.eu/competition/state_aid/what_is_new/covid_19.html).

issues like an excessive use of state aid support in some Member States or a limited capacity to provide such support in other countries. Even if particular state aid cases fulfil all criteria and conditions, an unequal geographical distribution of state aid may be a major cause for market distortion.

Thirdly, we look into the type of support that a state aid case is providing, distinguishing between (subsidised) loans, guarantees, grants, rent compensation and deferred VAT or tax payments. This typology has been chosen based on a screening of the actual COVID-19-related state aid cases, but it closely mirrors the different state aid categories that are distinguished in the Temporary Framework. We combine the typology for different kinds of state aid with the type of firms they are targeting. Here we distinguish between the large firms, SMEs and self-employed workers.

Fourthly, we classify all COVID-19-related state aid cases by the economic sectors they focus on, if any. A stronger focus on particular sectors raises the probability that state aid measures will distort particular economic activities, whereas more horizontal support may keep the level playing field intact.

Finally, we provide evidence for a number of other features that we came across in analysing state aid cases related to the pandemic outbreak. We distinguish between defensive and offensive features. Defensive features refer to characteristics that are related to the objective of avoiding market distortions, whereas offensive features go beyond this objective and aim at facilitating other EU policy objectives. For instance, we screen for evidence that state aid support is targeting export-oriented firms or whether cases emphasise specific support like to employment, innovation or liquidity provision. In particular, we also screen the recent state aid cases to see whether they have a specific focus on the main strategic EU policy objectives, including the green and digital transformation of the European economy and European firms' global competitiveness.

## 4.2. A first glance on recent state aid cases

Given the unprecedented nature and size of the COVID-19 shock, it is no surprise that Member States have been providing state aid massively since the pandemic outbreak in Europe in March 2020. By 9 October 2020, the total estimated budget for all adopted state aid schemes exceeded EUR 2,000 billion which is even an underestimation as not all cases include an estimated total budget. This budget is allocated to about 300 cases. As Table 1 indicates, cases have been notified and justified based on several state aid articles as well as on the Temporary Framework. The majority of cases are classified under the Temporary Framework: 85% of all cases representing 92.6% of the entire budget. This signals a clear match between economic needs and the updated EU state aid policy framework during the COVID-19 pandemic period.

As expected, the number of cases submitted to the EU under Article 107(3)c TFEU is very limited, namely 3 cases for about EUR 2.8 billion. Article 107(2)b TFEU has been called upon more often, in particular during the first months of the pandemic in order to directly cover damage caused. These cases represent 9% of the number of cases, but only 3% of the total budget approved. Justification based on Article 107(3)b TFEU happened only half as often, but represents a larger share (4.2%) of the budget. The latter is mainly driven by some large cases related to (trade) credit insurance.

The size of the overall approved budget is strongly determined by a few cases with an exceptionally high estimated budget. Some Member States opted for submitting a comprehensive support programme as one single case to the European Commission, whereas other Member States have been reporting many smaller cases. Moreover, some individual cases, in particular related to the airline industry, have a high budget too. More generally, there are a wide variety of cases measured in terms of their estimated budget. Figure 4 summarises this in a histogram. By far the majority of all COVID-19-related state aid cases have a total estimated budget below EUR 200 million. Slightly less than one third

of all cases even have a budget below EUR 50 million. Nevertheless, there are also very large cases. The largest case has a total estimated budget of EUR 500 billion. The largest cases are typically ‘umbrella schemes’ that consist of a variety of support schemes to target a broad spectrum of challenges. The very large cases have always been submitted by the largest Member States.

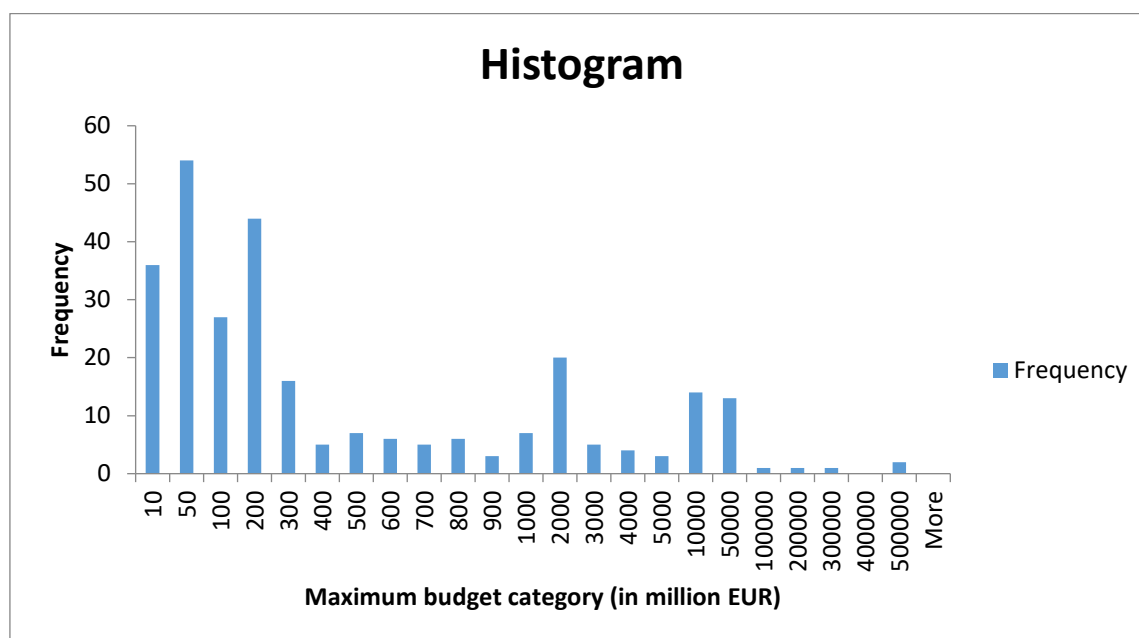
The enormous variety in the size of state aid cases within the same policy framework may not be a perfect situation. For the small cases it implies that they face, relatively speaking, a major administrative challenge. This may be cumbersome, in particular for smaller Member States. For the very large cases, one can wonder whether it is optimal to put various support initiatives under the same umbrella. This approach has both advantages and disadvantages. Its main advantages are the administrative ease for the European Commission and the general overview that is provided across all/many policy initiatives. The latter is clearly missing in smaller cases. As the European Commission examines state aid schemes on a case-by-case basis, there is always a risk that interference between schemes or even just the combination of schemes could lead to different conclusions on potential market distorting effects. However, for the very large cases, the opposite holds. The general overview of policy initiatives they provide facilitates the European Commission decision-making process, but they may miss the level of detail that is provided in the smaller cases. Hence, it is clear that there are trade-offs between smaller and larger state aid cases. Currently, the EU state policy rules are unclear as to how the European Commission deals with cases depending on their size. At least the perception is created that large state aid cases submitted by large Member States may pass the European Commission check more easily. Adding some thresholds, depending on the estimated budget size for individual cases, in the ex-ante and ex-post reporting obligations would enhance the transparency in the decision process.

Table 1: Summary of type of support provided in COVID-19-related state aid measures

	in absolute numbers		as % of total	
<i>until 9 October 2020</i>	Total budget approved (in million EUR)	Number of measures	Total budget approved (in %)	Number of measures (in %)
Article 107(2)b TFEU	63390.95	28	3.03	9.30
Article 107(3)b TFEU	88087	14	4.21	4.65
Article 107(3)c TFEU	2793	3	0.13	1.00
Temporary Framework	1939491.68	256	92.63	85.05
<b>TOTAL</b>	<b>2093762.63</b>	<b>301</b>	<b>100</b>	<b>100</b>

Source: Own calculations based on European Commission – DG Competition.

Figure 4: Frequency distribution of maximum budgets allocated to state aid cases



Source: Own calculations based on DG Competition.

### 4.3. Geographical spread of state aid measures

Table 2 provides an overview of the number of state aid cases approved by the European Commission as of March 2020 by Member State. All cases are categorised according to the relevant policy framework, but as argued in the previous section, it becomes immediately clear that most cases are submitted under the Temporary Framework. There is a clear differentiation across EU Member States as to the number of COVID-19-related state aid cases. Though the number of cases is no perfect signal of the geographical distribution of state aid provision, since it neglects the estimated total budget, it indicates that not all EU Member States are equally active in the use of state aid. Larger and more advanced Member States are clearly more actively using state aid programmes to overcome the COVID-19 crisis. An unequal geographical distribution of state aid raises the probability that state aid will distort the level playing field on the European single market. That possibility is even more likely given the rather limited number of state aid schemes in countries hit very severely by the COVID-19 crisis.

In general, all EU Member States have submitted several cases to the European Commission. This is at least reassuring as all Member States have the capacity and willingness to operate under the EU state aid rules. In terms of country size, the larger countries tend to submit more state cases for approval by the European Commission, but there is no striking differentiation between large and small countries. Actually, there are some very active submitters among the medium-sized countries too, including Belgium, Denmark, and the Czech Republic. As many cases refer to regional or local circumstances, more decentralised or (con)federal Member States are likely to submit more cases to the European Commission too. Moreover, Spain stands out as a large country with a limited number of state aid schemes. In general, Eastern European countries tend to apply less for approval. This could be related to the relatively mild spread of COVID-19 cases during the first pandemic wave in the region, although the region was also severely hit economically speaking in the second quarter of 2020. Therefore, this is somewhat surprising, in particular as Member States can rely on EU structural funds to finance state aid

schemes which should stimulate in particular Eastern European Member States to submit cases to the European Commission.

Obviously, as noted before, the number of cases by Member States does not reflect the full budget allocated by countries. In Figure 5 we provide a ranking of all EU Member States according to the total budget they will (maximally) spend on state aid measures adopted under the COVID-19-related framework. The ranking is based on the total estimated budget as a percentage of GDP (left axis), though the budgets are also mentioned in absolute terms (right axis). It includes all cases in the reference period and is restricted to the net budgets by controlling for modifications and reallocations from previous cases. This ranking and these figures should be interpreted with caution too. First, as noted before, the estimated budget is not mentioned in all schemes. Second, the budgets are the total across all types of state aid. It is often impossible to distinguish between the type of support that is provided as many schemes combine several instruments. However, guarantees clearly differ from grants in terms of their long-lasting impact on firms' performance as well as on public finances. Nevertheless, these total budgets give a good idea about the intensity of state aid use across EU Member States.

The largest support so far is coming from the larger EU Member States. Even if we correct for the size of their economies, it is clear that large countries rely more intensively on state aid programmes to boost their economies. The leading position of Germany should be seen against the background of extensive fiscal stimulus. The German recovery and resilience plans clearly stand out in terms of size compared to those of other Member States. However, other large countries submitted ambitious support programmes too. Among the larger countries, Spain is clearly lagging in terms of state aid support, which is surprising given the severity of the COVID-19 impact on the country, both from a health and economic perspective. The same holds for the United Kingdom. A number of smaller EU countries are relatively intensive users of state aid, notably Estonia, the Czech Republic, Belgium and Slovenia, which are all spending more than 10% of GDP on state aid support. The least intensive users of state aid during the COVID-19 crisis so far are Ireland, Luxembourg and Cyprus, all spending less than 2% of GDP.

The substantial differentiation across EU countries in terms of state aid spending as a percentage of GDP is striking. This differentiation does not automatically imply that competition in the EU internal market is jeopardised, but given the enormous differences across countries, there is undoubtedly a serious risk that intra-European sales will be affected. Moreover, these findings raise the question of whether positive international spillovers among EU Member States can be expected. If domestic state aid ultimately helps companies from other EU Member States too, then this would mitigate the distorting impact of state aid directed to domestic firms. There is surprisingly little attention paid to this aspect in the evaluation of state aid cases. The focus is almost exclusively on the defensive side, i.e. whether or not that particular public support programme will distort the level playing field in the European internal market.

Finally, one can wonder whether recently launched state aid programmes are proportional to the economic damage incurred by EU Member States during the first wave of the COVID-19 crisis. Figure 6 shows the relation between total state aid (% of GDP) and the percentage loss in GDP between 2019Q4 and 2020Q2. There appears to be a mildly positive relationship across EU Member States. For some countries, there is an obvious link. For instance, France and Italy have been hit hard by the COVID-19 crisis and are also providing substantial state aid. However, more in general, and as the figure indicates, it is a weak relationship with many outliers. Therefore, one could rather say that the intensity of state aid is barely related to the economic damage caused. Moreover, by now, we also know that countries

suffering severe economic damage from the COVID-19 crisis in the second quarter of 2020 generally outperformed in the recovery during the third quarter of 2020.

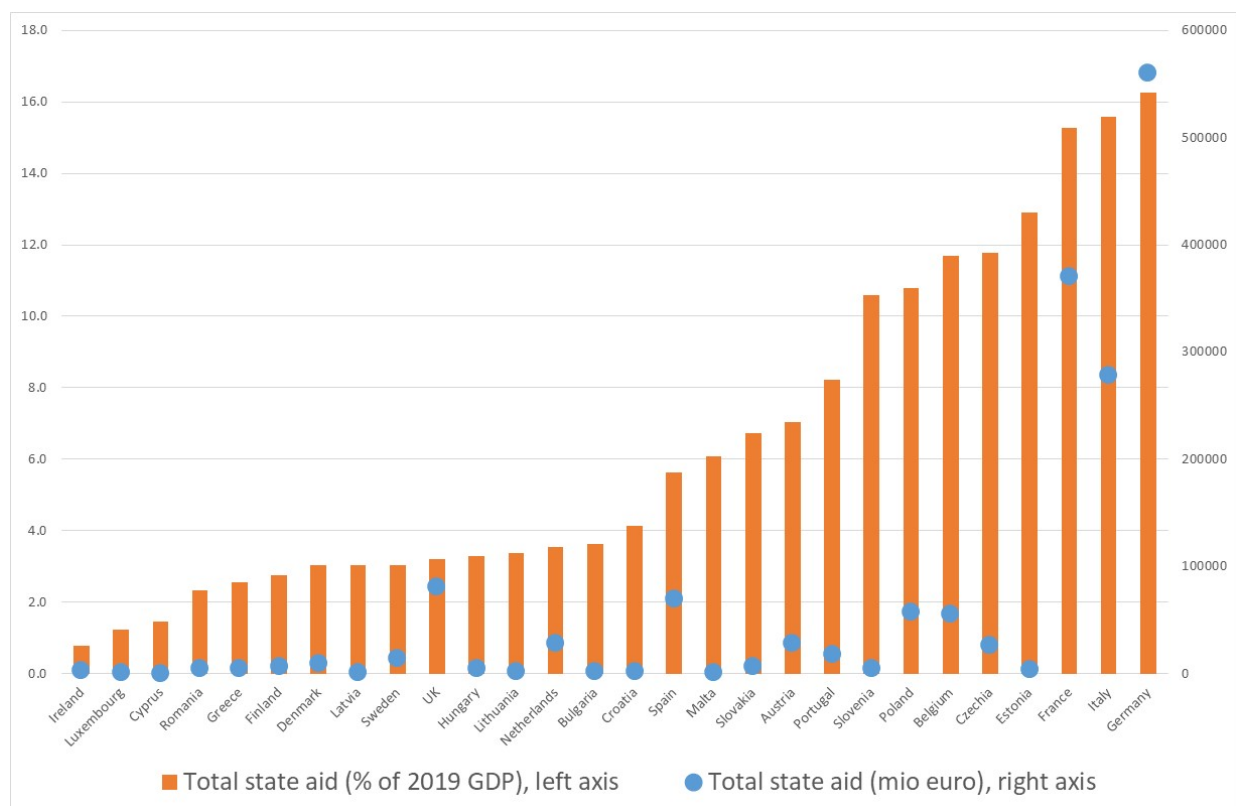
Table 2: Number of state aid measures approved by the European Commission as of March 2020 till 9 October 2020 by category and Member State

	Article 107(2) TFEU	Article 107(3)b TFEU	Article 107(3)c TFEU	Temporary Framework	TOTAL
Austria	1	1		8	10
Belgium		2		19	21
Bulgaria				9	9
Croatia				6	6
Cyprus				6	6
Czech Republic		1		15	16
Denmark	7	1		10	18
Estonia	1			5	6
Finland	1	1		5	7
France	1	3		13	17
Germany	3	2		10	15
Greece				9	9
Hungary	1			13	14
Ireland				7	7
Italy	1	1		21	23
Latvia				12	12
Lithuania	1			11	12
Luxembourg				7	7
Malta				10	10
Netherlands	2	1		10	13
Poland	2			16	18
Portugal			2	7	9
Romania	1			8	9

	Article 107(2) TFEU	Article 107(3)b TFEU	Article 107(3)c TFEU	Temporary Framework	TOTAL
Slovakia				5	5
Slovenia	1			5	6
Spain				5	5
Sweden	5			4	9
UK		1	1	4	6
<b>TOTAL</b>	<b>28</b>	<b>14</b>	<b>3</b>	<b>260</b>	<b>305</b>

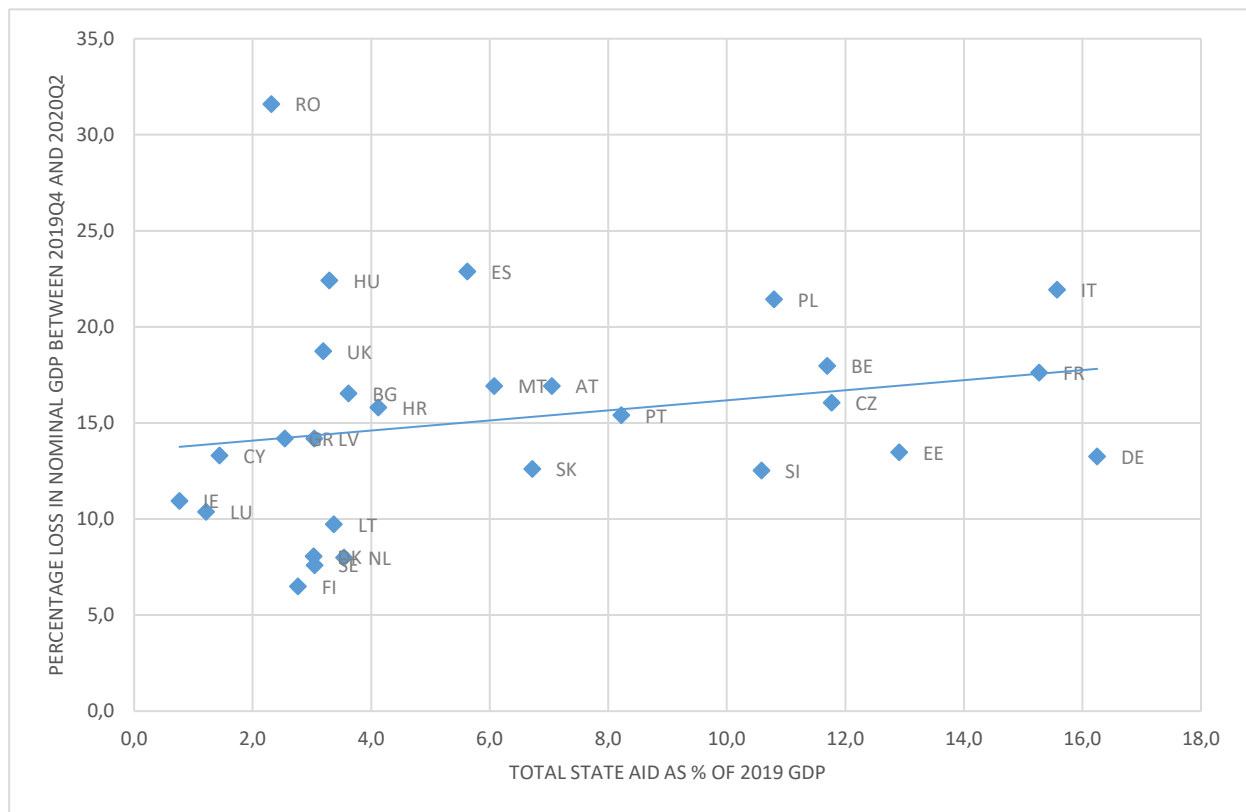
Source: European Commission - DG Competition.

Figure 5: Total COVID-19-related state aid provided by EU Member States, as % of GDP and in absolute terms (million EUR)



Source: Own calculations based on European Commission - DG Competition (state aid) and Eurostat (GDP).

Figure 6: Relation between total COVID-19-related state aid provided by EU Member States (% of GDP) and the economic damage caused by the first COVID-19 wave



Source: Own calculations based on European Commission - DG Competition (state aid) and Eurostat (GDP).

#### 4.4. Type of support provided and type of firms targeted

In this section, we collect information on the type of support as well as the type of firms that have been targeted by the various state aid schemes. In this analysis we distinguish between state aid targeted at specific sectors (for more details on the covered sectors, see section 4.5) and state aid schemes that are not targeted at specific sectors that we will refer to as horizontal state aid. Summary tables are included in the main text, while more detailed tables are included in the Annex.

For the sector-specific state aid schemes, we distinguish between five types of support: (subsidised) loans, guarantees, grants, capital increases and mixed or undefined schemes. Table 3 provides the main findings. Within the sector-specific state aid schemes, all types of support have been used so far, though the use of loans has been rather limited. In the majority of schemes (30%), the type of support is mixed or undefined. Grants (26.4%) are slightly more frequently used than guarantees (20.8%) as instruments for recapitalisation. Nevertheless, recapitalisation is clearly present as a tool, pointing to the need in specific sectors for this kind of support. However, only four schemes rely on recapitalisation, implying that these capital operations are substantial. In all cases they have to do with the recapitalisation of airlines. This evidence raises questions on the potential infringement of the level playing field principle as it is clear that the number of cases to specific sectors is limited, in particular as far as capital increases and guarantees are concerned. A more detailed sectoral analysis will therefore be provided in the next section.

Table 3: Summary of type of support provided in COVID-19-related state aid measures with a specific sectoral focus

	(subsidised) Loans	Guarantees	Grants	Capital increase	Not defined or mixed
Budget per type of support	598.7	7471.3	9450.02	7540	10757
% in total sector-specific budget	1.67	20.86	26.38	21.05	30.03
Number of measures	5	12	66	4	13

Source: Own calculations based on European Commission - DG Competition.

For the analysis of non-sector-specific state aid schemes, we take into account all measures approved by the European Commission under the Temporary Framework. We restrict the analysis to these cases as the Temporary Framework is by far the most important judicial motivation for COVID-19-related state aid (see section 4.1). All schemes are taken into account, unless there are no specific budgets mentioned which happened occasionally. If case schemes refer to multiple types of support or to multiple types of firms, they are split up over categories if information on the subdivisions is provided, which is rarely the case. As a result, many schemes have to be classified as undefined or referring to multiple categories. Modifications to previous schemes are taken into account as correctly as possible. This classification analysis is a best attempt based on the information provided by the European Commission in the approval justification.

For these horizontal state aid measures, we distinguish between (subsidised) loans, guarantees, grants, rent compensations, deferred VAT or tax payments (including social security contributions), and undefined or mixed cases. The more specific types of support are inspired by the empirical evidence and deviates slightly from more common classifications. On top of the distinctions between types of support, we also distinguish between the size of the undertakings involved, i.e. all kinds of firms (without specific reference to company size), large firms, SMEs and self-employed persons. Table 4 provides the evidence similar to Table 3.

First, looking at all state aid measures together, regardless of the type of firm (bottom part of Table 4), it appears that 41.53% of all state aid consists of grants. Another 29.06% of all state aid is mixed or undefined, which most of the time includes grants. Hence, grants are by far the most important instrument used to provide public support to undertakings affected by the COVID-19 pandemic, if such aid is horizontal in nature. Note that this exceeds the importance of grants in sector-specific state aid schemes. Apart from grants, guarantees are a popular type of support too, representing 22.33% of all horizontal state aid, similar to the sector-specific state aid schemes.

The majority of all horizontal state aid is available to all firms. 84.49% of all estimated state aid budget, corresponding to about EUR 675 billion, is available to undertakings, regardless of their size. As this is the largest category distinguishing between the size of firms targeted, grants are the predominant type of support (45.13%). Despite the explicit policy goal to support SMEs through state aid, this is hardly the case. The aid specifically directed to SMEs consists mainly of grants (39.73%) as well as guarantees (35.52%). Obviously, SMEs may benefit from the all-firms support schemes too, but there is only limited

positive discrimination in favour of them. The opposite is also true: there are a few cases specifically targeted at large firms which seems counterintuitive given the special attention paid to SMEs in the EU state aid policy principles. Favouring SMEs in state aid schemes has always been an excellent guarantee for avoiding distortions in the EU single market. The latter does not seem to be common practice. Hence, COVID-19-related state aid is clearly not abundantly targeted at SMEs. However, in most cases, support is limited to a certain amount to guarantee that no excessive support is provided to particular companies, in line with EU state aid conditions. Hence, the limits set on support mechanisms may in practice serve as a defence against market distortions.

Table 4: Summary of type of support provided in COVID-19-related state aid measures without a specific sectoral focus, by type of firm

	(subsidised) Loans	Guarantees	Grants	Rent compensa- tion	Deferred VAT/tax payment	Not defined or mixed
<b>ALL FIRMS (no specific firm size aimed at)</b>						
Budget per type of support	50213	139790	304778.60	1000.50	1993	177584
% in total 'all firms' budget	7.44	20.70	45.13	0.15	0.30	26.29
Number of measures	9	19	20	6	3	39
<b>LARGE FIRMS</b>						
Budget per type of support	2200	23700	0	0	0	44000
% in total 'large firms' budget	3.15	33.91	0	0	0	62.95
Number of measures	1	2	0	0	0	1
<b>SMEs</b>						
Budget per type of support	711	15019.5	16799	0	130	9622
% in total 'SME' budget	1.68	35.52	39.73	0	0.31	22.76
Number of measures	5	8	12	0	1	3

	(subsidised) Loans	Guarantees	Grants	Rent compensa- tion	Deferred VAT/tax payment	Not defined or mixed
<b>SELF-EMPLOYED</b>						
Budget per type of support	0	0	10393.3	0	305	1050
% in total 'self- employed' budget	0	0	88.47	0.00	2.60	8.94
Number of measures	0	0	2	0	1	2
<b>TOTAL - ALL TYPES OF FIRMS</b>						
Budget per type of support	53124	178509.50	331970.90	1000.50	2428	232256
% in total 'self- employed' budget	6.65	22.33	41.53	0.13	0.30	29.06
Number of measures	15	29	34	6	5	45

Source: Own calculations based on European Commission - DG Competition.

#### 4.5. Sectoral focus in state aid measures

It is not only the geographical distribution that may point to some distortive effects. The sectoral coverage of state aid programmes is also an important evaluation criterion. If Member States provide state aid to particular economic activities only, while other Member States do not provide such support to the same economic sector, this may lead to an unequal playing field in the European market. Table 5 categorises all state aid case schemes that can be attributed to a particular economic activity. This also includes state aid support granted to individual companies. From the table, one can conclude that most recent state aid cases are related to a limited number of economic activities. These activities are, moreover, the most obvious victims of the COVID-19 pandemic, i.e. the airlines and aviation sector, travel-transportation and tourism, culture and events, agro-business, fishing and forestry, health-related activities and credit insurance.

The airlines and aviation sector stands out as the largest single beneficiary of state aid during the COVID-19 crisis. Almost all these cases provide support to specific companies, and hence, state aid is not provided under a sectoral regime. Many Member States provided loans and/or guarantees to national airlines to help them survive the COVID-19 crisis and the dramatic decline in their turnover due to travel restrictions and the sudden fall in the demand for international transport during the widespread lockdown period. Other aviation-related companies as well as (regional) airports also received substantial public support. The high amounts of financial support provided to airlines raise

the question of whether the level playing field has been respected. State aid is clearly channelled to national airlines.

Agriculture and fisheries have also been receiving substantial state aid. Here there are clear indications that Member States tend to provide support to those products and subsectors that are important in terms of employment, value added creation and exports. Examples include the Dutch horticulture sector, Romanian pig and poultry breeding sectors, and Greek livestock. However, the size of the state aid schemes is likely too limited to cause major distortions on the European single market. Rather, the proposed state aid schemes seem proportional to the economic damage caused to the sectors and countries involved.

The majority of state aid schemes are not explicitly related to particular economic activities. Rather, they refer to all companies affected by the coronavirus outbreak. Moreover, these state aid schemes clearly stand out in terms of the size of the public financial support. This is a very reassuring observation, at least at this moment. The proposed and approved schemes clearly reflect a horizontal or sector-neutral approach which is generally favoured in the state aid rules as well as from an economic perspective as they are generally considered as less market-disturbing.

Table 5: State aid measures approved by the European Commission as of March 2020 by sector and Member State (between brackets: state aid category and amount in million EUR)

Agro, fish & forestry	Airlines, aviation & airports	Travel, transportation & tourism	Culture, events & sports
Netherlands (107(2)b, 650)	France (107(2)b)	Denmark (107(2)b, 97)	Sweden (107(2)b, 38)
Lithuania (107(2)b, 20)	Denmark (107(2)b, 137)	Latvia (TF, 0.8)	Lithuania (TF, 10)
Latvia (TF, 35.5)	Sweden (107(2)b, 137)	Lithuania (TF, 50)	Croatia (TF, 40)
Portugal (TF, 20)	Germany (107(2)b, 550)	Croatia (TF, 80)	Luxembourg (TF, 7)
Croatia (TF, 4)	Italy (107(2)b, 199.45)	Netherlands (107(2)b, 160)	Belgium (TF, 50)
Italy (TF, 100)	Finland (107(3)b, 286)	Lithuania (TF, 5)	Italy (TF, 1.6)
Italy (TF, 50)	Austria (107(3)b, 150)	Sweden (107(2)b, 9.5)	Czech Republic (TF, 34)
Belgium (TF, 0.2)	Portugal (107(3)c, 1200)	Estonia (107(2)b, 20)	Sweden (107(2)b, 57)
Italy (TF, 30)	Portugal (107(3)c, 133)	Finland (TF, 600)	
Greece (TF, 10)	UK (107(3)c, 1460)	Belgium (TF, 6.35)	Health & corona R&D
Finland (TF, 40)	France (TF, 7000)	Bulgaria (TF, 28)	Czech Republic (107(3)b, 38)
Hungary (TF, 314)	Finland (TF, 600)	Latvia (TF, 19)	Italy (TF, 50)
Latvia (TF, 1.5)	Germany (TF, 6000)	Netherlands (TF, 165)	Malta (TF, 11.5)
Hungary (TF, 99)	Cyprus (TF, 6.3)	Ireland (TF, 26)	Austria (TF, 84)
Italy (TF, 12)	Latvia (TF, 250)	Czech Republic (TF, 126.7)	Belgium (TF, 25)
Czech Republic (TF, 36.3)	Belgium (TF, 25)	Lithuania (TF, 1)	Czech Republic (TF, 7.3)
Lithuania (TF, 30.5)	Hungary (TF, 23.5)	Poland (TF, 193)	Belgium (TF, 4)
Poland (TF, 9000)	Netherlands (TF, 3400)	Germany (107(2)b, 6000)	Ireland (TF, 200)

Cyprus (TF, 1.8)	Romania (TF, 1)	Belgium (TF, 15.8)	France (TF, 5000)
Lithuania (TF, 59)	Estonia (TF, 30)	Germany (107(2)b, 26)	Poland (TF, 449)
Czech Republic (TF, 370)	Denmark & Sweden (1000)	Germany (107(3)b, 840)	Belgium (TF, 21)
Lithuania (TF, 47.5)	Romania (TF, 62)	Denmark (107(2)b, 12)	Austria (TF, 2)
Italy (TF, 1.2)	Belgium (TF, 290)	Denmark (TT, 148)	Slovakia (TF, 80)
Malta (TF, 0.72)	Romania (107(2)b, 1)		Netherlands (TF, 77)
Greece (TF, 51.23)	Belgium (TF)	Credit insurance guarantees	Hungary (TF, 143)
Belgium (TF, 35)	Bulgaria (TF, 4.4)	France (107(3)b, 10000)	Lithuania (TF, 61)
Poland (TF, 95)	Denmark (TF, 24)	Germany (107(3)b)	Malta (TF, 5.3)
Latvia (TF, 0.114)	Belgium (TF, 2.2)	Denmark (107(3)b, 670)	Germany (TF)
Ireland (TF, 50)	Romania (TF, 19.3)	Belgium (107(3)b, 903)	
Cyprus (TF, 0.5)	Poland (107(2)b, 32)	Netherlands (107(3)b, 12000)	Media
Bulgaria (TF, 29)		France (107(3)b)	Danish (107(2)b, 32)
Portugal (TF, 5)	Restaurants	UK (107(3)b)	Cyprus (TT, 0.106)
Romania (TF, 47.4)	Finland (107(2)b, 120)	Italy (107(3)b, 2000)	
Malta (TF, 1.5)	Belgium (TT, 11)	Luxembourg (TF, 145)	Automotive
Romania (TF, 7.4)			France (TF, 71)
Belgium (TF, 10)	Real estate		France (TF, 5000)
	Malta (TF, 18.7)		

Source: Own classification based on European Commission - DG Competition.

## 4.6. Other features

An in-depth analysis of COVID-19-related state aid cases reveals a number of other features beyond the ones discussed in the previous sections. For each of them we discuss their impact on competition in the EU market as well as on other policy priorities formulated by the EU institutions. To this end, we distinguish between defensive and offensive features. Defensive features fit into the general objective of maintaining the level playing field in the EU single market, while offensive features reflect to what extent recent state aid cases support broader policy objectives.

### 4.6.1. Defensive features

Several defensive features can be derived from the in-depth analysis of COVID-19-related state aid cases. In general, European Commission decisions on state case measures are very defensively formulated.

First, many COVID-19-related state aid cases focus explicitly on export-oriented companies or on internationally active firms. This focus is added by the Member State reporting to the European Commission, and hence, it is not an element added to the European Commission's evaluation. Making state aid conditional on being an exporter obviously increases the probability that state aid provision will cause unfair competition in the EU single market, unless the export-orientation is referring to non-EU markets. The latter is, however, unclear from the motivation provided by the Member States that never distinguish between intra-EU exports (sales on the EU market) and extra-EU exports. Examples of export-motivated cases include various cases adopted under the Temporary Framework in Belgium (EUR 500 million), Denmark (EUR 130 million), Croatia (EUR 790 million), Czech Republic (EUR 5.2 billion), Italy (EUR 300 million), Latvia (EUR 51 million), and France (EUR 150 million) as well as cases adopted by France under Article 107(3)b TFEU providing guarantees to exporting SMEs. All these cases are sector neutral. However, it cannot be excluded that support to domestic firms leads to unfair competition to foreign firms when exporting to the latter's home market or export markets. Nevertheless, from the European Commission documentation, it becomes clear that these potential competition distortion concerns are taken seriously. For example, on the Belgian state aid case, the European Commission decision states explicitly: *'The measure will support lending to eligible companies, but will not take the form of export aid contingent on export activities as it is not tied to concrete export contracts. On the contrary, it finances the general activity of the beneficiaries by facilitating their access to liquidity in the form of working capital loans and investment loans.'* (European Commission – DG Competition – Daily news: MEX/20/892). Similar conditions or arguments have been put forward by the European Commission in other cases. In the decision on the Danish, Croatian and Czech state aid cases mentioned above, the European Commission states that the provided support *'will not take the form of export aid contingent on export activities.'* (European Commission – DG Competition – press release Denmark-IF/20/555, Croatia-IP/20/601, Czech Republic-IP/20/794). However, there are some cases where these restrictions have not been added, including the Italian, Latvian and French cases mentioned above. Hence, it appears that the European Commission is clearly open to the argument that export-oriented companies may have suffered more during the COVID-19 pandemic, but the European Commission takes the necessary precautions to avoid competition distorting effects by delinking public support from the actual export activities. However, this conditionality is rather vaguely formulated, which may lead to discussions in the actual implementation and the future monitoring process.

Second, it is striking that most cases literally emphasise that market distortions will be avoided, often thanks to the conditions imposed by the European Commission. However, despite these conditions,

there is a clear lack of control systems. In particular, for the state aid cases with substantial budgets, one would expect more transparent and stricter control mechanisms.

#### 4.6.2. Offensive features

Several offensive features can be derived from the in-depth analysis of COVID-19-related state aid cases.

First, one could wonder why the state aid schemes are not more proactively used to support European companies in their strategies to access non-EU markets. In the current international climate of increasing protectionism and rising economic nationalism, one could wonder whether state aid policies – de facto being used as part of broader industrial policies – can contribute more actively to providing market access to European exporters, or to strengthen European companies in their struggle for relevance among the largest global companies. Though export-orientation may be market distortive when exports are directed to the EU single market, it would actually be a major plus when directed to global markets. The economic recovery after the COVID-19 pandemic would be strengthened by additional export growth. However, to the best of our knowledge, this argument has never been put forward in recent COVID-19 state aid cases. The most closely related cases refer to support to strategic sectors which could be interpreted as ‘globally strategic’. In particular, Spain and Italy have adopted such measures. Given the limited attention paid to boosting European firms’ competitiveness on global markets, one can praise the EU for its global mindset. However, a more assertive use of state aid policies would only align EU state aid policies to the ones implemented by other major economies (e.g. US and Japan).

Note that this is no blatant call for protectionism initiated by the EU. Adding export-stimulating elements in state aid programmes should always be in line with international agreements. In particular, EU state aid practices should never violate trade rules agreed upon in the World Trade Organization. However, state aid programmes offer an opportunity to proactively stimulate exporters based on their intrinsic strengths. Such approach would enhance the positive effects of state aid programmes on economic growth, job creation and welfare. This will be essential in the aftermath of the COVID-19 crisis.

Second, innovation is strongly present in the COVID-19-related state aid cases (see sectoral overview above). Innovation support is mainly linked to the COVID-19 pandemic. This feature is completely in line with the conditions laid down in the Temporary Framework. It can be considered a success in the fight against the pandemic.

Third, one would expect that EU state aid is strongly integrated in the EU policy objectives of a green and digital transformation of the EU economy. There are surprisingly little references to these objectives, as laid down in the European Green Deal and the Next Generation EU framework. It can, however, be expected that this offensive argument will become more important in the future given the increased focus on these policy objectives in recent policy initiatives.

## 5. LINK TO FISCAL POLICY: DOES STATE AID POLICY CAPTURE IT ALL?

A correct assessment of state aid schemes should not neglect the fiscal stance that many countries are taking. Even if expected distortions caused by recently approved state aid schemes are limited, other policy initiatives by the EU Member States may ultimately lead to a distortion in competition in the EU internal market. In order to assess this broader context, we look at current fiscal measures in response to the COVID-19 pandemic as recorded by the IMF (up to June 2020). All figures in Table 6 are expressed in percentages of GDP. Unfortunately, data is not available for all EU Member States. From the grand total it becomes immediately clear that there are substantial differences in the fiscal measures implemented by the EU Member States. Similar to state aid schemes, fiscal policy responses are still changing a lot, with the general tendency that most EU Member States will launch some kind of recovery and resilience plan, complementary to the initiatives taken at the EU level, and obviously also intended to grasp some of the financial support offered by the latest EU policy initiatives, notably the Next Generation EU framework.

Nevertheless, the substantial cross-country differences in fiscal stimulus are likely to cause concerns about their impact on free and fair competition in the single market too. The recently announced recovery and resilience plans in some Member States actually raise more concerns than the latest overview of state aid schemes approved by the European Commission. In several countries, support for traditional economic strongholds and national champions is part of the recovery package.

Table 6: Fiscal measures in response to the COVID-19 pandemic (% of GDP)

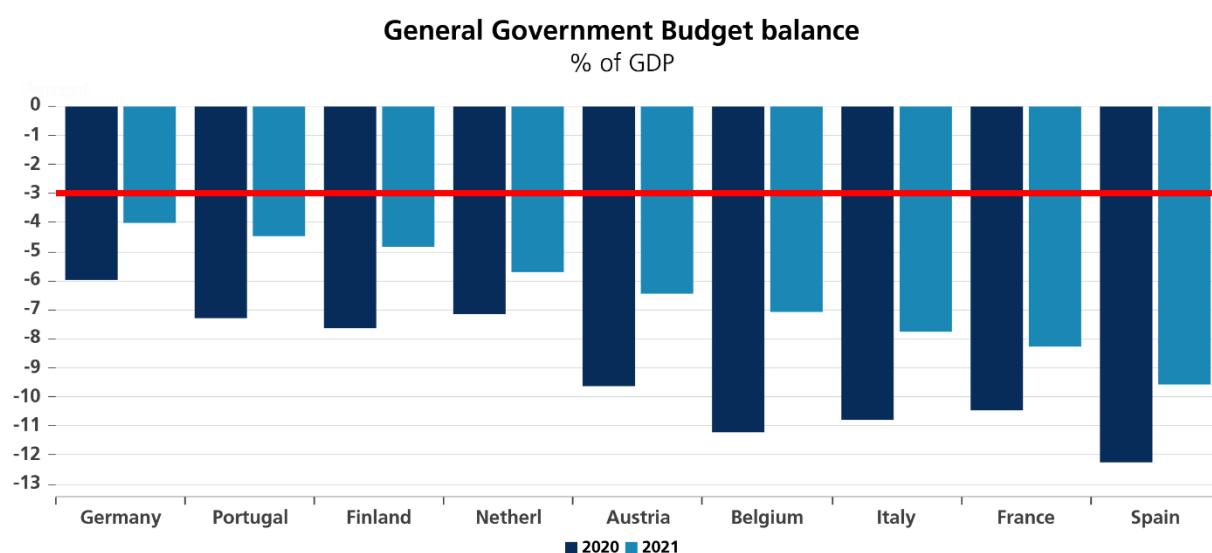
	Above the line measures		Liquidity support			Quasi-fiscal	Total above de line measures	Total liquidity support	Grand Total
	Additional spendings or foregone revenues: health sector	Additional spendings or foregone revenues: non-health sector	Accelerated spending / deferred revenue	Equity injections, loans, asset purchase or debt assumption ns	Guarantees	operations			
European Union	0	0.3	0	3.1	0.6	0	0.3	3.7	4
France	0.4	2.3	2.6	1	15.2	0	5.3	16.2	21.5
Germany	0.7	8.7	0	6.2	25.3	0	9.4	31.5	40.9
Italy	0.4	3.1	0.4	0.2	33.8	0	3.9	34	37.9
Spain	0.4	3	0	9.7	0.9	0	3.4	10.6	14
UK	0.3	5.8	0	0	16.8	0	22.9	16.8	39.7
Belgium	0.5	2.9	2.6	0	12.1	0	18.1	12.1	30.2
Czech Republic	0.9	4.1	0	0	9.3	0	14.3	9.3	23.6
Denmark	0	5.7	7.6	1.8	7.9	0	23	9.7	32.7
Finland	0.6	2.4	2.3	1.1	5.8	0.4	12.6	7.3	19.9
The Netherlands	0.1	4.1	4.3	0	4.1	0	12.6	4.1	16.7
Sweden	0.2	5	7	0	4.8	0	17	4.8	21.8
Bulgaria	0.4	1.4	0.5	1.4	0	2.6	6.3	4	10.3
Poland	0.4	7	0	0	3.3	1.7	12.4	5	17.4
Romania	0.6	1	0	0.2	2.9	0	4.7	3.1	7.8
US	1.5	10.8	0	0.3	2.3	0	14.9	2.6	17.5
Japan	0.8	10.5	5	0	3	21	40.3	24	64.3
Switzerland	0.4	4.4	0	0	6.4	0	11.2	6.4	17.6

Source: IMF (2020).

From Figure 6 we learn that these fiscal stimuli will lead to substantial fiscal deficits across the EU, at least in 2020 and 2021. It is clear that a period of enhanced fiscal spending has started. This period will follow and contrast a period of austerity across the EU. As such, the risk of competition distorting policies has increased. This will cause substantial challenges to the European Commission in order to safeguard the level playing field.

Note that there is a clear relation between state aid evolutions and expected fiscal spending. The strong growth in state aid provisions is, however, only a partial explanation for the increasing public deficits. Hence, future impact assessments of state aid initiatives will have to take into account their interaction with other fiscal incentives that are formally not considered as state aid. This may become a cumbersome task. One may think of tax incentives provided to domestic as well as foreign companies that may lead to enhanced tax competition among EU Member States. Tax competition could distort competition further. Or even worse, a tax race-to-the-bottom may lead to clear winners and losers in the aftermath of the COVID-19 crisis as the Member States have no equal fiscal capacities to compete among each other. It is clear that these challenges go beyond EU state aid policy. However, it is important to keep them in mind for future impact assessments.

Figure 7: General government budget balance in % of GDP



Source: DG ECFIN (November 2020)

Source: European Commission, DG ECFIN (2020).

## 6. CONCLUSION AND POLICY RECOMMENDATIONS

The number and size of EU state aid cases adopted due to the COVID-19 pandemic is as unprecedented as the COVID-19 economic crisis itself. Thanks to these public support schemes, the socio-economic damage caused by the pandemic will be mitigated, while the recovery in the aftermath of the COVID-19 crisis will be boosted. Over EUR 2,000 billion of public support divided between more than 300 cases has been approved by the European Commission since the pandemic outbreak and up till 9 October 2020. More cases will follow on a daily basis. The European Commission has extended and updated its policy framework to evaluate these cases. This research project provides an early economic assessment of the COVID-19-related state aid cases on competition and competitiveness.

Based on an economic screening of recent policy developments and an in-depth analysis of recent COVID-19-related state aid cases, it can be concluded that, generally speaking, EU state aid policies are appropriate to deal with the challenges caused by the pandemic, while the principles of EU state aid policies are respected in the actual decision-making processes. As such, EU state aid policies provide an effective protection wall against the potentially market distorting impact of public support programmes, while contributing to the recovery pace in the aftermath of the COVID-19 pandemic. In particular, the extensions and updates provided under the Temporary Framework are appropriate and necessary in the current extraordinary circumstances.

Nevertheless, our analysis points to some concerns and policy recommendations. A first set of them is related to the evaluation process by DG Competition.

First, the **transparency of the state case evaluation process should be enhanced**. The motivation for approving cases as well as the conditions imposed are often only vaguely described. To avoid discussions on equal treatment as well as during the actual ex-post monitoring process, the motivation and the conditions should be better underpinned. The decisions miss structure, not as to the formalities but as to the argumentation put forward. Adding a structural ‘tick-the-box’ system on which to base evaluations would facilitate the comparison across cases. **A better and more systemic reporting on which Member States and which economic activities are entitled to which kind of public support would be welcome.**

Second, the European Commission evaluates state aid cases on a case-by-case basis. There is a risk that the interconnectedness between cases is neglected, in particular if many smaller cases are submitted by the same Member States. Moreover, there is no basis for a comparative approach during the evaluation, although one could argue that clear state aid rules should be sufficient to guarantee such equal treatment. It remains to be seen whether the latter is true. It is recommended that **cases be evaluated while taking into account previous cases submitted by the same Member State as well as similar case submitted by other Member States.**

Third, there is an enormous variation in the estimated budgets across state aid cases. A more **differentiated treatment between smaller and larger cases would be appropriate** in order to avoid relatively excessive administrative challenges, in particular for smaller Member States. Related to this, there is no evidence that particular Member States are unable to participate in the current EU state aid procedures. However, some **additional capacity building in some (smaller or poorer) Member States** might facilitate the access to the evaluation procedure for all Member States.

Fourth, and related to the previous point, **extensive umbrella-deals**, submitted in particular by large EU Member States, though positive as they provide a broader overview of public support initiatives, **should be screened in more detail and with more precision. This connects future EU state aid policies to monitoring the general fiscal spending initiatives by the EU Member States.**

Fifth, given the substantial budgets and the number of state aid schemes involved, **further monitoring of the actual state aid provision is warranted**. At this stage, it is impossible to rule out that these public funds will be used to support particular sectors or companies in a disproportionate way. **The future monitoring process should be set out in detail and should be strictly respected**. A too lenient monitoring process would undermine the effectiveness and credibility of EU state aid rules.

A second set of recommendations deals with the potential competition distortive impact of COVID-19-related state aid case (defensive perspective).

First, it is positive that the majority of state aid cases are not focused on a particular economic activity, but rather aim to support all or a broad spectrum of sectors. Nevertheless, there is clearly evidence that some sectors have recently been supported substantially. **The airlines and aviation sector stands out, given the enormous budgets involved. Support to this sector requires enhanced screening and follow-up.**

Second, though support to export-oriented firms is in various cases clearly made conditional on providing aid independent of the export activities, this is not the case in all state aid measures. The European Commission should be **more cautious in allowing state aid to firms or sectors where the level of intracommunity exchanges is intense, as this particular kind of state aid has a high risk of distorting competition in the EU single market.**

Third, the specific focus on SMEs is clearly present in the EU state aid rules. However, in practice, support is often granted to all kinds of firms. A number of state aid schemes even clearly favour large companies, which seems at odds with the overall policy intention to support mainly smaller and medium-sized companies, which many other state aid schemes are doing. It remains unclear why the specific focus on larger companies has been accepted by the European Commission. At least the motivation for doing so, e.g. because of the expected (un)employment effects, should be better formulated. **The European Commission should be more attentive to make sure that SMEs receive an appropriate treatment in state aid schemes.**

Fourthly, as guarantees are clearly intensively used as a type of support, **a strict follow-up on the eventual use of the guarantees should be integrated into the monitoring process**. Not only the provision of guarantees, but also the actual use of guarantees can have market distorting effects.

Finally, the **substantial variation in state aid intensity** (state aid granted as a % of GDP) related to the COVID-19 crisis across EU Member States raises suspicion as to the potential distortion of the level playing field in the EU internal market. Moreover, it appears that total state aid provided is **not necessarily proportional to the initial economic damage from the COVID-19 crisis**. Though positive spillovers from state aid between EU Member States are possible and may mitigate these concerns, a disproportional use of state aid **may jeopardise the level playing field**. Again, the actual situation requires intensive future monitoring as well as additional research.

A third set of recommendations focuses on making EU state aid rules future-proof (offensive perspective).

First, state aid is clearly not used by Member States to boost their international competitiveness on global markets. The restrictions on supporting exporters in the EU market clearly demotivates Member States to build their state aid cases based on arguments related to global competitiveness. It is recommended to **make EU state aid policy rules more assertive in order to enhance European exporters' competitiveness on global markets.**

Second, the objectives of a green and digital transformation of the EU economy are insufficiently integrated in EU state aid policies, and they are clearly hardly taken into account in the motivation for recent state aid measures. It is recommended that the **European Commission pays more attention to green and digital transformation in setting the conditions for future state aid by the Member States.**

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## ANNEX: DETAILED OVERVIEW OF STATE AID CASES WITH AND WITHOUT SPECIFIC SECTOR FOCUS

*By firm size, type of support and Member State (between brackets: budget in million EUR)*

### STATE AID CASES WITH SECTOR-SPECIFIC FOCUS

*By type of support and Member State (between brackets: budget in million EUR)*

#### ALL FIRMS

(subsidised) Loans	Guarantees	Grants	Capital increase	Not defined or mixed
Luxembourg (300)	Denmark (130)	Portugal (20)	Germany (6000)	Italy (50)
Danish (200)	Sweden (455)	Luxembourg (30)	Latvia (250)	Malta (11.5)
Italy (50)	Italy (100)	Czech Republic (37)	Denmark-Sweden (1000)	Latvia (1.5)
Italy (30)	France (5000)	Latvia (35.5)	Belgium (290)	Belgium (25)
Malta (18.7)	Hungary (314)	Portugal (140)		France (5000)
	Finland (600)	Croatia (4)		Poland (449)
	France (71)	Malta (5.3)		Lithuania (50)
	Finland (600)	Lithuania (5)		Luxembourg (145)
	Croatia (40)	Belgium (0.2)		Czech Republic (370)
	Croatia (80)	Belgium (4)		Belgium (25)
	Romania (62)	France (7000)		Netherlands (3400)
	Romania (19.3)	Greece (10)		Italy (1200)
		Finland (40)		Estonia (30)
		Czech Republic (7.3)		
		Italy (70)		
		Austria (84)		
		Hungary (99)		
		Lithuania (10)		

(subsidised) Loans	Guarantees	Grants	Capital increase	Not defined or mixed
		Italy (12)		
		Latvia (0.8)		
		Ireland (200)		
		Czech Republic (36.3)		
		Lithuania (30.5)		
		Poland (9)		
		Cyprus (1.8)		
		Lithuania (59)		
		Luxembourg (7)		
		Belgium (21)		
		Cyprus (6.3)		
		Austria (2)		
		Cyprus (0.106)		
		Hungary (23.5)		
		Belgium (6.35)		
		Slovakia (80)		
		Lithuania (47.5)		
		Netherlands (77)		
		Malta (0.72)		
		Greece (51.23)		
		Bulgaria (28)		
		Belgium (35)		
		Belgium (50)		
		Romania (1)		
		Latvia (19)		
		Netherlands (165)		
		Poland (95)		

(subsidised) Loans	Guarantees	Grants	Capital increase	Not defined or mixed
		Latvia (0.114)		
		Hungary (143)		
		Ireland (26)		
		Bulgaria (4.4)		
		Italy (1.6)		
		Czech Republic (34)		
		Ireland (50)		
		Cyprus (0.5)		
		Czech Republic (126.7)		
		Bulgaria (29)		
		Portugal (5)		
		Romania (47.4)		
		Denmark (24)		
		Malta (1.5)		
		Romania (7.4)		
		Lithuania (1)		
		Poland (193)		
		Belgium (10)		
		Belgium (2.2)		
		Lithuania (61)		
		Belgium (15.8)		

## STATE AID CASES WITHOUT SECTOR-SPECIFIC FOCUS

Cases based on temporary framework, by firm size, type of support and Member State (between brackets: budget in million EUR)

### ALL FIRMS

(subsidised) Loans	Guarantees	Grants	Rent compensation	Deferred VAT/tax payment	Not defined or mixed
Ireland (200)	Malta (350)	France (300000)	Sweden (453)	Cyprus (33)	Latvia (250)
Greece (2000)	Sweden (9100)	Netherlands (23)	Lithuania (101.5)	Italy (460)	Estonia (1750)
Croatia (1000)	Poland (22000)	Hungary (140)	Estonia (4)	Italy (1500)	Portugal (13000)
Lithuania (150)	Croatia (790)	Poland (115)	Czech Republic (184)		UK (57000)
Poland (16600)	Poland (700)	Hungary (88)	Slovakia (200)		Austria (15000)
France (30000)	Lithuania (110)	Estonia (75.5)	Latvia (58)		Bulgaria (770)
Slovenia (222)	Belgium (3000)	Malta (215)			Hungary (1000)
Slovakia (25)	Netherlands (10000)	Malta (40)			France (7000)
UK (16)	Hungary (1550)	Hungary (155)			Finland (2000)
	Belgium (530)	Czech Republic (2.6)			Slovakia (2000)
	Belgium (500)	Slovenia (600)			Ireland (200)
	Latvia (160)	Bulgaria (790.5)			Poland (110)
	Poland (2600)	Denmark (27)			Poland (7800)
	Spain (20000)	Malta (108)			Slovenia (2000)
	Spain (40000)	Czech Republic (866)			Finland (3000)
	Ireland (2000)	Italy (300)			Poland (700)

(subsidised) Loans	Guarantees	Grants	Rent compensation	Deferred VAT/tax payment	Not defined or mixed
	Germany (26000)	Malta (51)			Hungary (900)
	France (150)	Romania (935)			Slovenia (2000)
	Greece (250)	Greece (150)			Poland (450)
		Czech Republic (97)			Hungary (156)
					Luxembourg (30)
					Italy (9000)
					Lithuania (1000)
					Luxembourg (260)
					Poland (1650)
					Slovakia (4000)
					Portugal (40)
					Italy (7600)
					France (207)
					Romania (800)
					Germany (500)
					Poland (123)
					Spain (10000)
					Slovenia (100)
					Germany (20000)
					Austria (120)
					Austria (4000)
					Italy (403)
					Austria (665)

**LARGE COMPANIES**

(subsidised) Loans	Guarantees	Grants	Rent compensation	Deferred VAT/tax payment	Not defined or mixed
Poland (2200)	Czech Republic (5200)				Italy (44000)
	Czech Republic (18500)				

**SMEs**

(subsidised) Loans	Guarantees	Grants	Rent compensation	Deferred VAT/tax payment	Not defined or mixed
Netherlands (100)	Portugal (3000)	France (1200)		Denmark (130)	Romania (3300)
Belgium (250)	Denmark (130)	Greece (1200)			Croatia (322)
Denmark (296)	Bulgaria (255)	Bulgaria (150)			Italy (6000)
Netherlands (25)	Netherlands (713)	Bulgaria (88)			
Hungary (40)	Belgium (10000)	Hungary (60)			
	Malta (67.5)	Ireland (250)			
	France (200)	Bulgaria (102)			
	UK (654)	Netherlands (1400)			
		Italy (6200)			
		Greece (1500)			
		UK (49)			
		France (4600)			

## SELF-EMPLOYED

(subsidised) Loans	Guarantees	Grants	Rent compensation	Deferred VAT/tax payment	Not defined or mixed
		UK (10300)		Czech Republic (305)	Greece (500)
		Denmark (93.3)			Czech Republic (550)

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This economic assessment of EU state aid principles and practises related to the COVID-19 pandemic confirms the clear focus on maintaining the level playing field in the EU single market. Future monitoring and policy fine-tuning, focusing on SMEs, and keeping all Member States involved are the main challenges. Moreover, current policies fail to incorporate a strong focus on broader, strategic policy goals like the green and digital transformation of the European economy or the enhancing of EU firms' global competitiveness.

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