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The Correlation between State Aids and Competitiveness

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Abstract: This paper aims to establish the correlation between state aids received by companies and competitiveness, because an enterprise which receives a subsidy provided by a government has an advantage over other firms and competition may be distorted. State aid is an advantage conferred by national public authorities under certain conditions and for certain areas of activity. The E.U. rules for state aids are ensuring applied equally by European Commission, so state aids can be applied after approval by the Commission. But in some circumstances government interventions are necessary for an equitable economy. Measures of state aids can be implemented only if were approved by the European Commission.

Keywords: state aid; correlation; competitors; European Commission

JEL Classification: D29; E22; E29; F23; F35

1. Introduction

State aids in the European Union represent a subsidy provided by a government, as Article 107 of Treaty on the Functioning of the E.U. These state aids distort competition and they are classed by the E.U. as illegal state aids. State aids in the E.U. were taken from Article 87(2) of the G.A.T.T. (General Agreement on Tariffs and Trade) where they were defined as aid “granted by a Member State or through state resources in any form whatsoever”. The European Court of Justice consider these state aids give an advantage over its competitors and competition has been or may be distorted.

State aid was defined into E.U. law by the Treaty of Rome as being any state intervention that distorts competition law and after many years, in 2007 was improved in Treaty on the Functioning of the E. U. But in some circumstances government interventions are necessary for an equitable economy. Measures of state aids can be implemented only if approved by the European Commission.

2.1. The Control State Aids

The control state aids are necessary because the companies which receive a subsidy government have an advantage over other companies. The Treaty of E.U. accepts state aids who’s justified by reasons of economic development, so these state aids can be considered compatible. The E.U. rules for state aids are ensuring applied equally by European Commission, so state aids can be applied after approval by the Commission.

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Also, the firms and persons may notify the Commission or may submit notifications to the Official Journal of the European Union for open a formal investigation procedure.

The principle of public transparency offers citizens and companies access to information on state aid, such as name, amount, location, sector and target beneficiary.

After the global financial crisis, the European Commission has adopted flexible procedures to evaluate urgently measures needed to safeguard the stability of the financial system. State aid is an advantage conferred by national public authorities under certain conditions and for certain areas of activity.

In the Treaty on the Functioning of the European Union, Article 107 it is said “these aids given by a member state or as state resources doesn’t distort competition and trade within the EU by favouring certain companies or products.”

Member states must wait the Commission’s decision before they utilised the state aid. Illegal state aid is an aid given without authorization of the European Commission. The Commission may use court orders to obtain information or suspend the further state aids and recovery obligation’s member state. The Commission starts a “recovery case” to implementation of her decision. If the member state does not apply the Commission's decision, then it may address to European Court of Justice (ECJ) to enforce the decision, for remove the illegal advantage and to restore the concurrence. The period for recovery is ten years. All decisions of the European Commission can be review by the General Court and ultimately by the European Court of Justice.

2.2. De Minimis Aid and Transparency Requirements

Small amounts of state aid less than 200.000 € for 3 consecutive fiscal years, to a single undertaking for a wide range of purposes aren’t distort competition, so this aids are defined as the industrial de minimis regulation. For the *de minimis* regulation don't need to formally notify the aid to the European Commission or get prior approval, but must comply with all of the conditions of the regulation.

Exist separate rules apply to the Agriculture, Fisheries and Road Transport sectors, as well as:

- *De minimis* aid to the agricultural sector is 15.000 € over three consecutive fiscal years;
- *De minimis* aid to the fisheries and aquaculture sectors is 30.000 € over three consecutive fiscal years;
- *De minimis* aid to perform road freight transport for hire or reward is 100.000 € over three consecutive fiscal years. The aid shall not be used for the acquisition of road freight transport vehicles.

The Commission’s state aid transparency database contains details for state aids which exceed €500.000. The special rule applies in agriculture and for aquaculture.

2.3. Evolution of State Aids in European Union by State Aid Scoreboard

The State Aid Scoreboard on 2017 presents the evolution of aid expenditure’s member states in 2016, for industries, services, agriculture and aquaculture.

Total state aids utilized in 2016 increased with 2.6% face to 2015 expenditures, and with + 2.6 billion EUR in nominal terms, because the following factors:

- increased the state aids to environmental protection including energy savings with 9.3 billion EUR;

- decreased the state aids for regional development with 4 billion EUR;
- decreased the state aids for social support to individual consumers with 1.6 billion EUR;
- increased the state aids for other objectives including broadband, interest or local infrastructures with 1.2 billion EUR;
- decreased the state aids for the agricultural and forestry sectors with 1.1 billion EUR;
- increased the state aids for SMEs with 1.1 billion EUR;
- increased the state aids for research and development including innovation with 0.5 billion EUR.

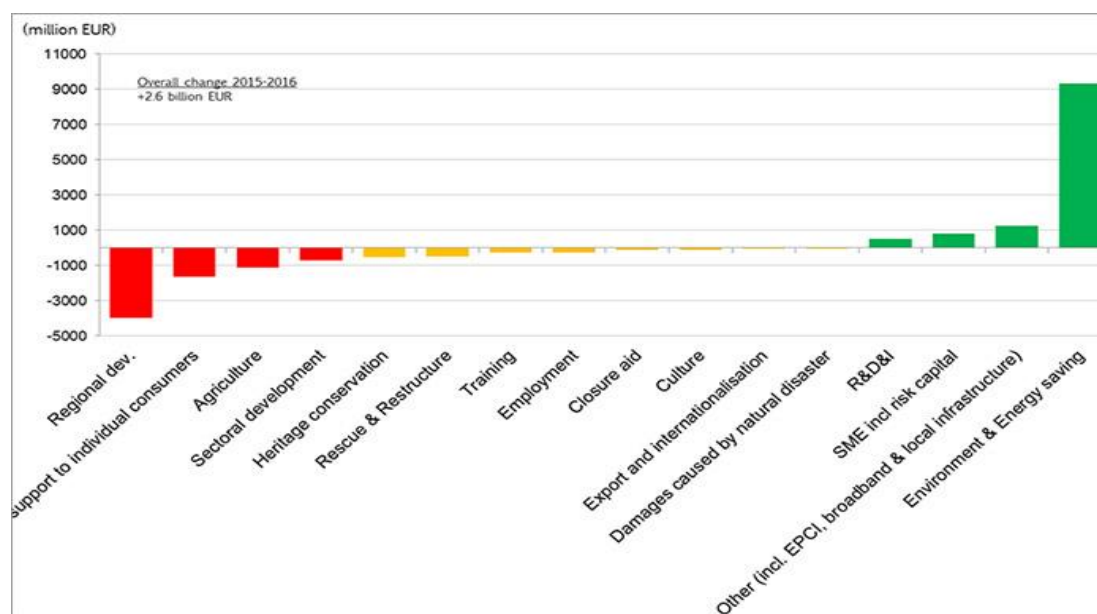


Figure 1. State Aid expenditure by objective in 2016 as compared to 2015, excluding aid to railways (in million EUR)

Source: Commission Services and

http://ec.europa.eu/competition/state_aid/scoreboard/state_aid_scoreboard_%202017_final.pdf

In 2016, 54% of total spending was for green measures as environmental protection and energy savings, because the EU approved state aids rules of renewable energy and many member states adopted these measures for secure and competitive economy.

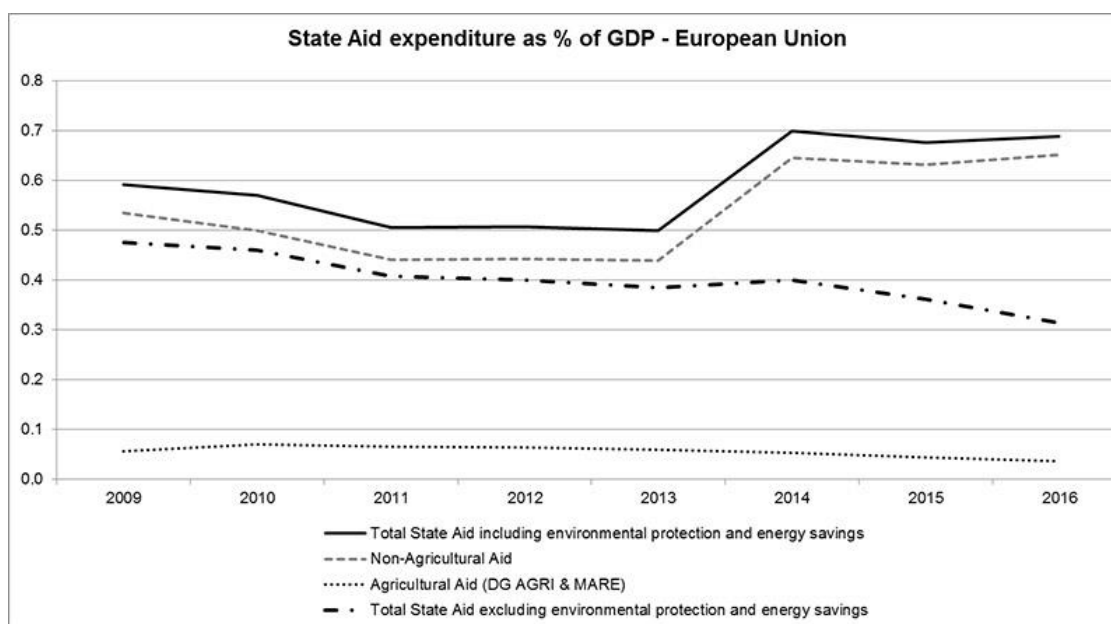


Figure 2. Total State Aid expenditure, excluding aid to railways as % of GDP

Source: Commission Services and

http://ec.europa.eu/competition/state_aid/scoreboard/state_aid_scoreboard_%202017_final.pdf

2.4. Evolution of state aids as % GDP by member state

Table 1

Member State	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total, 2008-2016
Belgium	12.9	5.0	2.5	0.0	2.9	0.0	0.0	0.0	0.0	23.3
Bulgaria	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Czech Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Denmark	0.5	13.5	0.0	0.0	0.5	0.0	0.0	0.0	0.0	14.6
Germany	99.3	11.0	0.7	2.7	0.9	0.0	0.0	0.0	0.0	114.6
Estonia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ireland	0.0	12.5	52.1	26.1	0.0	0.0	0.3	0.8	0.8	92.4
Greece	5.0	0.0	10.0	0.5	20.3	0.9	12.4	10.6	0.0	59.6
Spain	0.0	0.0	101.1	0.0	72.6	0.6	0.1	0.0	0.0	174.3
France	23.5	0.5	2.7	0.0	2.6	0.0	0.0	0.0	0.0	29.2
Croatia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Italy	20.0	0.0	0.0	0.0	2.0	0.0	0.0	3.8	0.0	25.8
Cyprus	0.0	0.0	0.0	0.0	1.8	0.0	1.5	0.2	0.0	3.5
Latvia	0.3	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.8
Lithuania	0.0	0.0	0.6	0.0	0.0	0.2	0.0	0.0	0.0	0.8
Luxembourg	2.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5
Hungary	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1
Malta	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	26.6	0.0	11.1	0.0	0.0	2.2	0.0	0.0	0.0	39.8
Austria	15.0	0.7	0.0	0.0	3.2	21.3	0.0	0.0	0.0	40.1
Poland	0.0	4.6	0.0	0.0	29.3	0.0	0.8	0.8	7.7	43.2
Portugal	0.0	4.0	0.0	8.0	14.3	1.1	4.9	2.6	0.0	34.8

Romania	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slovenia	0.0	0.0	0.0	0.3	0.5	3.3	0.4	0.0	0.0	4.5
Slovakia	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Finland	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0
Sweden	0.3	4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0
United Kingdom	64.1	47.6	2.9	0.0	0.0	0.0	0.0	0.0	0.0	114.6
Total	269.9	110.0	184.0	37.5	150.8	29.6	20.3	18.8	8.5	829.4
								% 2016 EU GDP		5.6%

Source: http://ec.europa.eu/competition/state_aid/scoreboard/index_en.html

Evolution of state aids as % GDP by member state graphically can be presents as in the below figure:

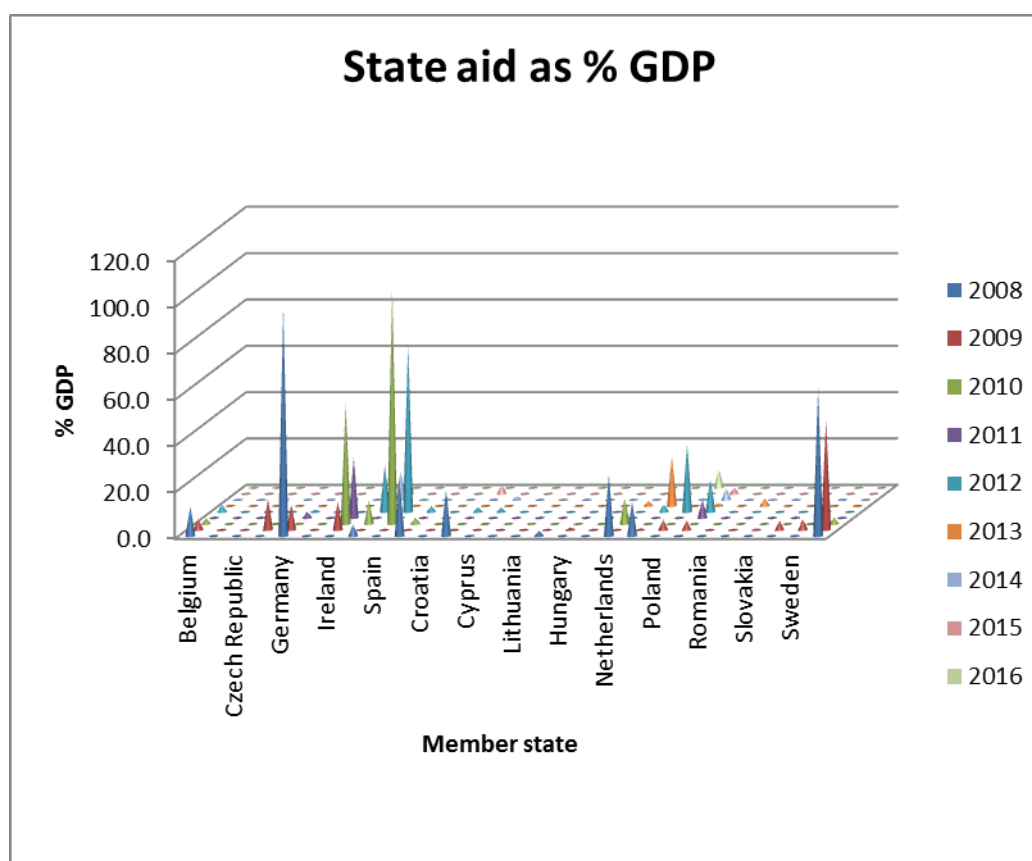


Figure 3. Evolution of state aids as % GDP by member state

2.5. Evolution of State Aid for Romania Spending in Million EUR, at Current Prices

Table 2

Romania								
	2009	2010	2011	2012	2013	2014	2015	2016
Total State aid, less railways (1+2)	807.5	293.5	658.2	833.4	912.9	1177.0	1297.1	1033.9
(1) Non-Agricultural Aid	180.7	195.7	384.4	610.3	876.0	1052.5	1228.0	1029.4
of which (by objective)								
<i>Closure aid</i>	0.0	0.0	0.0	38.2	33.4	33.0	30.7	0.0
<i>Compensation of damages caused by natural disaster</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Culture</i>	6.3	0.3	0.6	0.4	0.2	3.0	5.7	4.8
<i>Employment</i>	0.2	0.0	0.1	0.2	0.0	0.0	0.0	0.0
<i>Environmental protection incl Energy saving</i>	0.0	0.0	231.7	462.3	628.0	618.4	714.2	803.4
<i>Heritage conservation</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Promotion of export and internationalisation</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Regional development</i>	46.3	94.8	139.1	90.3	158.9	348.0	404.4	196.1
<i>Rescue & Restructure</i>	17.9	3.4	4.1	8.8	10.4	9.0	29.1	0.0
<i>Research and development incl Innovation</i>	26.5	31.9	4.1	8.4	11.3	29.2	26.3	21.8
<i>Sectoral development</i>	77.5	59.3	0.0	0.0	33.7	9.4	14.6	0.4
<i>SME incl risk capital</i>	3.4	6.0	4.2	1.1	0.1	2.3	3.1	3.0
<i>Social support to individual consumers</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Training</i>	0.0	0.0	0.5	0.6	0.1	0.0	0.0	0.0
<i>Other</i>	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which (by aid instrument)								
<i>Equity participation</i>	10.3	0.0	0.0	0.0	0.0	0.0	0.0	3.0
<i>Grant</i>	146.4	190.4	287.0	357.1	487.5	629.3	764.8	364.1
<i>Guarantee</i>	7.3	3.4	3.2	5.7	7.1	5.7	7.0	0.0
<i>Soft loan</i>	14.3	0.3	0.6	3.5	3.5	6.4	27.8	1.9
<i>Tax deferral</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Tax exemption</i>	2.4	1.6	93.6	244.1	377.9	411.2	428.5	66.5
<i>Other</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	594.0
of which								
<i>Co-financed</i>	3.6	11.3	19.7	12.9	14.0	49.9	77.5	15.5
<i>Not co-financed</i>	177.0	184.4	364.7	597.5	862.0	1002.6	1150.5	1013.9
(2) Agricultural Aid (DG AGRI & MARE)	626.9	97.8	273.8	223.0	36.9	124.5	69.0	4.4
of which								
<i>Agriculture and rural development</i>	626.9	97.8	273.8	223.0	36.9	124.5	69.0	4.4
<i>Aid granted to fisheries and aquaculture</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transport aid (excluding railways)	16.0	3.6	3.4	8.9	10.6	9.4	10.8	5.8

of which								
Road	0.0	0.0	0.0	0.0	0.0	0.0	3.5	5.4
Maritime transport	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inland water transport	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Air transport	16.0	3.6	3.4	8.9	10.6	9.4	7.3	0.4
Other transport	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Romania								
	2009	2010	2011	2012	2013	2014	2015	2016
Total subsidies to the railways sector	445.0	543.0	525.0	288.0	295.0	645.1	328.6	292.0
of which								
PSO & pensions	:	:	:	258.6	272.3	442.6	328.6	292.0
Infrastructure and other aid	:	:	:	29.4	22.7	202.5	0.0	0.0

Source: http://ec.europa.eu/competition/state_aid/scoreboard/index_en.html

Evolution of state aid for Romania spending in million EUR, at current prices graphically can be presents as in the below figures:

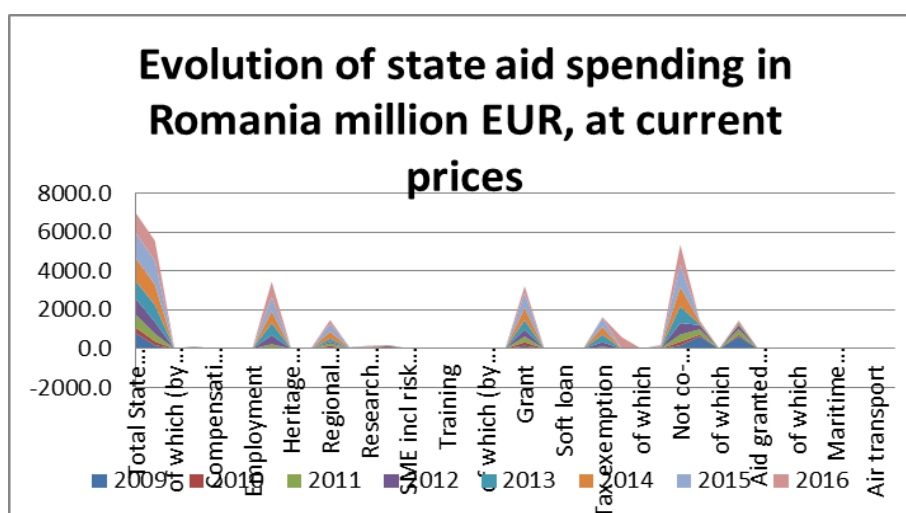
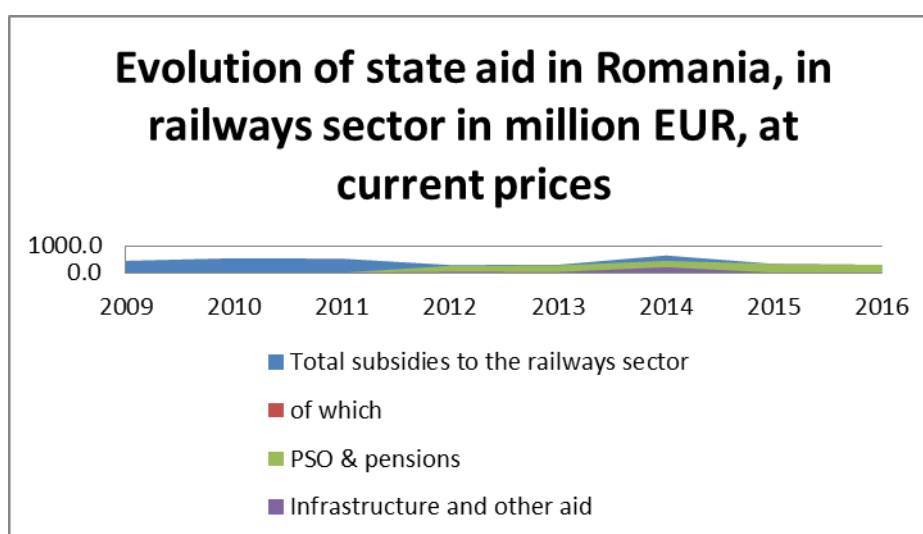
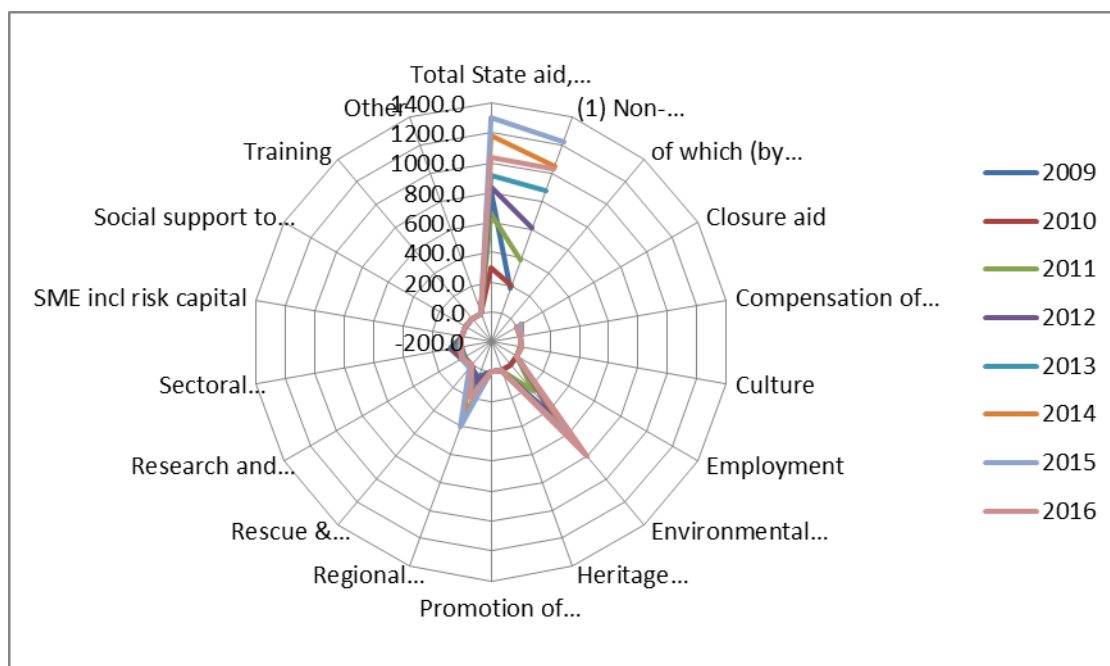


Figure 4. Evolution of state aid spending in Romania in million EUR, at current prices





2.6. Conclusions

The annually Report of European Commission published, provides detailed information on the most important policy and legislative initiatives, and on decisions in application of EU competition law during the previous year.

The Europe's system of competition policy and enforcement on mergers, antitrust or state aid proves that everyone companies is welcome to do business in Europe's competitive markets, as long as they play by the rules. On the core level, these actions aim to restore equal competitive conditions for any companies. In times of globalization, these policies give to small business and individuals a fair chance. The competition is beneficial to the European businesses and citizens and not just the powerful few. That is exactly what competition enforcement is about.

Competition policy leads to the formation of a fair society, where all economic actors - large and small - follow the same rules. Merger control is also essential to ensure that mergers do not influenced negative the competition.

State Aid is refers to forms of public assistance, using taxpayer-funded resources, given to undertakings on a discretionary basis, with the potential to distort competition and affect trade between member states of the European Union. In general, state aid has anti-competitive effects, so between state aid and competition is an inverse dependence and an indirect correlation.

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