

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

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SME Access To Finance Working Group (SME WG) of the European Parliament

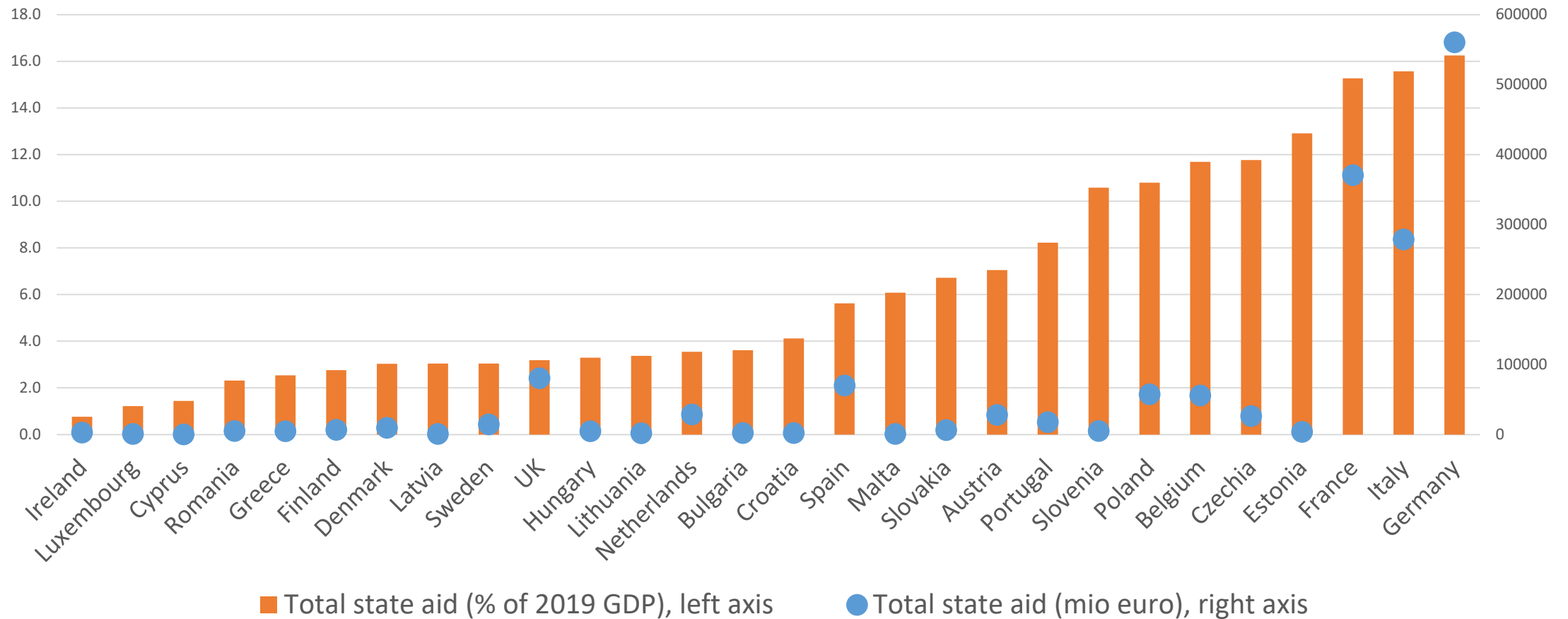
Studying state aid during COVID-19 crisis

- Study requested by the ECON committee, European Parliament
- Published December 2020
- State aid cases analyzed up till 9 October 2020 (covering ‘first wave’)
- Economic (potential) impact assessment – detailed screening on economic features
- For today’s meeting: focus on insights for SMEs
- Structure of this snapshot presentation
 - General key insights from the study
 - Insights relevant to SMEs
 - Policy recommendations, focused on SMEs

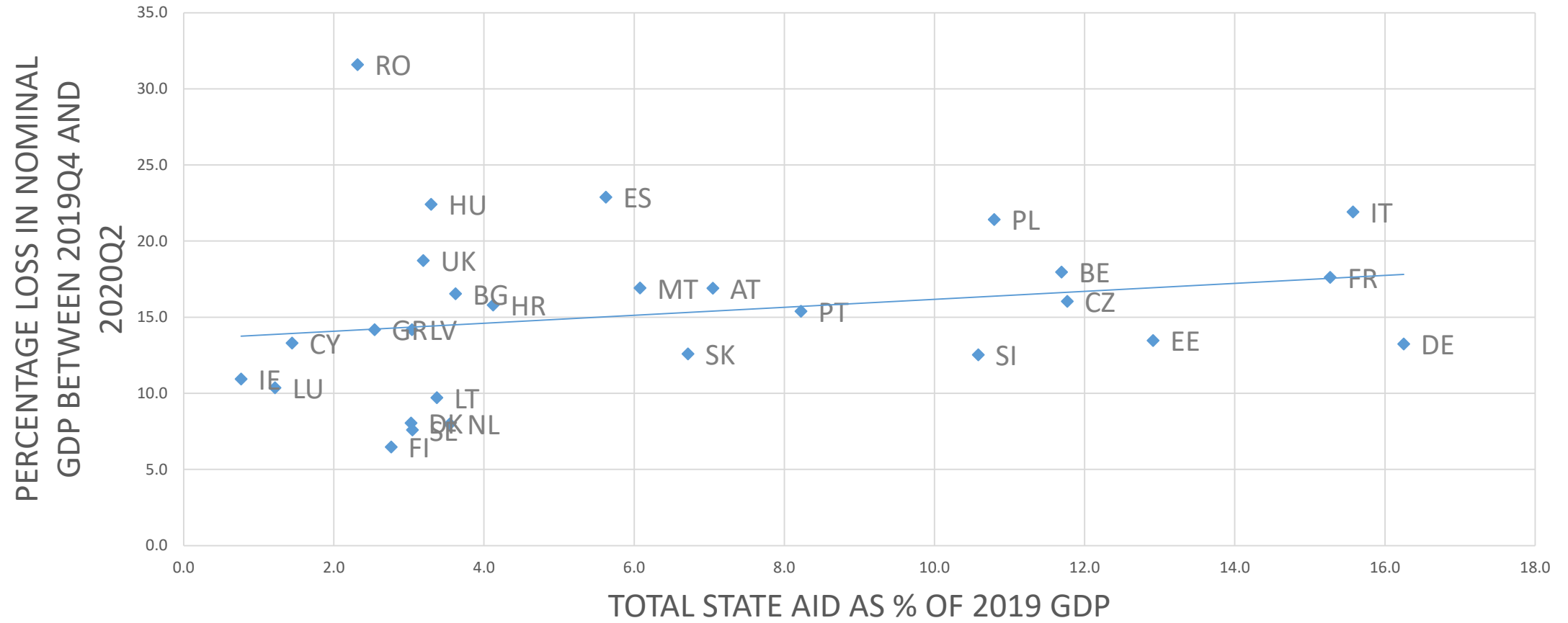
Key insights from the study

- **Massive and historically unprecedented response** in terms of state aid provision and approval to the COVID-19 economic crisis
 - Majority approved under the Temporary Framework (85% of the total number of cases, 92.6% of the budget)
- Total state aid budgets **differ substantially across EU Member States**
 - Not proportional to the economic damage suffered during the first wave
 - Therefore: risk that excessive state aid support by some Member States jeopardizes free and fair competition in the EU single market
 - Potential compensation by positive cross-border spillovers (ex post evaluation)

COVID-19 related state aid provided by EU Member States (up till October 9, 2020)



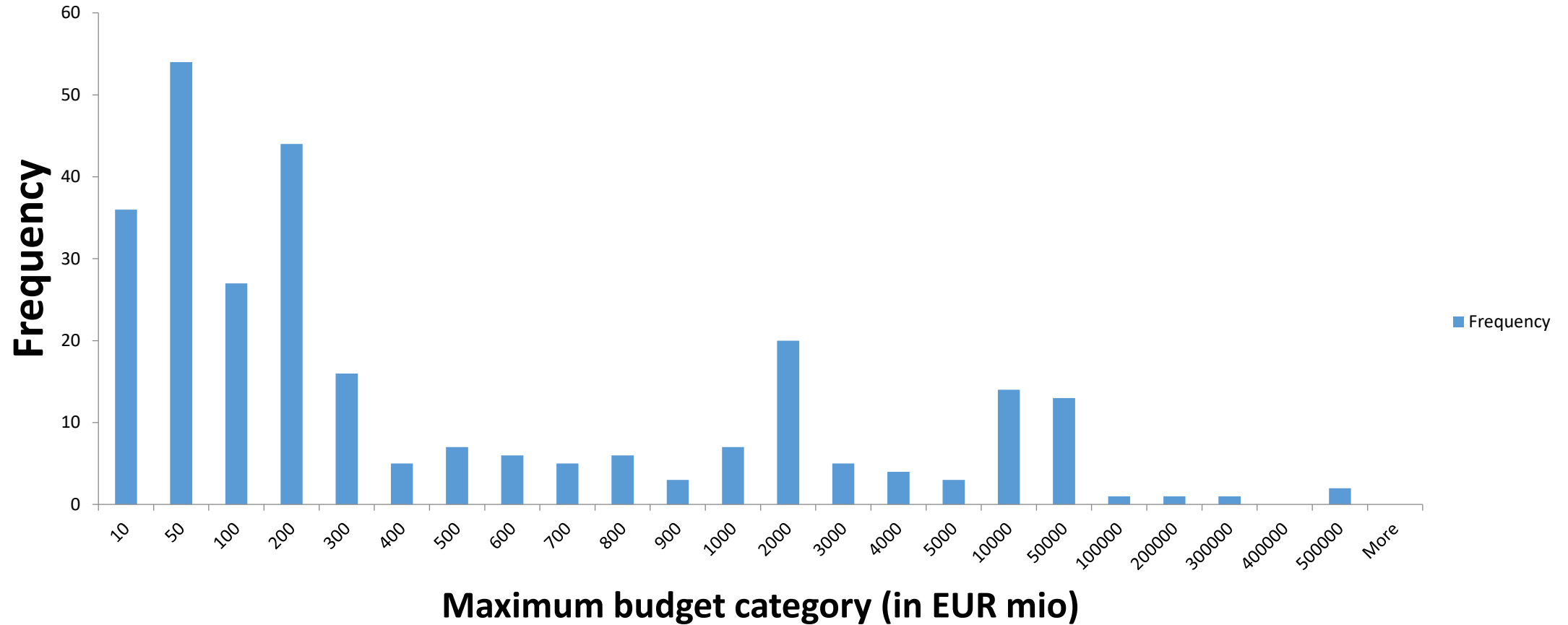
Relation between COVID-19 related state aid provided (% of GDP) and economic damage, by EU Member State (up till October 9, 2020)



Key insights from the study

- **Enormous variety in the budget size** of state aid cases

Frequency distribution of max. budgets allocated to state aid cases



Key insights from the study

- **Enormous variety in the budget size** of state aid cases
- **Reassuring signals in terms of potential competition distortions**
 - Most cases sector-neutral
 - Limited number of cases targeted at individual companies (aviation sector)
 - Limited number of cases targeted at firms with a specific size
- **Mixture of state aid support forms – grants = dominant type**
 - Uncertainty about guarantees – future fiscal transfers?
 - Future debate on public debt sustainability
- Evaluation mainly based on **defensive arguments**

SMEs in COVID-19 related state aid cases

- **Massive state aid is fundamentally positive for SMEs – they thrive in an economically prosperous environment.**
 - **BUT: risk of being hurt by market distortions**
- **SMEs are more often favoured than large companies**
 - **Tough some cases deliberately aimed at large firms**
- **Often targeted at export-oriented or internationally active companies**
-> conditions by EC
- **Grants and guarantees equally important** in state aid support to SMEs

	(subsidized) loan	guarantee	grants	rent compensation	deferred VAT/tax payment	not defined or mixed
ALL FIRMS (no specific firm size aimed at)						
Budget per type of support (mio €)	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
LARGE FIRMS						
Budget per type of support (mio €)	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
SMEs						
Budget per type of support (mio €)	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

Type of support provided without specific sectoral focus

Policy recommendations related to SMEs

- In general, there is a **substantial risk of market distortion** given the size and distribution of COVID-19 related state aid.
 - SMEs most vulnerable to this threat – **awareness essential**
 - Actual realization remains to be seen – **ex post evaluation welcome**
 - Unlikely to be sector-specific
 - (pro-active) protection of SMEs' economic interests insufficiently taken into account in the state case evaluation process
 - Case-by-case evaluation of state aid cases – interconnectedness lost
- More attention to be paid to whether SMEs receive an **appropriate treatment in state aid schemes**
- **Further monitoring of actual state aid provision (implementation) is warranted.**
 - Implications for SMEs should be watched

Policy recommendations related to SMEs

- **Support to export-oriented firms** -> often, but not always conditional on providing aid independent of export activities
 - Stronger focus required when level of intracommunity exchanges is intense
 - Future-proof state aid policy: more assertive in order to **enhance European exporters' competitiveness on global markets = potential growth boost for European SMEs**
- More attention required to **green and digital transformation** of European SMEs
 - Attention gradually growing, but speeding-up welcome

Thank you for your attention.

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Full study:

[https://www.europarl.europa.eu/RegData/etudes/STUD/2020/658214/IPOL_STU\(2020\)658214_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2020/658214/IPOL_STU(2020)658214_EN.pdf)